Audit Report

OFFICE OF THE INSPECTOR GENERAL

INSPECTOR GENERAL, DOD, OVERSIGHT OF THE NAVAL AUDIT SERVICE AUDIT OF THE FISCAL YEAR 1996 NAVY GENERAL FUND

Report No. 97-124

April 10, 1997

Department of Defense

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

April 10, 1997

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

SUBJECT: Audit Report on Inspector General, DoD Oversight of the Naval Audit Service Audit of the Fiscal Year 1996 Navy General Fund (Report No. 97-124)

We are providing this audit report for your information and use and for transmittal to the Director, Office of Management and Budget. It includes our endorsement of the Naval Audit Service (NAS) disclaimer of opinion on the Navy General Fund Financial Statements for Fiscal Year 1996, along with the NAS Audit Report, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion." An audit of the Navy financial statements is required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. Since this report contains no recommendations, comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9145 (DSN 664-9145; e-mail rbird@DODIG.OSD.MIL); or Mr. Joel K. Chaney, Audit Project Manager, at (216) 522-6091, extension 235 (DSN 580-6091, extension 235; e-mail jchaney@DODIG.OSD.MIL). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 97-124
(Project No. 6FI-2021.01)

April 10, 1997

Inspector General, DoD, Oversight of the Naval Audit Service Audit of the Fiscal Year 1996 Navy General Fund

Executive Summary

Introduction. The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires an audit of the Navy financial statements. We delegated the audit of the FY 1996 Department of the Navy Statement of Financial Position to the Naval Audit Service on May 17, 1996. This report provides our endorsement of the Naval Audit Service disclaimer of opinion on the Department of the Navy Statement of Financial Position, along with the Naval Audit Service Report, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion."

Audit Objective. The audit objective was to determine the accuracy and completeness of the audit of the Navy Statement of Financial Position for FY 1996 conducted by the Naval Audit Service. See Appendix C for a discussion of the audit process.

Audit Results. The Naval Audit Service Report, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion," March 1, 1997, stated that the auditors were unable to express an opinion on the Statement of Financial Position. We concur with the Naval Audit Service disclaimer of opinion; our endorsement of that disclaimer is Appendix A. The Naval Audit Service report is Appendix B.

Summary of Recommendations and Management Comments. This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3. Accordingly, comments are not required.

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Appendix A. IG, DoD, Endorsement Memorandum

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

March 1, 1997

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

SUBJECT: Endorsement of the Disclaimer of Opinion on the Department of the Navy FY 1996 Statement of Financial Position (Project No. 6FI-2021)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. On May 17, 1996, we delegated to the Naval Audit Service (NAS) the audit of the Navy FY 1996 Statement of Financial Position. Summarized below are the NAS disclaimer of opinion on that financial statement and the results of our review of the audit conducted by NAS. We endorse the disclaimer of opinion expressed by NAS (see the Enclosure) in its audit of the Navy FY 1996 Statement of Financial Position. *

Endorsement of the Disclaimer of Opinion. The NAS disclaimer of opinion on the Navy FY 1996 Statement of Financial Position, dated February 24, 1997, stated that NAS was unable to express an opinion on that statement. We concur with the NAS disclaimer of opinion.

The primary reasons for the NAS disclaimer of opinion are summarized below.

- The Department of the Navy does not have a transaction-driven standard general ledger accounting system that can accurately disclose the value of assets and liabilities.

- There were no financial balance subsidiary ledgers, which are necessary for maintaining accurate financial records and providing an audit trail.

Internal Controls and Compliance With Laws and Regulations. Internal controls did not ensure that the Navy FY 1996 Statement of Financial Position contained no material misstatements. Procedural and compliance problems also contributed to the lack of accurate financial reporting. The Department of the Navy and the Defense Finance and Accounting Service have recognized these weaknesses and reported them in their FY 1996 annual statements of assurance on management controls.

Review of Naval Audit Service Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit conducted by the NAS, we:

- reviewed the NAS approach and planning of the audit, and

- monitored the progress of the audit at key points.

We also performed other procedures to satisfy ourselves as to the fairness and accuracy of the audit approach and conclusions.

*The Enclosure is omitted from Appendix A and included in Appendix B.

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We conducted our review of the NAS audit of the Navy FY 1996 Statement of Financial Position from May 17, 1996, through February 24, 1997, in accordance with generally accepted Government auditing standards. We found no indication that we could not place reliance on the NAS opinion or its related evaluations of internal controls and compliance with laws and regulations.

Robert J. Lieberman
Assistant Inspector General
for Auditing

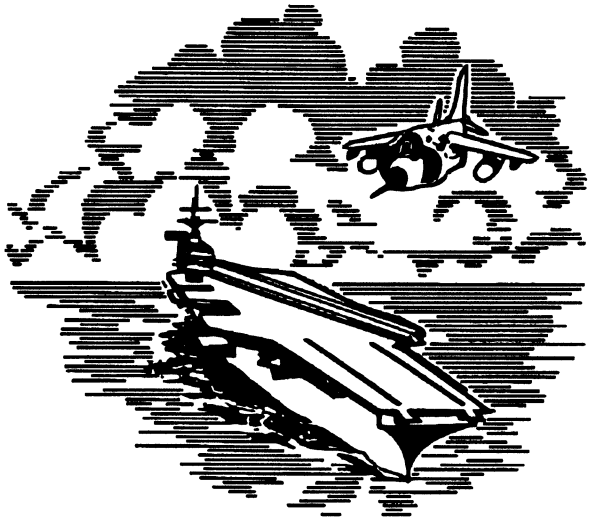
* Enclosure

*The Enclosure is omitted from Appendix A and included in Appendix B.

Appendix B. NAS Report, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion"

Naval Audit Service
NAVAUDSVC P-7520.1

Audit Report



Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion

022-97 **1 March 1997**

DEPARTMENT OF THE NAVY
AUDITOR GENERAL OF THE NAVY
5611 COLUMBIA PIKE
ROOM 506B, NASSIF BUILDING
FALLS CHURCH, VA 22041-5080

7547/96-0009
1 Mar 97

From: Auditor General of the Navy

Subj: **DEPARTMENT OF THE NAVY FISCAL YEAR 1996 ANNUAL FINANCIAL REPORT: REPORT ON AUDITOR'S OPINION (022-97)**

Ref: (a) Public Law 101-576, "Chief Financial Officers Act," 15 Nov 90, as amended by the Government Management Reform Act of 1994, Public Law 103-56
(b) SECNAV Instruction 7510.7E, "Department of the Navy Internal Audit"

1. We have completed our audit of the Department of the Navy Fiscal Year 1996 Annual Financial Report. The audit was conducted as required by reference (a).

2. We are unable to give an opinion on the Statement of Financial Position, primarily because of inadequate financial systems and incomplete and unauditable supporting records. We were unable to apply other audit procedures in these areas to satisfy ourselves as to the fairness and completeness of the data presented. We believe that our audit provides a reasonable basis for our conclusions.

3. Section B of this report provides a brief discussion of our results and conclusions as they pertain to our disclaimer of opinion. More detailed discussions of these results, along with specific recommendations, are provided in separate reports, as listed in Section E of this report. These other reports include a Report on Internal Controls and Compliance with Laws and Regulations.

4. Any request for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy, in accordance with reference (b).

5. We appreciate the cooperation and courtesies extended to our auditors.

CARROLL ANTOINE
By direction

Distribution:
Secretary of the Navy
Assistant Secretary of the Navy (Financial Management and Comptroller)
Under Secretary of Defense (Comptroller)
Director, Defense Finance and Accounting Service
Inspector General, Department of Defense

Subj: **DEPARTMENT OF THE NAVY FISCAL YEAR 1996 ANNUAL FINANCIAL REPORT: REPORT ON AUDITOR'S OPINION (022-97)**

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Report on Auditor's Opinion

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the Department of the Navy was required to prepare Principal Financial Statements starting with Fiscal Year 1996. In addition, the Government Management Reform Act significantly expanded the statutory audit requirements of the Inspector Generals. On 10 May 1995, the Inspector General, Department of Defense delegated responsibility to the Naval Audit Service for audit of the Department of the Navy's financial statements for Fiscal Year 1996 and beyond. The Fiscal Year 1996 Statement of Financial Position was the first year such a statement was required. Therefore, it was the first year we audited the Statement of Financial Position in accordance with generally accepted government auditing standards. The audit included an evaluation of related internal controls and compliance with laws and regulations.

Because our audit did not commence until 1 November 1995, it was not practical to perform various auditing procedures with respect to determining whether, as of 1 October 1995 (the beginning of Fiscal Year 1996), amounts for such accounts as accounts payable; accounts receivable; inventories; property, plant, and equipment; and related expenses and revenues were recorded in the proper accounting period. By agreement with the Department of Defense, Inspector General, we limited our audit to the Fiscal Year 1996 Statement of Financial Position. We did not attempt to express an opinion on the Statement of Operations and Changes in Net Position or Statement of Cash Flows.

We are unable to give an opinion on the Department of the Navy's Fiscal Year 1996 Statement of Financial Position. The primary reason for this disclaimer of opinion is that the Department of the Navy does not have transaction-driven standard general ledger accounting systems that can accurately report the value of assets and liabilities, including the status of funds appropriated. There were no financial balance subsidiary ledgers, which are necessary for maintaining accurate financial records and providing an audit trail. Thus, the Statement of Financial Position may be unreliable. The reasons for our disclaimer are further detailed in Section B of this report.

Internal controls did not ensure that the Statement of Financial Position contained no material misstatements. As a result, the risk of material misstatement is high. Procedural and compliance problems also contributed to the lack of accurate financial reporting. The Department of the Navy and Defense Finance and Accounting Service have recognized these weaknesses and reported them in their Fiscal Year 1996 Assurance Statements on Management Controls. The details of the internal controls and compliance issues are discussed in separate supporting reports listed in Section E.

CARROLL ANTOINE
By direction

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Section A
Introduction

Background

The Department of the Navy Fiscal Year (FY) 1996 Annual Financial Report includes General, Revolving, Trust, Special, and Deposit funds accounts under the control of the Department of the Navy. General Fund accounts are used to record funds appropriated by Congress and financial transactions utilizing the funds. The Department of the Navy manages 24 General Fund accounts. These accounts are funded by either current year appropriations, multi-year appropriations, or no-year appropriations (appropriations that are available for incurring obligations until exhausted or until the purpose for which they were made available has been accomplished).

The Defense Finance and Accounting Service - Cleveland Center is responsible for preparing the Department of the Navy's annual financial statements. The Defense Finance and Accounting Service - Kansas City Center is responsible for providing the Cleveland Center with Marine Corps financial information that is consolidated with the Navy's financial data in developing the Department of the Navy's financial statements. The Department of the Navy, with support from the Defense Finance and Accounting Service, is responsible for:

- Preparing the annual financial statements in conformity with generally accepted accounting principles and Office of Management and Budget Bulletin 94-01, "Form and Content of Agency Financial Statements," 16 November 1993, or subsequent issuances.

- Establishing and maintaining management controls and systems to provide reasonable assurance that the broad control objectives of the Federal Manager's Financial Integrity Act are met.

- Complying with applicable laws and regulations.

As required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, and as directed by the Office of Inspector General, Department of Defense, the Naval Audit Service is responsible for auditing the Department of the Navy financial statements and evaluating related internal controls and compliance with laws and regulations.

Objective

The audit objective addressed by this report was to determine whether the Department of the Navy's FY 1996 Statement of Financial Position fairly presented, in all material respects, the financial position of the Department of the Navy in accordance with the other comprehensive basis of accounting described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," 16 November 1993, or subsequent issuances. Other objectives are addressed in other reports.

Scope and Methodology

In May 1995, the Inspector General, Department of Defense delegated Department of the Navy financial statement audit responsibility to the Naval Audit Service for FY 1996 and beyond. By agreement with the Inspector General, Department of Defense, we limited our review of the Department of the Navy's first preparation of the Annual Financial Report to the accompanying Statement of Financial Position and related footnotes. The Department of the Navy financial statements account for all funds in which the Department is responsible except information relative to classified assets, programs, and operations excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. We focused our audit primarily on the General Fund and the following major accounts:

Account	Total Value ($000)
Assets:	
Fund Balance with Treasury	$64,228,942 1/
Accounts Receivable, Net, Federal	2,045,085 1/
Accounts Receivable, Net, Non-Federal	4,334,176 1/
Advances and Prepayments, Non-Federal	202,972
Cash and Other Monetary Assets	116,655 1/
Inventory, Net	41,441,119 2/
Operating Materials/Supplies, Net	27 3/
Property, Plant, and Equipment, Net	340,975,064
Liabilities:	
Accounts Payable, Federal	2,547,156
Accounts Payable, Non-Federal	6,461,703
Accrued Payroll and Benefits, Non-Federal	656,394
Pensions and Other Actuarial Liabilities	2,161,377
Other Non- Federal (Governmental) Liabilities	1,148,870

1/ Reflects the net amount of Entity and Non-Entity Assets.
2/ Reflects FY 1995 data.
3/ Except for amount shown applicable to trust fund, the Department of the Navy expensed or misclassified these assets.

Our audit began on 1 November 1995 and was completed on 1 March 1997. We conducted the review at the Defense Finance and Accounting Service - Cleveland Center and Defense Finance and Accounting Service - Kansas City Center, including at their subordinate Operating Locations. We also conducted reviews at the offices of the Assistant Secretary of the Navy (Financial Management and Comptroller), the major commands in Navy and Marine Corps, and selected Navy and Marine Corps subordinate commands. A list of the activities visited or contacted is in Section D.

Except for the limitation on the scope of our work described above, we conducted our work in accordance with generally accepted government auditing standards. Tests and procedures as deemed necessary were used to assess the reliability of the FY 1996 Statement of Financial Position and the adequacy of internal controls and compliance with laws and regulations (discussed in a separate report).

This report provides our disclaimer of opinion on the FY 1996 Statement of Financial Position. A separate report contains our conclusions on internal control and compliance with laws and regulations. Additional reports contain our conclusions on specific deficiencies. A list of those supporting reports is in Section E. Section F provides the Statement of Financial Position.

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Section B
Results of Audit Work

The Department of the Navy's Fiscal Year (FY) 1996 Statement of Financial Position contained significant understatements and overstatements. The primary reason was that the Defense Finance and Accounting Service had not developed a transaction-driven accounting system for the Department of the Navy that could accurately disclose the value of assets and liabilities, including the status of funds appropriated. There were no financial balance subsidiary ledgers, which are necessary for maintaining accurate financial records and providing an audit trail. Procedural and compliance problems also contributed to the lack of accurate financial reporting. Defense Finance and Accounting Service has initiatives underway to address the problems in financial management systems. However, it will take a few years to fully implement and field a system substantially compliant with the Federal accounting standards. Details on significant matters are in the following paragraphs.

Fund Balance with Treasury

- Defense Finance and Accounting Service - Cleveland Center did not clear out all of the Department of the Navy's budget clearing and suspense holding account balances. In addition, the Center did not accurately report budget clearing, deposit, and suspense account balances. The budget clearing account is used to report receipts for which the proper account cannot be determined; the deposit and suspense accounts are holding accounts for transactions that require future actions. The Department of the Navy reported a negative balance of $572 million for the transactions, but since these are holding accounts that represent funds received or set aside, the balances should never be negative.

- Defense Finance and Accounting Service - Cleveland Center made adjustments to Department of the Navy accounting records without supporting documentation. Consequently, the Department of the Navy did not have reasonable assurance that disbursements totaling $1.1 billion were valid. This occurred because Army, Air Force, and non-Department of Defense agencies did not provide corresponding source documentation to support the adjustments.

Accounts Receivable, Net, Federal and Non-Federal

- The actual amount of accounts receivable could not be verified and there was no assurance that the amounts reported in the Statement of Financial Position actually represented funds due. Of the $6.4 billion balance reported as

Accounts Receivable, Net, Federal and Non-Federal, about $2.1 billion was misclassified, $917 million unsupported, and $299 million invalid.

Advances and Prepayments, Non-Federal

- The Department of the Navy understated the Advances and Prepayments, Non-Federal (progress payments) account balance because payments from several appropriation accounts were omitted. These understatements occurred because of the absence of an integrated general ledger system and the failure to address these payments in the data call process. Consequently, we could not determine the value of understatements. We also found that all payments attributed to ships and craft under construction for the Shipbuilding and Conversion procurement appropriation were reported at $19.9 billion but not all of these payments belonged in the Advances and Prepayments, Non-Federal account. We could not determine the extent of the overstatement due to lack of sufficient information.

Inventory, Net

- Incorrect unit prices for some items of ammunition in the Conventional Ammunition Integrated Management System caused reporting of at least $3.7 billion in overstatements and $554 million in understatements. Unit prices were not established in a consistent manner and were not updated. Furthermore, since unit price records for many other items were incomplete, we could not determine their correct value.

- The FY 1996 Inventory, Net amount was understated by the dollar value of ammunition intransit material (i.e., ammunition moving between storage locations). This occurred because the logistics system the Department of Navy used to report ammunition values for financial reporting did not include intransit material. While we were able to determine that $4 billion was the reported balance in the logistic system as of 30 September 1996, we could not attest to the accuracy or completeness of the amount. This was due to Naval Ordnance Center personnel not implementing effective procedures for resolving untimely postings and correction of receipt and issue errors. Consequently, we could not determine how much of the $4 billion represented actual intransit material versus errors.

Property, Plant, and Equipment, Net

- The Department of Navy's Military Equipment balance for Property, Plant, and Equipment, Net contained $23.6 billion in understatements and $3 billion in overstatements on the FY 1996 Statement of Financial Position. This occurred due to the absence of an integrated accounting system and an inadequate data

call process. We initially identified and reported to the Navy $35.6 billion in inappropriate omissions from the FY 1996 Statement of Financial Position. The Navy corrected $12 billion of the omissions, but the remaining $23.6 billion were not corrected. As a result, the FY 1996 Statement of Financial Position was understated by a net amount of $20.6 billion.

- Department of the Navy personnel reported inaccurate Class 2 (structures, facilities, and leaseholds) Property, Plant, and Equipment, Net values on the FY 1996 Statement of Financial Position. As a result, Class 2 property was overstated by $893.7 million.

- The Department of the Navy overstated Construction in Progress in the FY 1996 Statement of Financial Position by at least $321.7 million. The Navy did not correctly transfer the cost of completed buildings and structures from the Construction in Progress account to a capital asset account. Also, some completed construction projects that were transferred to a capital asset account were not removed from the Construction in Progress account, resulting in double counting.

- The Department of the Navy reported $32.7 billion in Government Property Held by Contractors on the FY 1996 Statement of Financial Position that was not supported by accurate and complete accounting data. Since a Government Property Held by Contractors accounting system did not exist, the Department of the Navy used the Department of Defense's Contract Property Management System as the source for reporting. However, we found that numerous data problems existed with that system -- the data included many balances that did not agree with source documents and did not include unit prices of all property. The data base also included improper items, such as foreign-owned and contractor-owned property. We did not determine specific understatements and overstatements. However, we noted that the FY 1996 Contract Property Management System contained at least $2.1 billion of aircraft that the Naval Air Systems Command also reported on the FY 1996 Statement of Financial Position.

Accounts Payable, Non-Federal

- The $298.6 million of Afloat Forces Accounts Payable and $1.7 billion of Afloat Forces Undelivered Orders reported on the FY 1996 Statement of Financial Position were inaccurate. The method used by the Defense Finance and Accounting Service - Cleveland Center to estimate the amount of Accounts Payable, due to the absence of an integrated general ledger system, was incapable of producing the needed information, and the information produced was not supportable.

- Accounts Payable associated with major contracts were not accurately recorded in the Department of the Navy's FY 1996 Statement of Financial Position. The Mechanization of Contract Administration Services (MOCAS) system used to make contractor payments does not interface with financial systems used to produce the Department of the Navy's Financial Statements. As a result, the Accounts Payable balance for seven appropriations involving major contracts was determined through a data call process that uses information from three MOCAS-generated Accrued Expenditure Reports. Defense Finance and Accounting Service - Cleveland Center reformatted the data in the reports, which included selectively using $1.2 billion from seven appropriations. However, the net total of the three MOCAS-generated Accrued Expenditure Reports for those appropriations was a debit balance of $4.1 billion.

Accrued Payroll and Benefits, Non-Federal

- The Department of the Navy understated Accrued Payroll and Benefits, Non-Federal on the FY 1996 Statement of Financial Position by about $1.1 billion. Specific accounts for accruing payroll and benefit costs either did not exist or were limited to statistical and budgetary accounts maintained for informational purposes. Of the $1.1 billion, nearly $1 billion was misclassified as an Accounts Payable on the Statement of Financial Position.

Department of Defense Issues

- **Supply System Inventory Report.** Department of the Navy personnel followed unofficial Under Secretary of Defense (Comptroller) guidance to use the Supply System Inventory Report as the source for inventory balances on the FY 1996 Statement of Financial Position. As a result, the Inventory, Net balance on the FY 1996 Statement of Financial Position, reported as $41.4 billion, was not accurate. Furthermore, that balance was unauditable because FY 1995 rather than FY 1996 figures were used, due to timeliness problems with the Supply System Inventory Report. However, even if the FY 1996 figures were available, the sources used to develop values had major deficiencies. For example, the ammunition value reported on the FY 1996 Statement of Financial Position contained material omissions amounting to at least $20.4 billion and improper inclusions totaling at least $11.6 billion.

- **Operating Materials/Supplies, Net.** The Department of the Navy did not report an estimated $7.8 billion in Operating Materials/Supplies, Net items aboard ships and with the Marine Corps on the FY 1996 Statement of Financial Position, and that represents an understatement. This occurred because Department of the Navy personnel followed guidance from the Under Secretary of Defense (Comptroller) that required expensing Operating Materials/Supplies, Net items when issued to the end-user, and the Department of Defense included

combat ships and troop units as end-users. However, this guidance was not in agreement with Department of Defense's specific definition of end-user, and was not in compliance with Federal Financial Accounting Standards or the Department of Defense Financial Management Regulation.

- **Environmental Cleanup Liabilities.** The Department of the Navy did not recognize projected environmental cleanup costs of $7.1 billion as an actual liability on the FY 1996 Statement of Financial Position. Instead, the costs were disclosed in statement footnotes as potential liabilities. This occurred because Department of the Navy personnel followed guidance from the Under Secretary of Defense (Comptroller) that required projected environmental cleanup costs to be disclosed only in the footnotes to the financial statements. However, Office of Management and Budget Guidance on Form and Content of Agency Financial Statements (OMB Bulletin 94-01) requires that probable loss contingencies be recognized on financial statements in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

- **Contingent Liabilities.** The Department of the Navy did not properly recognize or disclose potential legal liabilities on the FY 1996 Statement of Financial Position. This occurred because Department of Defense General Counsel guidance did not allow the General Counsels and Judge Advocate Generals of the military departments to assess the likely outcome of pending legal cases. While we could not determine the value that should be reported for such liabilities, they could total as much as $6 billion.

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Section C

Actions Initiated to Meet the Chief Financial Officers Act Reporting Requirement

In light of the significant financial management and reporting problems identified by the General Accounting Office in its March 1996 report entitled "Increased Attention Must Be Given to Preparing Navy's Financial Reports" (GAO/AIMD-96-7), senior leaders recognized the formidable task facing the Department of the Navy in preparing and submitting its first set of financial statements required by statute. In cooperation with the Defense Finance and Accounting Service, the Department of the Navy established several initiatives to plan and actively involve others in the effort to produce financial statements. For example:

- The Department of the Navy Chief Financial Officers Act Core Group was established to address specific issues as they relate to completing the financial statements required by the Chief Financial Officers Act. Representatives from the Department of the Navy, Defense Finance and Accounting Service, General Accounting Office, and private industry met periodically to discuss all aspects of the Chief Financial Officers Act, including planning, implementation, audit response, and systems upgrades and changes.

- A Chief Financial Officers Act Private Sector Council was established to provide an advisory service on the Chief Financial Officers Act implementation to the Department of the Navy.

- Defense Finance and Accounting Service - Cleveland Center, with support from Defense Finance and Accounting Service - Kansas City Center, prepared three sets of Department of the Navy "pro forma" financial statements. Preparing these statements gave Department of the Navy and Defense Finance and Accounting Service personnel a chance to review the processes and crosswalks developed for accomplishing the FY 1996 financial statements.

- To increase awareness of the Chief Financial Officers Act reporting requirements, the Department of the Navy sponsored two Chief Financial Officers Act conferences and a training course covering reporting, presentation, and disclosure.

- In May 1995, Defense Finance and Accounting Service - Cleveland Center initiated a Business Process Standardization and Integration Improvement project to assist in responding to financial management compliance requirements for the Department of the Navy. The project is designed to address the wide

range of financial management requirements of the Chief Financial Officers Act as they impact Defense Finance and Accounting Service - Cleveland Center and the Department of the Navy. The scope of the project includes a range of tasks that apply to both system and non-system issues. Much of the work under this project is being outsourced.

- In May 1996, the Assistant Secretary of the Navy (Financial Management and Comptroller) submitted to the Secretary of the Navy a comprehensive improvement plan, along with a Plan of Action and Milestones. The comprehensive improvement plan describes specific projects that are intended to correct long-standing deficiencies in several key areas of financial management and to enhance the quality of financial information.

These and other initiatives underway lay the groundwork for improving financial management and reporting within the Department of the Navy. However, senior Department of the Navy leaders recognize that many of the initiatives will take years to complete.

Section D

List of Activities Visited or Contacted

- Department of the Treasury, Washington, DC
- Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, DC
- Office of the Under Secretary of Defense (Comptroller), Washington, DC
- Chief of Naval Operations, Washington, DC
- Chief of Naval Education and Training, Pensacola, FL
- Bureau of Naval Personnel, Washington, DC
- Naval Facilities Engineering Command, Washington, DC
- Naval Air Systems Command, Washington, DC
- Naval Sea Systems Command, Washington, DC
- Naval Supply Systems Command, Mechanicsburg, PA
- Space and Naval Warfare Systems Command, Washington, DC
- Commander in Chief, U.S. Atlantic Fleet, Norfolk, VA
- Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI
- Commander, Submarine Force U.S. Atlantic Fleet, Norfolk, VA
- Commander, Submarine Force U.S. Pacific Fleet, Pearl Harbor, HI
- Commander, Naval Air Force U.S. Pacific Fleet, San Diego, CA
- Commander, Naval Surface Force U.S. Pacific Fleet, San Diego, CA
- Commander, Naval Air Force U.S. Atlantic Fleet, Norfolk, VA
- Commander, Naval Surface Force U.S. Atlantic Fleet, Norfolk, VA
- Department of the Navy Office of Judge Advocate General, Washington, DC
- Department of the Navy Office of General Counsel, Washington, DC
- Defense Finance and Accounting Service - Headquarters, Washington, DC
- Defense Finance and Accounting Service - Cleveland Center, Cleveland, OH
- Defense Finance and Accounting Service - Columbus Center, Columbus, OH
- Defense Finance and Accounting Service - Denver Center, Denver, CO
- Defense Finance and Accounting Service - Indianapolis Center, Indianapolis, IN
- Defense Finance and Accounting Service - Kansas City Center, Kansas City, MO
- Defense Finance and Accounting Service Operating Location, Pensacola, FL
- Defense Finance and Accounting Service Operating Location, Norfolk, VA
- Defense Finance and Accounting Service Operating Location, Charleston, SC
- Defense Finance and Accounting Service Operating Location, San Diego, CA
- Defense Finance and Accounting Service Operating Location, San Bernadino, CA
- Defense Finance and Accounting Service Operating Location, Oakland, CA
- Defense Finance and Accounting Service Operating Location, Honolulu, HI
- Coast Guard Finance Center, Chesapeake, VA
- Defense Contract Management Command, Ft. Belvoir, VA
- Defense Contract Management Command, Bethpage, NY
- Defense Contract Management Command, Los Angeles, CA

- Aerospace Maintenance and Regeneration Center, Davis-Mothan Air Force Base, AZ
- Navy International Programs Office, Arlington, VA
- Navy Fleet Material Support Office, Mechanicsburg, PA
- Fleet and Industrial Supply Center, Norfolk, VA
- Fleet and Industrial Supply Center, Jacksonville, FL
- Fleet Combat Training Center, Dam Neck, Virginia Beach, VA
- Commandant of the Marine Corps, Washington, DC
- Marine Corps Systems Command, Quantico, VA
- Marine Corps Forces Atlantic, Camp Lejeune, NC
- Marine Corps Forces Pacific, Camp Smith, HI
- Marine Corps Base, Camp Lejeune, NC
- Marine Corps Base, Camp Pendleton, CA
- Marine Corps Logistics Base, Albany, GA
- Marine Corps Air Station, El Toro, CA
- Military Sealift Command, Washington, DC
- Naval Air Engineering Center, Lakehurst, NJ
- Naval Air Station North Island, San Diego, CA
- Naval Air Station Oceana, Virginia Beach, VA
- Naval Air Station, Pensacola, FL
- Naval Air Technical Training Center, Millington, TN
- Naval Air Maintenance Training Center, Millington, TN
- Naval Air Warfare Center Aircraft Division, Patuxent River, MD
- Naval Aviation Maintenance Office, Patuxent River, MD
- Naval Air Warfare Center Weapons Division, Point Mugu, CA
- Naval Air Weapons Station, China Lake, CA
- Naval Weapons Station, Yorktown, VA
- Naval Weapons Station, Earle, Colts Neck, NJ
- Naval Weapons Station, Charleston, SC
- Naval Weapons Station, Seal Beach, CA
- Naval Weapons Station, Concord, CA
- Naval Amphibious Base, Little Creek, Virginia Beach, VA
- Naval Center for Cost Analysis, Alexandria, VA
- Naval Computer and Telecommunications Station, Washington, DC
- Naval Construction Battalion Center, Davisville, RI
- Naval Construction Battalion Center, Port Hueneme, CA
- Naval Criminal Investigative Service, Washington, DC
- Naval Education and Training Professional Development and Technology Center, Pensacola, FL (formerly Naval Education and Training Program Management Support Activity)
- Naval Facilities Engineering Command Engineering Field Activity, Philadelphia, PA
- Naval Facilities Engineering Command Engineering Field Activity, San Bruno, CA
- Naval Facilities Engineering Command Engineering Field Activity, San Francisco, CA
- Naval Facilities Engineering Command Engineering Field Activity, Washington, DC
- Naval Facilities Engineering Command Engineering Field Detachment, San Diego, CA
- Naval Facilities Engineering Command Engineering Field Division, Charleston, SC
- Naval Facilities Engineering Command Engineering Field Division, Norfolk, VA

- Naval Facilities Engineering Command Engineering Field Division, Poulsbo, WA
- Naval Inventory Control Point, Philadelphia, PA (Philadelphia, PA and Mechanicsburg, PA offices)
- Naval Ordnance Center Pacific Division, Seal Beach, CA
- Naval Ordnance Center Pacific Division, Fallbrook Detachment, Fallbrook, CA
- Naval Ordnance Center Pacific Division, Port Hadlock Detachment, Port Hadlock, WA
- Naval Ordnance Center Inventory Management and Systems Division, Mechanicsburg, PA
- Naval Research Laboratory, Washington, DC
- U.S. Naval Station, Roosevelt Roads, Puerto Rico
- Naval Station, Staten Island, NY
- Naval Station, San Diego, CA
- Naval Surface Warfare Center, Crane, IN
- Naval Surface Warfare Center, Dahlgren, VA
- Naval Magazine, Lualualei, HI
- Naval Undersea Warfare Center Division, Keyport, WA
- Naval Submarine Base, Kings Bay, GA
- Naval Submarine Base, New London, CT
- Personnel Support Detachment Recruit Training Command, Naval Training Center, Great Lakes, IL
- Naval Medical Center, Portsmouth, VA
- Naval Medical Center, San Diego, CA
- Strategic Systems Programs Office, Washington, DC
- Naval Sea Systems Command Shipbuilding Support Office, Philadelphia, PA
- Supervisor of Shipbuilding, Conversion, and Repair, New Orleans, LA
- Supervisor of Shipbuilding, Conversion, and Repair, Pascagoula, MS
- TRIDENT Training Facility, Kings Bay, GA
- TRIDENT Refit Facility, Kings Bay, GA
- AEGIS Combat Systems Center, Wallops Island, VA
- USS CHICAGO (SSN-721)
- USS MINNEAPOLIS/SAINT PAUL (SSN-708)
- USS THEODORE ROOSEVELT (CVN-71)
- USS KITTY HAWK (CV-63)
- USS FORT FISHER (LSD 40)
- USS VELLA GULF (CG-72)

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Section E

List of Areas Covered by Supporting Reports

Fund Balance with Treasury

Property, Plant, and Equipment

Government Property Held by Contractors

Ammunition

Advances and Prepayments

Accounts Receivable

Accounts Payable and Accrued Payroll and Benefits

Department of Defense Issues

Internal Controls and Compliance with Laws and Regulations

Audit of the Compilation of Navy General Fund Financial Statement at Defense Finance and Accounting Service - Cleveland and Kansas City Centers (Inspector General, Department of Defense Project No. 6FI-2024)

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Section F

Department of the Navy
Fiscal Year 1996
Annual Financial Report

DEPARTMENT OF THE NAVY

ANNUAL FINANCIAL REPORT

FISCAL YEAR 1996

"Under all circumstances, a decisive naval superiority is to be considered a fundamental principle, and the basis upon which all hope of success must ultimately depend."

George Washington, (1770)

"Even with all the changes in the world, some basic facts endure... We are a maritime nation... As long as these facts remain true, we need naval forces that can dominate the sea, project power, and protect our interest."

William J. Clinton, President of the United States

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THE SECRETARY OF THE NAVY
WASHINGTON, D. C. 20350-1000

January 1997

Message from the Secretary of the Navy

The Department of the Navy (DoN) provides the world's premier forces "from the sea." Two separate but mutually supporting Services, the Navy and Marine Corps, operate as a team to provide peacetime presence worldwide, respond in a wide range of crises from natural disasters to major regional contingencies, and contribute to strategic deterrence. Together, the sea services can deter conflict, provide initial combat capabilities if deterrence fails, facilitate the deployment of other forces, and make significant contributions to any subsequent joint operation.

To provide these capabilities we must attract and retain high quality people, maintain a high state of readiness, and conduct a high tempo of operations while also modernizing our forces to meet the challenges of the 21st century. To do this as efficiently as possible, the DoN right sized its forces quickly and is reducing its base structure to match. In addition, we are aggressively pursuing acquisition reform, outsourcing and privatization, and a large number of fundamental changes in the way we do business.

The DoN also is making the significant reforms in its financial management policies, processes, and systems to meet these challenges. Sound financial information is a key enabler for managers throughout the Department as they undertake these changes. Meeting the requirements of the Chief Financial Officers Act not only will enable us to document our stewardship to the American people but also will assist us in identifying areas where costs can be reduced to free funds for current operations and modernization.

The DoN is committed to developing sound, auditable financial statements as soon as possible. I am pleased to present our Annual Financial Report for FY 1996. Although much remains to be done, it represents a good start.

John H. Dalton

John H. Dalton

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THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

MESSAGE FROM THE ASSISTANT SECRETARY OF THE NAVY FINANCIAL MANAGEMENT AND COMPTROLLER

These are the first financial statements prepared by the Department of the Navy (DON) and the Defense Finance and Accounting Service (DFAS) for the DON's general funds under the provisions of the Chief Financial Officers' (CFO) Act. In preparing them, we drew on experience from the pilot projects undertaken by the Army and Air Force and received advice and assistance from the General Accounting Office, the Naval Audit Service, and the Private Sector Council. We are very grateful for the assistance of these organizations.

The DON and DFAS began to prepare for this effort shortly after CFO reporting requirements were extended to all agencies. We knew that we would be unable to comply fully with those requirements for several years, but where necessary we initiated actions to fix known deficiencies.

First, current accounting systems were not designed to meet CFO reporting requirements. By the end of this fiscal year, however, most of our general funds will be in only two systems--one for the Navy and one for the Marine Corps--and those systems are being modernized to meet CFO requirements.

Second, we need data from a number of feeder systems that support functions such as travel, acquisition, inventory management, personnel, and payroll. In each area, efforts are underway at the Department of Defense (DOD) level to reduce the number of systems, modernize those that remain, and link them electronically to accounting systems.

Finally, a number of management control problems have been identified that result in inaccurate or incomplete data in many of our accounting and feeder systems. As systems are modernized, DON participants are working to ensure that mechanisms are added to assist in maintaining data quality. I also am initiating steps to ensure that financial data are available and useful to managers throughout the DON. If we succeed, managers will ensure the integrity of their data.

Our auditors were unable to render an opinion on our statements. Most of the major problems they identified should be remedied by the efforts described above. We are reexamining the details of those steps to ensure they are adequate. In a few cases, I have initiated new efforts. There also are several policy issues and questions of interpretation that must be resolved by the DOD Comptroller.

The DON takes its responsibility for stewardship of public funds seriously. The DON and DFAS are devoting significant efforts to resolving financial management problems that developed over decades. We appreciate the patience and support of Congress and the American people for our efforts.

Deborah P. Christie

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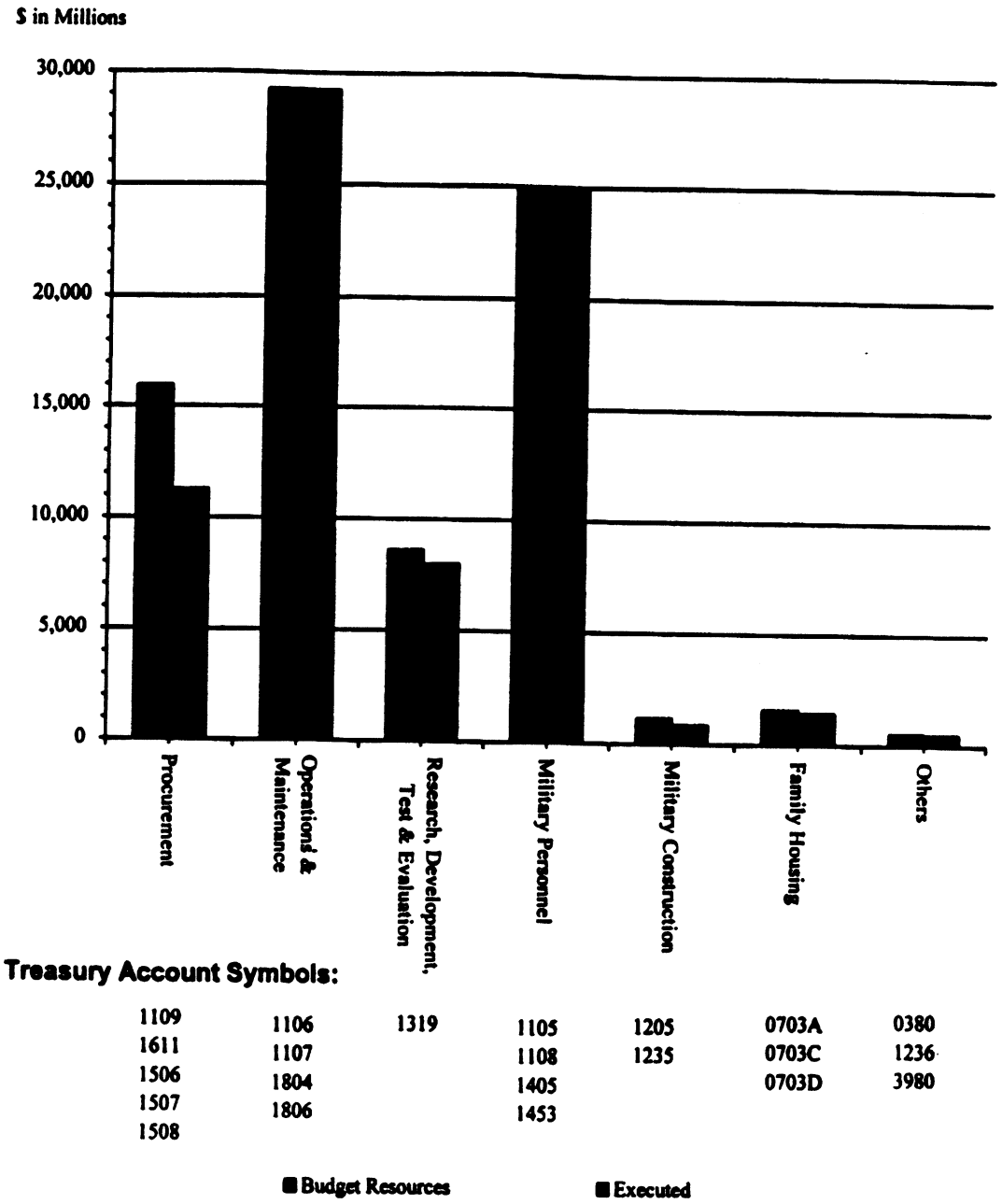
Department of the Navy
General Funds
FY 96 Budget Resources vs. Execution



Treasury Account Symbols:

Procurement	Operations & Maintenance	Research, Development, Test & Evaluation	Military Personnel	Military Construction	Family Housing	Others
1109	1106	1319	1105	1205	0703A	0380
1611	1107		1108	1235	0703C	1236
1506	1804		1405		0703D	3980
1507	1806		1453			
1508						

■ Budget Resources ■ Executed

Budget resources include appropriations realized, transfers, and reimbursements and other income.
Execution represents obligations incurred.

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DEPARTMENT OF THE NAVY

OVERVIEW

5

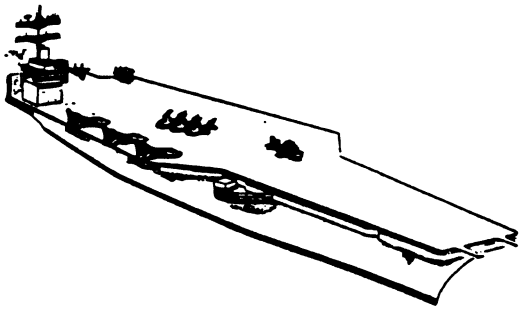
Overview

Profile of the Department of the Navy

Department of the Navy Mission
Yesterday and Today

The Navy Department was established by an act of Congress on April 30, 1798 (I Stat. 553; 5 U.S.C. 411-12). The act provided for the office of the Secretary of the Navy and for the office of the accountant of the Navy, subordinate to the Secretary. A corps of Marines having its headquarters in the Navy Department under the Secretary was authorized by an act of Congress on July 11, 1798. Historically, it was the Continental Congress which actually established both the first Navy as the *Continental Navy*, and two battalions of Marines as the *Continental Marines* in 1775. The Congress set up a Naval Committee and later a Marine Committee, to administer naval affairs and to build and equip warships.

During this early colonial period, Navy's mission was conducted aboard warships known as *privateers*, which were privately owned vessels usually operating on independent missions. Eventually, the Navy grew from a few sailing ships in the Revolutionary War to the greatest fleet ever to sail the seas. Its history recounts the changes from sails and cannon to nuclear powered ships and guided missiles. It blazes with the achievements of such historic ships as the *Bonhomme Richard, Constitution, Monitor, Olympia, Enterprise* and the *Nautilus*, the world's first nuclear powered warship.



By 1776, the *Continental Marines* were ready for their first expedition, when 277 Marines sailed under the command of Captain Samuel Nicholas, from Philadelphia to New Providence Island (Nassau) in the Bahamas. Captain Nicholas landed his battalion, took the British fort, and captured powder and arms for General George Washington's army. Over the span of 221 years, the Marine Corps has never failed to answer the Nation's call. Its Battle Color call to mind the glory, sacrifice, and accomplishments of Marines at Tripoli, Belleau Wood, Tarawa, Iwo Jima, Inchon, Vietnam, and in Desert Storm. It is this unbroken legacy of honor, courage, and commitment that has produced our nation's unwavering confidence in the famous dispatch: "The Marines have landed and the situation is well in hand."

Naval history tells of John Paul Jones, whose battle cry, "I have not yet begun to fight," established the Navy's fighting traditions. It includes the achievements of James Lawrence, who rallied his men with the historical words: "Don't give up the ship!" It reflects the deeds of David G. Farragut, the Navy's first admiral, who reportedly bellowed "Damn the torpedoes! Full speed ahead!" It includes leaders such as Chester W. Nimitz, who directed the Pacific fleet in its sweep from Pearl Harbor to Tokyo Bay, and who said of the Marine members of the Naval warfighting team on Iwo Jima, "Uncommon valor was a common virtue."

Overview

Today, the joint tradition continues -- the Navy operates within the Department of the Navy for the purpose of providing naval forces necessary for the effective prosecution of war except as otherwise assigned. The Marine Corps, as a component of the Department of the Navy, provides fleet Marine forces of combined arms, together with supporting air components, for service with the fleet as necessary for the prosecution of a naval campaign. In addition, the Marine Corps is tasked, by law, to perform such other duties as the President may direct. The Secretary of the Navy exercises authority, direction, and control, through the Chief of Naval Operations and the Commandant of the Marine Corps, of their forces not specifically assigned to the combatant commanders. This administrative control provides for the preparation of Naval forces and their administration and support, unless such responsibilities are specifically assigned by the Secretary of Defense to another component of the Department of Defense. Thus, the authority vested in the Secretary of the Navy in the performance of his role to organize, train, equip, and provide forces runs from the President through the Secretary of Defense through the Secretary of the Navy and to the Chief of Naval Operations and the Commandant of the Marine Corps.

"TEAMWORK: NAVY AND MARINES-FORWARD DEPLOYED AROUND THE WORLD"

The events of the past year continue to highlight the Navy-Marine Corps team's key international security role. Sea-based, combat ready, forward deployed naval forces were involved in more than 13 major operations during 1996 - operations that required immediate responses in support of our national interests. These actions ranged from the quick Tomahawk strikes by *USS Laboon (DDG 58)* and *USS Shiloh (CG 67)* at military targets in southern Iraq in retaliation to Saddam's hostile aggression against the Kurds in the northern region, to the forward presence that was demonstrated by the carrier groups *USS Independence (CV 62)* and *USS Nimitz (CVN 68)* to monitor the test-firing of Chinese missiles and military live-fire exercises off the coast of Taiwan in response to elevated tensions between China and Taiwan, to the non- combatant evacuation operations conducted by the 22nd MEU (SOC) in Liberia and the Central African Republic which evacuated over 700 American citizens and Third World country nationals, to the salvage operations of the Trans World Airlines (TWA) flight 800 crash.

Readiness Today And Tomorrow

Well-trained people, operating modern, properly maintained equipment are the cornerstone for the Navy-Marine Corps team.

Overview

Readiness is ultimately the foundation for maintaining the credibility of our forces as an instrument of foreign policy and national resolve. Today, as in the past, our Navy and Marine Corps are ready to go in harm's way to defend America's interests at any time. We continue to maintain the best people serving in the Navy and Marine Corps, because our future readiness depends on developing the right forces, attracting and retaining the right personnel, and investing now in the programs of the future.

Readiness remains our top priority. Our men and women are the soul of readiness. The all volunteer force, supported by past investments in compensation and quality of life programs, is successfully providing a mature, highly motivated blend of the right number of people and the right mix of skills translated into the best naval force in the world. Force sizing is only part of the readiness equation; the Department of the Navy is committed to providing the necessary resources to ensure our near-term readiness goals are fully met.

Efficient Operations Create Advanced Technology

With heavy operational demands, the Department of the Navy challenges all of its activities to reengineer and reinvent themselves, emulating industry's best business practices. This challenge is not a one time effort, it is an ongoing responsibility of effective stewardship. The Department of the Navy, guided by the President's National Performance Review, began identifying new ways of doing business aimed at effecting immediate change while laying the ground work for long term change. Efficiencies gained from these initiatives are being transformed into resources for recapitalization and acquisition reform to replace our aging weapons systems and technology. Looking to the future, we have committed to a vital and comprehensive modernization program that reflects a commitment to ensure technological superiority in future conflicts. It is important for the challenges of the year 2015 and beyond, that we invest in science and technology to ensure that the Navy and Marine Corps of the future retain both their technological, as well as their warfighting preeminence.

Meeting Performance Goals

During 1996, the *USS George Washington* Battle Group participated in a Government Performance and Results Act performance pilot program while on deployment for six months. The pilot program involved the development of an innovative performance measurement methodology to capture and measure data on aggregate level performance indicators related to selective carrier battle group mission critical tasks as defined by the Chief of Naval Operations.

"TEAMWORK"

A typical battle group composition

Surface Ships	Carrier Battle Staff
Submarines	Air Wing Staff
Fixed Wing/Helo Aircraft	Destroyer Squadron Staff

3000 People

Through a fleet working group process, a battle group mission capability rating structure was developed with metric breakpoints established for each indicator at specified levels of performance. Deliberate focus was maintained by the working group to ensure that the chosen indicators and metrics provided a mission readiness perspective for decision making purposes.

The battle group deployed in January 1996 for operations in both the European Command and Central Command theaters with battle group mission capable rating data collected daily throughout the deployment. Based on this data, the battle group Commander and his principal warfare assistants were able to readily assess the battle group's current war fighting capability in each mission area and address operational deficiencies in a timely fashion. At the completion of the deployment, the stated performance goal in all mission critical tasks was met or exceeded. Based on the demonstrated success of this prototype system, further refinement of the Battle Group Mission Capability Reporting System is ongoing for potential applications to all carrier battle groups.

Overview

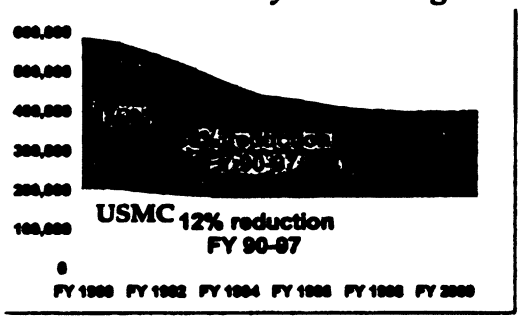
HIGHLIGHTS OF THE DEPARTMENT OF THE NAVY MISSION AND PROGRAM PERFORMANCE

READINESS AND SUSTAINABILITY

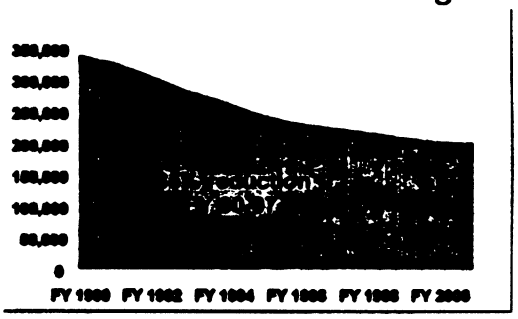
The heart of the Department of the Navy's readiness is its people. Maintaining highly motivated and trained personnel requires innovative leadership, diligent planning and careful management of resources.

Personnel Drawdown

Active Duty End Strength



Civilian Personnel End Strength



	FY 1996	*FY 1997**
Active Military Personnel		
Navy	416,525	401,737
Marine Corps	174,000	174,000
Reserve Personnel		
Navy	97,956	95,535
Marine Corps	42,000	42,000
Civilian Personnel		
Navy	215,770	198,723
Marine Corps	18,799	18,630

* estimated

Shaping The Force

During 1996, the Navy's active end strength was reduced from 434,617 to 416,525. This continues to decline in consonance with overall downsizing. The current force of 174,000 active duty Marines and 42,000 Marine Corps Reserve end strength is already at constant steady state.

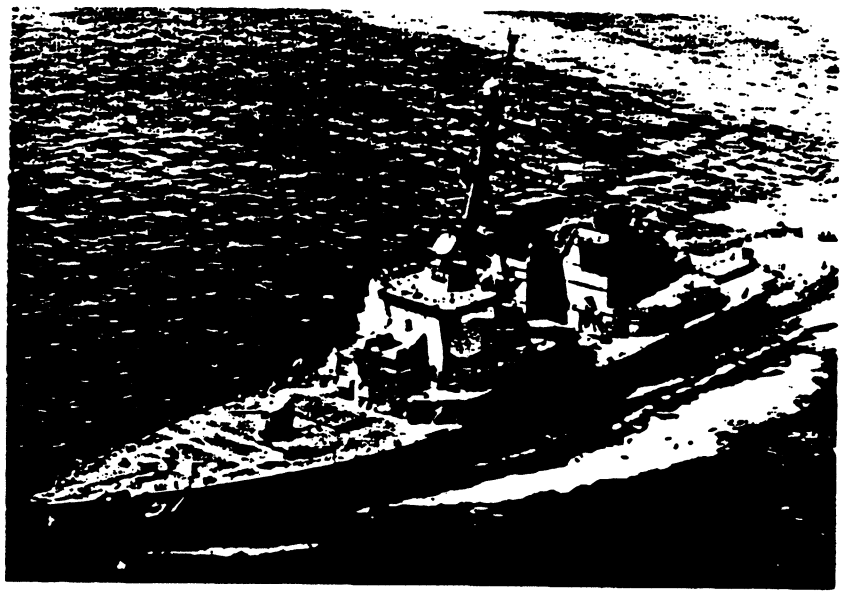
Department of the Navy civilian staffing continues to keep pace with overall rightsizing objectives, with an actual end strength decline from 249,000 in fiscal year 1995, to 234,569 at the end of FY 1996. Civilian employees represent about 30 percent of our total work force end

strength. Although the majority of civilians contribute directly to the readiness of operational forces, many others provide essential support in such diverse functions as:

- Training
- Medical care
- Communications
- Morale, welfare and recreation programs
- Research, development, and acquisition of new platforms and weapon systems

Both the Navy and Marine Corps desire to protect force readiness in the near term with the quality people currently on board, maintaining sufficient accession levels to preclude a "hollow force," managing officer accessions and retention to maintain the correct grade/quality mix, improving recruit quality to reduce attrition and ensure long term readiness, and rebalancing the enlisted skill mix.

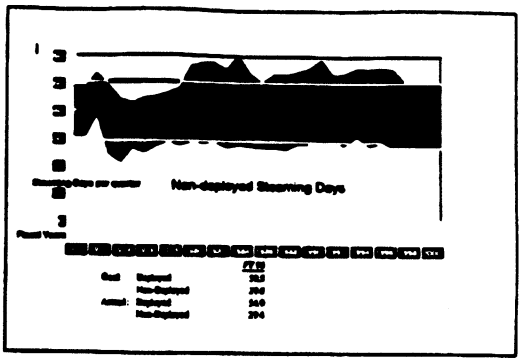
The shift in our National Strategy from fighting a Global War to meeting the challenges of regional contingencies has changed the focus of the Navy and Marine Corps Reserves. Instead of training solely for wartime mobilization, our Reserves are completely immersed in significant training and operations in day to day support of the active duty forces. In 1996, Navy and Marine Corps Reservists routinely provided tens-of-thousands of man days in support of the Active component while acquiring operational experience. Examples of reserve participation include: linguists, staff liaison officers, intelligence specialists, ships, and aircraft participation in Bosnia, Iraq, Haiti, evacuation operations, and counter-narcotics operations. This total force integration of Navy and Marine Corps Reserves has provided significant offset to the OPTEMPO/PERSTEMPO rates of the Active Component.



Ship And Aircraft Operating Tempo (OPTEMPO) Ship operations underway time is budgeted and measured by ship OPTEMPO. Ship OPTEMPO represents the average number of underway

Overview

days per quarter for ships operating in the deployed (5th Fleet, 6th Fleet and 7th Fleet) operating areas and the nondeployed (2nd Fleet and 3rd Fleet) operating areas. Ships' OPTEMPO budgeting objectives are set at a level which allows the deployed forces to meet national commitments and provides nondeployed forces sufficient underway time to train and serve as a surge force.



The Naval Reserve provides an extensive inventory of manpower and equipment that grant substantial OPTEMPO relief to all segments of the force. Reserve ships and aircraft, especially at the dedicated E-2 and P-3C reserve surveillance squadron, perform critical counter-narcotics operations. Ships, aircraft and individuals integrate into the active force for exercises and contingencies, thereby relieving active units and personnel from these commitments.

Air Operations

TACAIR Primary Mission Readiness**	83%	80%
Fleet Readiness Squadrons	97%	99%
Fleet Support	92%	82%

* Estimated
** Includes 2% simulator contribution

Naval aviation funding is divided into three primary categories: Tactical air (TACAIR), fleet air support, and fleet air training. Navy and Marine Corps Tactical air squadrons conduct strike operations against a wide range of threats identified in the national strategy and provide long range and local protection against airborne and surface threats. Fleet air support squadrons provide vital fleet logistics support. Fleet air training squadrons provide the necessary training to allow pilots to become proficient with their specific type of aircraft and to transition to fleet operations. The TACAIR/Antisubmarine Warfare requirement for active flying hours is based on the number of crews assigned to a squadron. Each crew is funded at a specific level of primary mission readiness (PMR) to achieve the overall active Navy goal of 83% PMR with an additional 2% of PMR achieved through simulator usage.

The Marine Corps is organized as a "force-in-readiness" to support national needs. It is divided into three broad categories: Operating Forces; Reserves; and Supporting Establishment. Operating Forces, considered the heart of the Marine Corps, constitute the forward presence, crisis response and fighting power available to the Commanders-in-Chief. The primary objective of the Marine Corps, as a Naval expeditionary force, is to provide

Program Highlights

means of dealing with existing and future threats, providing as it does forward-deployed units that are inherently balanced, sustainable, flexible, responsive, expandable and credible. Marine Corps Operating Forces are the nation's "cocked pistol--the force that remains ready to fight Tuesday's battle, on Tuesday, with Tuesday's forces." Marine Air-Ground Task Forces (MAGTFs) are the organization through which Marine forces are tailored to meet specific operational requirements. Depending upon the mission for which they are structured, they may include a wide range of combat power, including infantry, tanks, amphibious assault vehicles, light armored vehicles, artillery, and aircraft. Marine Air-Ground Task Forces range in size from small Special Purpose Units to large Marine Expeditionary Forces. Each Marine Air-Ground Task Force is an integrated combined-arms team, and regardless of size is composed of a command element (CE), a ground combat element (GCE), an aviation combat element (ACE), and a combat service support element (CSSE).

In addition to active forces, force expansion is also augmented by the activation of the Marine Corps Reserve, which, like the active forces, consists of combined arms forces with balanced ground combat, aviation combat, and combat service support units. The reserve provides the individuals and specific units to augment and reinforce active capabilities.

Goals, Objectives, and Performance Measure

Goal--Ensure that U.S. Armed Forces maintain sufficient levels of readiness and sustainability to carry out the National Military Strategy.

Overall Unit Status Indicators - Marine Corps		
Overall C(*) Level Assessments - FY 1996	Planned	Actual
Marine Corps (Marine Expeditionary Units/Unit Deployment Plan)	100%	100%
*(C ratings = combat rating)		
Objective: Attain 100% of deployed units (Marine Expeditionary Units/Unit Deployment Program) at C-1 or C-2. Measure: Percent of deployed units that are at C-1 or C-2 at time of deployment. Definition: Number of deployed units (Marine Expeditionary Units/Unit Deployment Program) at C-1 or C-2, divided by the total number of deployed units.		

Overview

Mission Capable Rates		
Mission Capable Rates - FY 1996	**Planned**	**Actual**
Aircraft:		
Navy and Marine Corps Tactical/Antisubmarine Warfare	73%	70.6%
Ships:		
Battle Forces	70%	67.1%
Support Forces	70%	93.7%

Objective: For tactical aircraft, attain mission capable rates of 73%; for ships, attain the specified percentage of operating time free of C-3/C-4 casualty reports.
Measure: Percent of time that naval aircraft and ships are mission capable.
Definition: For tactical aircraft, number of mission capable hours in the year, divided by the total in-service hours for tactical aircraft. An aircraft is mission capable if it can perform at least one of its assigned primary missions. For ships, the amount of equipment percentage of operating time free of C-3/C-4 casualty reports in the year, divided by the total amount of equipment operating time for these ships. Battle forces include aircraft carriers, surface combatants, combat logistics force ships, and mine warfare ships. Support forces include mobile logistics and fleet support ships. Percentage of operating time free measures the amount of time during a fiscal year that ships did not report any critical mission degrading equipment casualty reports. Material casualty reports indicate degradation to equipment and systems which cannot be repaired in a timely manner by ship's force due to a lack of onboard spares or the inability to effect repairs because of ongoing operations, ship repair capability, or lack of technical expertise.

Equipment Readiness Indicators		
Equipment Readiness Rates - FY 1996	**Planned**	**Actual**
Navy	90%	92%
Marine Corps (Ground)	92%	92.3%

Navy

Objective: Maintain deployed units at either C-1 or C-2 in the equipment resources area for 90% of the time they are deployed.
Measure: Percent of time deployed units were C-1 or C-2 in the equipment resources area.
Definition: Percent of time for deployed units that total combat essential equipment on-hand and combat ready exceeded 70% of prescribed wartime requirements , major end items of equipment on-hand and combat ready exceeded 70% of prescribed wartime requirement and total aircraft on-hand and operationally ready exceeded 60% of prescribed wartime requirement.

Marine Corps

Objective: Attain 94% "R" rating (equipment on hand that is mission capable). For Marine Corps, percentages are calculated for all Fleet Marine Force (FMF) units (to include active, reserve, and newly active units) on all ground equipment listed in a Marine Corps bulletin, 3000 series. This equipment provides a realistic portrayal of a unit's capability to perform its assigned wartime mission.
Measure: Percent of equipment in readiness condition.
Definition: Equipment possessed minus equipment deadlined, divided by equipment possessed.

Program Highlights

Training Readiness Indicators - Navy		
Training Readiness Rates - FY 1996	**Planned**	**Actual**
Navy Deployed Units	90%	95%

Objective: Maintain deployed unit at either C-1 or C-2 in the training resource area 90% of the time they are deployed

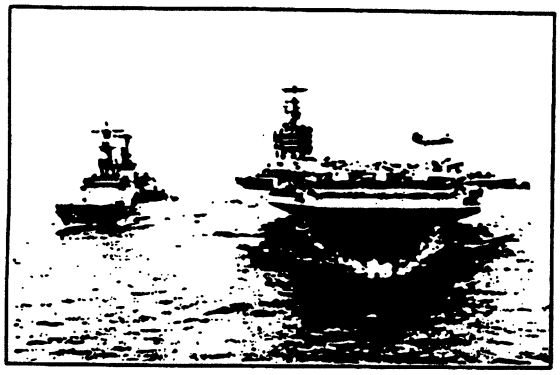
Measure: Percent of time deployed units were C-1 or C-2 in the training resource area.

Definition: Percent of time for deployed units that less than four weeks training was required to fulfill type commander requirements and the percent of assigned aircrews that were combat ready and available exceeded 70% of aircrews and the percent of unit training completed exceeded 70% of type commander requirements.

Overview

MILITARY FORCES AND CAPABILITIES

Today, more than any other time in our nation's history, there is a need for joint warfighting capabilities and those capabilities needed to perform operations other than war (i.e. peacekeeping, humanitarian, etc.) that can be launched from the sea. In this world's rapidly changing global security environment, there is one enduring reality - the United States is a maritime nation that will always find value in a forward-deployed and self-sustained global force to project power and protect our national interests.



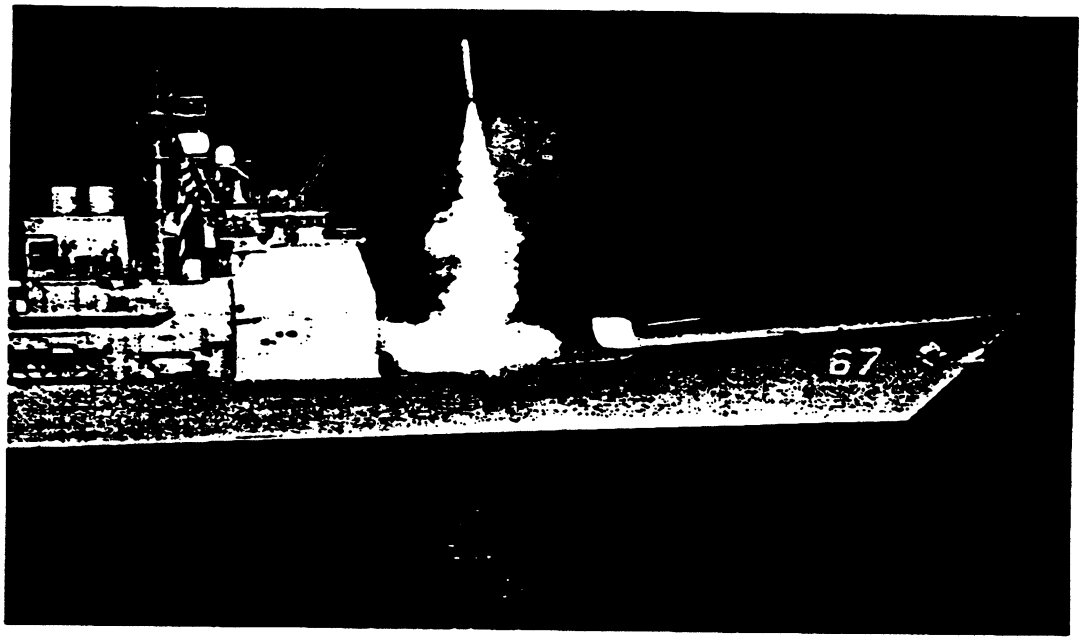
From Haiti to the Adriatic, from the Middle East to the Pacific Rim, the world faces sweeping changes. America will continue to need a Navy and Marine Corps that can go anywhere, fight if it has to, and win. That is our tradition, and it is the professional men and women of our force who have sailed in harm's way to carry on that tradition so magnificently, who have served selflessly in their communities, providing strength and leadership at home as well as at sea, who stand as an inspiration to a nation looking for heroes. The Department of the Navy is extremely confident in the abilities of the Navy and Marine Corps as America's team to maintain peace and prosperity and to defend her interests around the globe.

Forward From The Sea

Today's Navy and Marine Corps are capable of projecting U.S. policy forward from the sea anytime, anywhere, with an inventory of 357 battle force ships at the end of FY 1996 and over a half-million people on active duty and in the reserves. Approximately 50 percent (180) of those ships are under way; and 29 percent (105 ships and 51,836 personnel) are forward deployed. Similarly, approximately 23,300 Marines (23% of the Fleet Marine Force) are forward deployed at any given time. Naval forces are on station and ready, in a fully joint and combined manner, to lead and participate in unilateral, bilateral and fully combined operations whenever and wherever our Nation requires them. Because we are forward deployed, our Nation can call upon these ships, aircraft and

personnel without the need for surge from the United States and without the need for permission to base them on foreign soil. Rapid response, significant force, visible presence - these are all important contributions of Naval forces, Navy and Marines, positioned forward. They provide ready examples of America's power and America's character, reassuring other nations without firing a shot. Contingency Operations continue to demonstrate our ability to respond to a major crisis on short notice and underscore the benefits of a forward deployed presence.

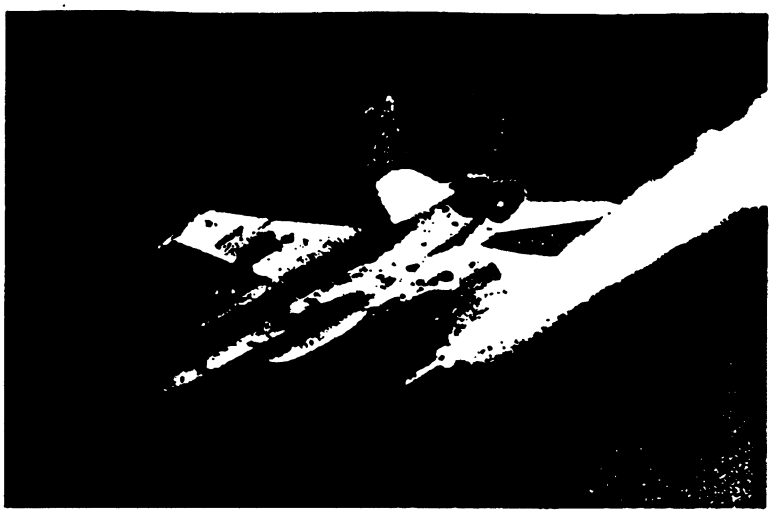
Major Operations



Naval forces have been called upon to respond to significant contingencies and crisis around the world as theater commanders called for their unique capabilities. Sea-based forces provided immediate response in support of real-world operations, along with numerous joint and combined exercises with NATO forces. During 1996, the European Command's amphibious ready groups, with embarked Marine Expeditionary Units (Special Operations Capable), supported NATO forces as the theater reserves in Operation Joint Endeavor; and conducted non-combatant evacuation operations in Liberia and the Central African Republic in Operations Assured Response and Quick Response; Naval air forces participated in a joint and combined operation formally known as Operation Deny Flight, to enforce the United Nations mandated no-fly zone in the airspace over the Republic of Bosnia-Herzegovina; and surface combatants and maritime patrol aircraft continued to execute maritime interception operations in

Overview

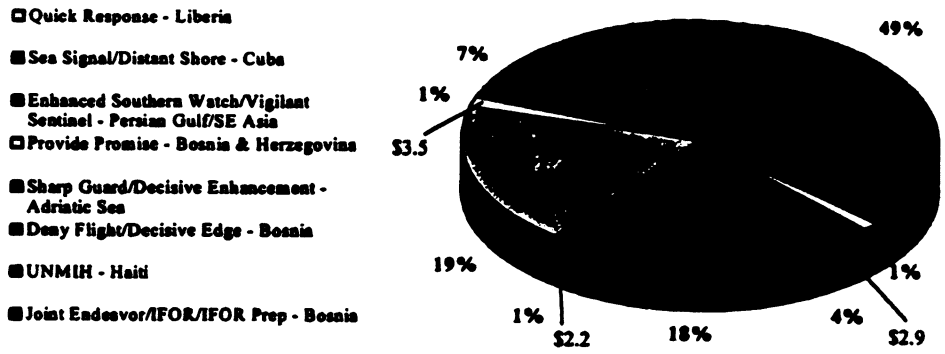
the Persian Gulf in support of United Nations sanctions against Iraq. By the end of 1996, surface combatants had conducted over 22,500 at-sea intercepts while simultaneously carrying out other forward presence missions in the region.

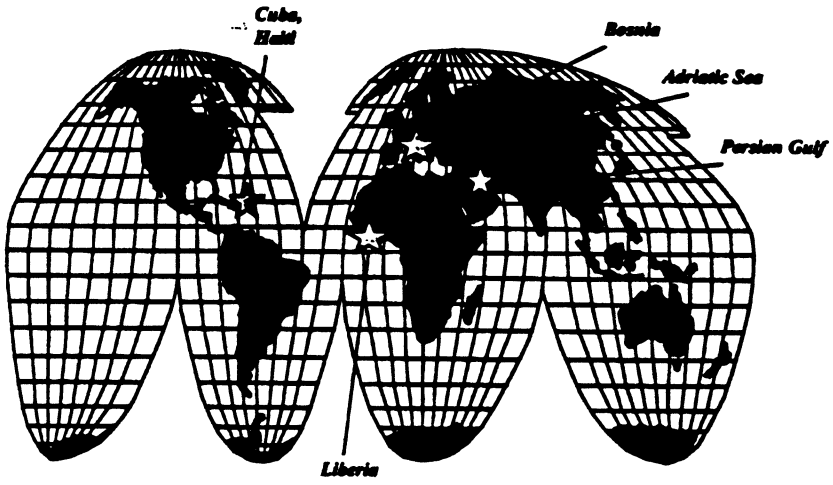


The Department of the Navy is required to support various Contingency Operations around the world. These costs are normally unbudgeted and therefore must be accommodated by reductions in budgeted programs such as ship and real property maintenance. Total incremental costs (costs above those budgeted), for contingency operations in FY 1996 were $262.9 million, including $217.9 million in the O&M accounts and $45 million in Personnel costs. Funding in the amount of $201.1 million was provided to support these operations in the FY 1996 appropriations, reprogrammings and supplemental. The were funded by deferrals of ship and real property maintenance.

Program Highlights

Contingency Operations
(in millions)





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Overview

Goals, Objectives And Performance Measures

Goal--Provide flexible military forces and capabilities for:

- Rapidly projecting power to deter and if necessary, fight and win two nearly simultaneous major regional conflicts in concert with regional allies.
- Supporting friends and allies, underwriting regional stability, providing initial crisis response and shaping the international environment in ways favorable to U.S. interests through peacetime overseas presence.
- Conducting operations other than war.
- Deterring, preventing and defending against the effective use of weapons of mass destruction and preventing their acquisition and their means of delivery.

Significant Force Factors-FY 1996	Planned	Actual
Battle Force Ships	(359)	(357)
Aircraft Carriers	11	11
Reserve Operational Carriers	1	1
Fleet Ballistic Missile Submarines	17	17
Surface Combatants	115	115
Nuclear Attack Submarines	80	80
Amphibious Ships	42	40
Combat Logistics Ships	41	41
Patrol/Support/Mine Warfare	35	35
Reserve Ships	17	17
Strategic Sealift Ships	(18)	(18)
Prepositioning Ships	1	1
Maritime Prepositioning Ships	13	13
Aviation Logistics Support Ships (T-AVB)	2	2
Hospital Ships (T-AH)	2	2
Tactical Air Forces	(13/2)	(13/2)
Aircraft Wings (Active/Reserve) - USN	10/1	10/1
Aircraft Wings (Active/Reserve) - USMC	3/1	3/1
Tactical Aircraft*	(1811/369)	(1811/369)
Aircraft (Active/Reserve) - USN	962/190	962/190
Aircraft (Active/Reserve) - USMC	849/179	849/179
*(Total average operating aircraft)		
Marine Corps Divisions	4	4
Active	3	3
Reserve	1	1

Program Highlights

Significant Manpower Factors-FY 1996	Planned	Actual
Active MILPERS (End Year)	**(598,179)**	**(590,525)**
Navy	424,179	416,525
Marine Corps	174,000	174,000
Reserve MILPERS (End Year)	**(140,554)**	**(140,112)**
Navy	*98,554	*98,112
Marine Corps	42,000	42,000

Objective: Attain planned force structure and military personnel strength.
Measure: Size of force structure and level of military personnel strength.
Definition: Compare actual numbers to the plan requirements, and determine the difference.
* Does not include NROTC numbers.

Strategic Sealift Capability		
Sealift Capacity (SqFt in millions)-FY 1996	**Planned**	**Actual**
Navy:		
Afloat Prepositioning Program	3.5	4.0
Current Prepositioning Program	2.9	3.0

Objective: Meet the sealift capacity in the mobility requirements study (MRS) and MRS Bottom Up Review (BURU).
Measure: Percent of strategic sealift capacity achieved, compared to the requirements established by the MRS and MRS BURU.
Definition: Compare the actual or projected program capacity to the required capacity for the given category in the given fiscal year.

Strategic Surge Capability - Ashore		
Prepositioned Material Ashore - FY 1996	**Planned**	**Actual**
Marine Corps		
Number of Sites	6	6
Short Tons	26,160	26,160

Objective: Meet or exceed the prepositioned material at the FY 1994 level.
Measure: Level of prepositioned material maintained.
Definition: The prepositioned material for the fiscal year, divided by the prepositioned material in FY 1994.

Amphibious Shipping Capability - FY 1996		
Marine Expeditionary Brigades (Lift Equivalents)	**Planned**	**Actual**
Troops	2.55	2.55
Vehicle Squared	1.88	1.88
Cargo Cubed	3.09	3.09
Air Spots	2.78	2.78
LCAC Spots	3.25	3.25

Objective: Meet or exceed the 2.5 Marine Expeditionary Brigade (MEB) goal in all five lift categories for active amphibious lift.
Measure: Percent of active amphibious shipping versus the 2.5 MEB lift goal.
Definition: Divide the MEBs of lift in each category by 2.5.

Overview

QUALITY OF LIFE AND PERSONNEL

A comfortable standard of living, positive work environment and excellent care of families are essential in retaining capable people. Bachelor and family housing continue to be high priority quality of life issues in the Department. We continue working to provide quality housing for all personnel and their families, looking first at private sector housing and at partnerships with private sector investors.

Effective quality of life programs have a positive impact on our recruiting and retention efforts and, ultimately, on our combat readiness. Extensive support for the sea services are provided by chaplain around-the-clock ministry and pastoral presence to deployed units. In addition, judge advocates and legal services programs are also integral to quality of life and combat readiness.

Quality People

The Department of the Navy's highest priority and challenge continues to be the accession and retention of people in the necessary quantity and quality to meet operational requirements. The Department will need to recruit and retain a quality force in the future to keep abreast of the advanced technology designed into our new weapon systems for the defense of our nation and its interests. Therefore, the Navy and Marine Corps continue to focus on retaining those enlisted and officer personnel whose mission critical skills contribute directly to readiness and whose talents are in shortest supply. However, recruiting quality is becoming increasingly difficult due to the reduced pool of 17-21 year old males and females and the misperception of the public that the military no longer offers a viable career due to the drawdown. Maintaining the quality of enlisted accessions remains an essential element in the Department's plans for the 21st century. The Department's insistence for quality people continues in response to the challenges of leadership as well as to the demands of technology requirements of our ships, submarines, aircraft and ground weapon systems.

Community Facilities & Shipboard Support

The Department of the Navy community facilities projects range from bachelor's quarters to child care centers for dependent children. Family service centers encompass a variety of important programs, including relocation and transition assistance, deployment support and personal financial management. Moreover, the Department of the Navy's morale, welfare and recreation budget provides for state of the art physical fitness, sports and recreation equipment and learning resource centers (computerized libraries) to be available on every ship. It also provides for additional civilian personnel to support new child care facilities in Italy. The focus of these efforts is to "...maintain the care, the nurturing and the betterment of the people of the Navy and Marine Corps" (Adm. Jay L. Johnson).

Program Highlights

Meeting Medical Needs

The Department of the Navy is committed to providing the highest quality health care to active duty and retired service members and their families. Navy medical's primary mission is readiness. This means keeping people on the job, at sea and ashore, by providing medical services close to the operators and by moving information-instead of patients-whenever possible. We continue to support the Assistant Secretary of Defense for Health Affairs and other Services' surgeons-general to establish TRICARE (regionalized medical care for the three military branches) managed care support contracts.

The need to keep faith with the armed forces' retired community with regard to medical benefits requires constant vigilance. The Department of Defense continues to work authority to receive reimbursement from Medicare for health care provided to those Medicare eligibles within the Military Health Services System (Medicare subvention).

Health And Safety

The Navy Occupational Safety and Health Program focuses on protecting military and civilian personnel in their workplaces. It is essential to military readiness that safety and occupational health goals and objectives be integrated into the Department of the Navy's mission at every level. To achieve this, the Department has published a strategic plan that focuses on four main initiatives:

- Process review and measurement
- Communication and information systems
- Planning and engineering
- Training and education

Through these initiatives, the Department continues to emphasize personnel safety and health awareness by targeting high risk/high hazard operations afloat.

Overview

Supporting Equal Opportunity

A key component of the Navy and Marine Corps vision is a totally integrated and diverse team of regular and reserve personnel, encouraged, mentored and developed by their peers and leaders to attain their full potential through a wide range of career opportunities and professional challenges. Attaining this vision requires careful attention to all aspects of our plans to ensure equitable assignment of minorities and women into all available career fields.

Recent changes have opened many new positions to women. More than 94 percent of all Navy billets and 93 percent of all Marine Corps occupational specialties are now available to women. Today, the most senior women in the active-duty military, enlisted and officer, are Marines. All new Navy surface ships are now designed to incorporate berthing for officer and enlisted women including the *USS Benfold (DDG 65)*, the first U.S. Navy ship built from the keel up with habitability modifications necessary for full integration of women into the crew.

Table 1: Overall Numbers

	Women	Men	Total
Active-duty Personnel	53,842	362,683	416,525
Enlisted Personnel	45,901	310,942	356,843
Officers	7,941	51,741	59,682
Reserve Personnel	17,221	80,735	97,956
Enlisted Personnel	13,806	63,570	77,376
Officers	3,415	17,165	20,580

Table 2: Navy Women Aboard Ship

	Women	Women on Combatant
Officers	7,941	581
Enlisted Personnel	45,901	3,618
Personnel on ships	53,842	4,199
Projected (including officers and enlisted):		
FY-97 (end)	60,000	5,088
FY-99 (end)	60,000	7,676

Table 3: Navy Women in Aviation

Total Pilots	217	Student Aviators	171
Total Naval Flight Officers	79	Pilots	89
Enlisted	9,468	Naval Flight Officers	55

A significant equal opportunity undertaking during the past year was the Secretary of the Navy's "Enhanced opportunities for Minorities Initiative," which called for the examination of all aspects of recruiting, accessions, promotion, retention and augmentation. The intent of the initiative is to create a Navy and Marine Corps that reflects the demographics of American

society. Based on Census Bureau population forecasts for the year 2005, the Department of the Navy goal is to reflect 12 percent African American, 12 percent Hispanic and Five percent Asian Pacific Islander/Native American (12%/12%/5%) across all ranks, rates and designators. In the short term, we plan to increase accessions each year to meet the overearching goal of 12%/12%/5% minority officer accessions by the year 2000. During FY 1996 , we exceeded minority representation within the most recent class of college graduates.

Overview

Goals, Objectives And Performance Measures

Goal--Recruit and retain well qualified military and civilian personnel and provide them with a high quality of life.

Nonprior Service Recruits		
Active Duty Nonprior Service Recruits - FY 1996	**Planned**	**Actual**
With High School Diploma	95%	96.3%

Objective: Maintain a 95% rate of high school graduates from the top half aptitude segment (Categories I-IIIU) in the nonprior service recruiting category.
Measure: Percent of nonprior service recruits that are high school graduates and are classified in the top half aptitude segment of American youth (Armed Forces Qualification Test Categories I-IIIU).
Definition: Number of nonprior service recruits with high school diplomas who are Category I-IIIU, divided by the total number of nonprior service recruits.

Enlisted Accessions-FY 1996		
	Planned	**Actual**
Navy:		
Active	47,846	48,206
Reserve	21,951	16,820
Marine Corps:		
Active	33,830	33,495
Reserve	10,205	10,513

Objective: 100% of enlisted accessions in the plan.
Measure: Number of enlisted accessions versus plan.
Definition: Compare the number of enlisted accessions to the plan, and determine the difference.

Enlisted Reenlistments		
First Term Reenlistments - FY 1996	**Planned**	**Actual**
Navy	12,287	11,954
Marine Corps	3,036	4,300
Career Reenlistments - FY 1996	**Planned**	**Actual**
Navy	29,942	27,172
Marine Corps	11,880	9,461

Objective: Attain 100% of enlisted first term and career reenlisted in the plan.
Measure: Number of enlisted first term and career reenlistments versus plan.
Definition: Compare the number of enlisted first term and career reenlistments to the plan, and determine the difference.

Program Highlights

Child Care - Navy			
Child Care Spaces - FY 1996	**Potential Need***	**Goal***	**Actual****
Child Development Centers (ages 0-5)	------	------	14,893
Family Child Care (ages 0-5)	------	------	9,558
School Age Care (ages 6-12)	------	------	9,500
Total	**80,488**	**52,317**	**33,951**

Objective: Attain 100% of the goal (65% of potential need).
Measure: Number of child care spaces available versus plan.
Definition: Compare the number of child care spaces to the plan, and determine the difference.

*Goal/Potential Need for children ages 0-5 is determined by the total program, and not broken out by child development centers/family child care (40,351/62,079).
*Goal/Potential Need for school age care (6-12) is determined by the total program, and not broken out by child development centers/family child care (11,966/18,409).
**Actual figures are based on the most recent NC15 submission (96).

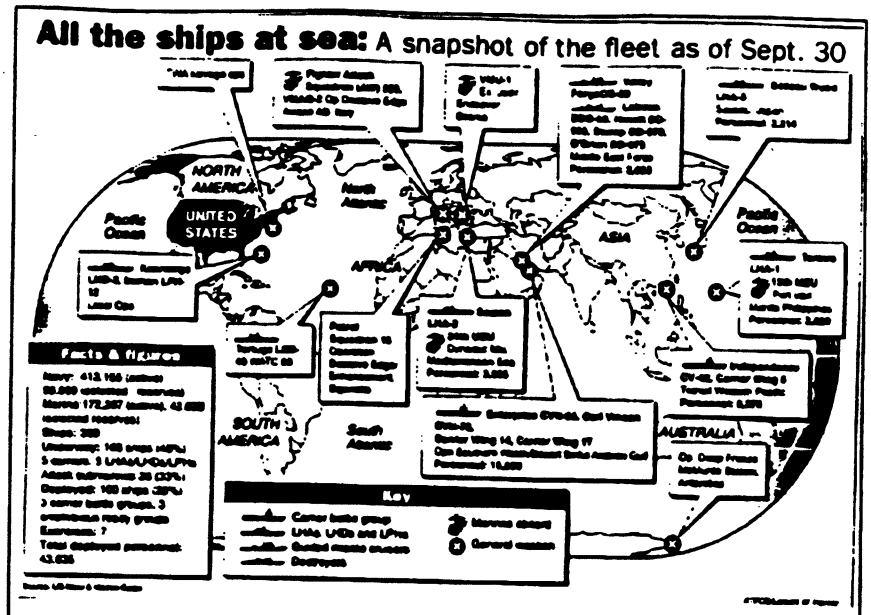
Child Care - Marine Corps		
Child Care Spaces - FY 1996	**Planned***	**Actual****
Marine Corps Child Care Spaces	4,800	------
Child Development Centers Spaces	------	4,207
School Age Spaces	------	593
Total	**4,800**	**4,800**
Family Child Care Spaces	4,500	------
On-base (other than Centers)	------	4,284
Resources and Referral Spaces in off-base facilities	------	216
Total	**4,500**	**4,500**

Objective: Attain 100% of the planned number of child care spaces.
Measure: Number of child care spaces available versus plan.
Definition: Compare the number of child care spaces to the plan, and determine the difference.
* "Planned" source is the FY 1996 column of the FY 1997 President's Budget.
**"Actual" is derived from the Quarterly Sumary of Child Development Program Operation report.

Overview

MILITARY ALLIANCES AND RELATIONSHIPS

U.S. interests involve trade with partners located at the endpoints of the "highways of the seas." These endpoints lie in the world's littoral regions, which *coincide* with the *concentration* of our vital interests in Europe, the Middle East, Latin America and particularly in the Pacific Rim and Indian Ocean--the area that is the fastest growing economically and demographically.



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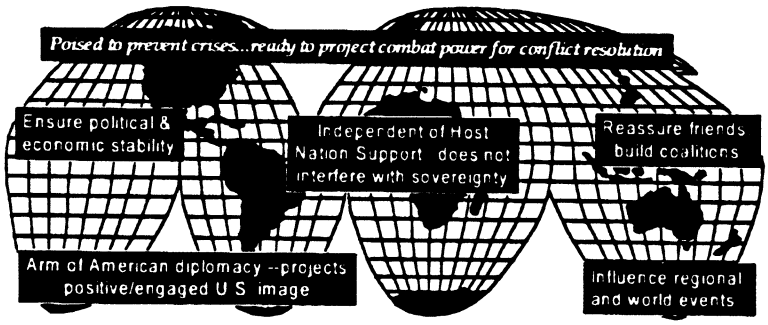
Funding for Naval Forces

National Investment needs to reflect value of Naval Forces to our Nation...the Price of Peace is lower than the Cost of War

Forward Deployed Naval Forces...Early, Flexible, Mobile, Sustainable



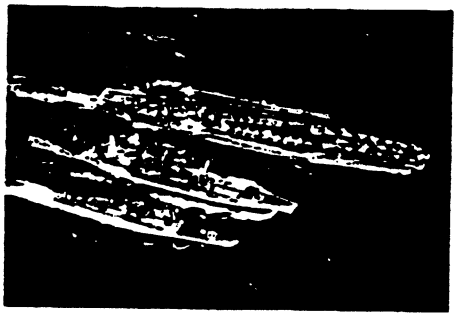
The littorals provide homes to more than 75 percent of the world's population, locations for more than 80 percent of the world's capital cities and nearly all the major marketplaces of international trade. It is in our national interest, therefore, for the littorals of the world to remain stable.

The Navy-Marine Corps team regularly influences events in the littorals

from its sovereign combat capable bases at sea. Routinely operating in all the world's oceans, these combat credible naval expeditionary forces exert real influence and provide assurance to friends.

Major Joint/Combined Exercises

The annual UNITAS deployment is a primary means of supporting regional stability in the Western Hemisphere. For five months each year, regular and reserve surface combatants and P-3C aircraft, a submarine and Marines embarked on an amphibious ship, circumnavigate South America. In 1996, Canada, Germany, the United Kingdom, South Africa and the Netherlands also participated during certain phases. At each Latin American stop, our naval forces exercised with the host nation's air, sea and land forces. These exercises generally provide the only opportunity each year for many of these Latin American nations to operate with U.S. and other foreign forces. Similarly, regional stability in Southeast Asia is supported by the Pacific Fleet's Cooperation Afloat Readiness and Training Cruise (CARAT), patterned after the UNITAS deployment.



Sea-based and self-sustained, amphibious forces take advantage of bilateral training opportunities in countries with limited infrastructure or ability to support large scale military deployments. These training exercises offer emerging democracies a unique opportunity to train with U.S. forces. These same forward deployed amphibious forces give theater commanders a flexible, responsive force that can be positioned in key trouble spots for extended periods as a visible example of U.S. resolve and commitment. During 1996, the Navy/Marine Corps Team proved time and again that sea-based forces are a premiere forward presence asset.

Overview

Goals, Objectives and Performance Measures

Goal--Sustain and adapt military alliances, enhance coalition war-fighting, and forge military relationships that protect and advance U.S. security interests.

Multinational Force Compatibility		
Data Exchange Agreements (DEAs) - FY 1996	**Planned**	**Actual***
Percent of Active DEAs	65%	73%
Objective: Ensure that 65% of signed DEAs are active (i.e., had U.S. technical project officer visits and document exchanges with counterparts during the year, to obtain critical R&D technologies to reduce U.S. national efforts and costs to obtain like data).		
Measure: Percent of signed DEA's that are categorized as "active" based upon survey results of U.S. technical project officer activity.		

*The value attached to the technology gain received under the 208 active DEA annexes is estimated to be $1.4B.

Foreign Comparative Testing (FCT) - FY 1996	Planned	Actual*
Percent of FCT Procurement	40%	50%
Objective: Maintain an average procurement rate of 30% for FCT projects that fulfill Service operational requirements and that provide significant cost, schedule or performance benefits.		
Measure: Percent of FCT projects procured.		

*Specifically, through the FCT evaluations and subsequent procurements, the Department of the Navy has avoided over $30M in estimated R&D investments, accelerated equipment fielding to the warfighter by 24 months, as well as provided significant life-cycle cost savings in one program due to increased equipment reliability.

International Research & Development Agreements - FY 1996	Planned	Actual*
Number of Concluded Agreements	6	20
Objective: Conclude an average of 6 international R&D armaments cooperation agreements per year.		
Measure: Number of international R&D armaments cooperation agreements concluded during the year.		

*The 20 concluded Memorandum of Understanding's resulted in foreign contributions of $357.24M to various Department of the Navy Research, Development and Acquisition programs.

TECHNOLOGICAL SUPERIORITY

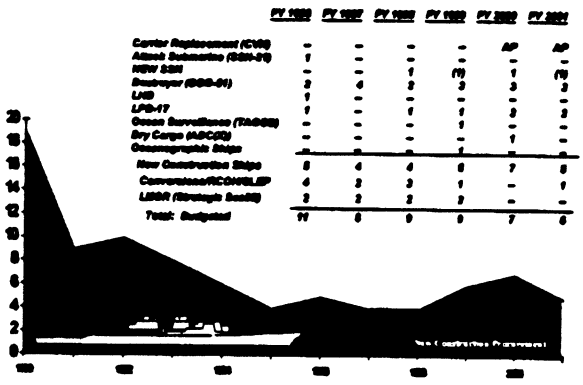
Events of the past year clearly demonstrate we live in an uncertain world that requires naval forces to meet a wide range of contingencies. Through a combination of innovation and modernization, the Department of the Navy is building and maintaining naval forces ready to meet those contingencies. The Department of the Navy is exploiting the explosive changes occurring in high technology to conceive and build new and more capable platforms and weapons systems for the future.

Modernization

Economic conditions dictate we take advantage of emerging technologies to breathe new life into some of our older systems and platforms or tie together disparate systems to synergize the whole. Capability upgrades to current ships, naval tactical aircraft and various weapons systems all are critical parts of the modernization program. Continued upgrades of our ultra high frequency, super high frequency, extremely high frequency, and commercial satellite communications capabilities are necessary to enhance the support and integration of joint/combined operations.

Acquisition Management

Ship Acquisition Program

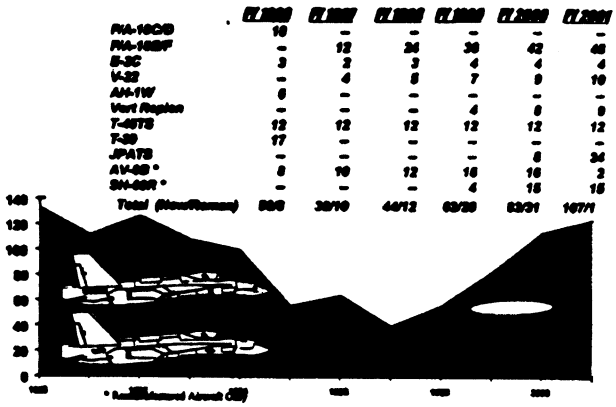


The Department of the Navy is investing today in the platforms, equipment and infrastructure for future naval forces. The Department of the Navy's acquisition investment strategy makes the most of scarce procurement dollars without compromising quality. It also emphasizes that future programs must produce survivable multi-mission platforms and weapons systems - true force multipliers - capable of meeting a great variety of mission requirements. This strategy involves prudent risk. Many of the platforms and weapons systems in the fleet today were procured during the 1970s and 1980s. Lower Post-Cold War force level requirements allowed retirement of older and less capable platforms and weapon systems, leaving us with a platform average age that is actually lower than it was when annual procurement budgets were much higher. Based upon current production rates, however, average age will steadily increase.

Overview

Current programs such as the *USS Arleigh Burke (DDG-51)* - class destroyer, the Osprey (MV-22) tilt-rotor aircraft, the Super Hornet fighter/attack aircraft (F/A-18E/F) and the Advanced Assault Amphibious Vehicle (AAAV) will help to ameliorate this effect and are critical parts of Navy and Marine Corps future readiness.

Aviation Acquisition Program



RIA-10C/D	10	-	-	-	-	-
RIA-10E/F	-	12	24	30	42	48
E-3C	3	2	3	4	4	4
V-22	-	4	8	7	9	10
AH-1W	6	-	-	-	-	-
Vert Raptor	-	-	-	4	6	6
T-45TS	12	12	12	12	12	12
T-39	17	-	-	-	-	-
JPATS	-	-	-	-	6	34
AV-8B *	8	10	12	16	16	2
SH-60R *	-	-	-	4	16	16
Total (New/Remanufactured)	56/0	30/10	44/12	63/20	63/31	107/11

WORKING RELATIONSHIPS

Counterdrug Operations

The Department of the Navy continues to support U.S. Government efforts to reduce the supply of illicit drugs entering the country. Regular and reserve Navy and Marine Corps aircraft, ships and unique sensors contributed to detection and monitoring missions in the transit zone. During 1996, Naval forces assisted the U.S. Coast Guard with interdiction operations and provided a wide range of domestic support that included training and the use of facilities, equipment and personnel. In addition, regular and reserve Marine Corps units provided operational support to the combatant commanders-in-chief and drug enforcement agencies participating in counterdrug forces throughout the Continental U.S. as well as the Caribbean.

Humanitarian Assistance

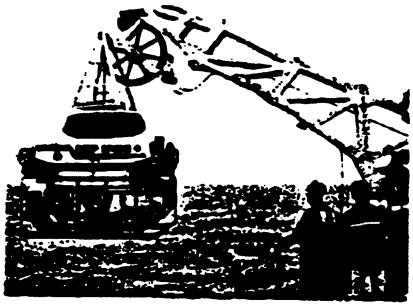
Naval units conducted numerous relief efforts for local communities affected by disastrous hurricanes in the Caribbean and the southeastern United States. As the focal point for relief efforts, Naval Station Roosevelt Roads in Puerto Rico was the base for disaster material staging and support. Naval station personnel also provided airlift for inter-island transport and helped officials survey the damaged areas. While Navy seabees helped repair managed facilities, Navy divers surveyed and cleared navigational channels for St. Thomas and St. Croix.

TWA Flight 800

USS Grasp (ARS 51) and the *USS Grapple (ARS 53)* were the two Navy salvage ships assigned to locate and recover the victims and wreckage of TWA Flight 800 from the bottom of the Atlantic ocean in Long Island, N.Y. The wreckage was discovered by the *USS Grapple*, using its remotely-operated vehicle. Beginning work immediately upon arrival, *USS Grasp* conducted nearly continuous diving operations for almost a month while the task group concentrated on recovering the remains of the victims of the crash.

Overview

Navy divers aboard the *USS Grasp* also recovered the flight data recorder and cockpit voice recorder, and a large part of the 747's tail section. The *USS Grapple* and *USS Grasp* both worked to recover more than 90 percent of the wreckage of the Boeing 747.



More than 120 Navy divers and 600 sailors were directly involved in the $7 million salvage operation. Other Navy ships supporting the salvage effort were the *USS Oak Hill*, *USS Trenton* and Navy-contracted ships *M/V Pirouette*, *Marlon C.*, and *Diane G.*

Goals, Objectives And Performance Measures

Goal--Support U.S. national security priorities by working closely and effectively with other governmental agencies, Congress and the private sector.

Department of the Navy Personnel Support		
Department of the Navy Personnel Assigned Out of Department of Defense - FY 1996	**Planned**	**Actual**
Navy	201	204*
Marine Corps	49	47
Objective: Provide necessary personnel to other agency mission requirements.		
Measure: Number of Department of Navy personnel assigned to government agencies outside of Department of Defense.		
Definition: Compare total number of Department of Navy personnel assigned to the projected number, and determine the difference.		
*Extracted from the Military Personnel, Navy Budget, 16 September 1996.		

Program Highlights

Department of the Navy Equipment Support - Counterdrug Detection and Monitoring			
Transit Zone Support - FY 1996	**Planned**	**Actual**	**Actual Dollars ($Thousands)**
Ship Steaming Days	1,870	1,335	$23,767
Aircraft Flying Hours	25,821	32,314	$59,729

Objective: Maintain the OPTEMPO level of counterdrug support as projected.
Measure: Level of OPTEMPO; aviation flying hours and ship steaming days in support of counterdrug operations.
Definition: Compare the actual OPTEMPO level to the projection, and determine the difference.

Overview

EFFICIENCY - EFFECTIVE MANAGEMENT

Initiatives To Improve Efficiency

In conjunction with the National Performance Review, recommendations from the Commission on Roles and Missions of the Armed Forces and other related activities, the Department of the Navy continues to pursue innovative ideas to increase efficiency. The Department is learning a great deal from private industry and has undertaken several major initiatives, including delegation of waiver authority, designation of reinvention laboratories, reduction of cycle time, acquisition reform and initial implementation of the Government Performance and Results Act.

All these initiatives seek to reengineer key management processes so the nation will receive the best return for invested defense dollars. The Department's overall objective is to provide high quality, cost effective, combat ready forces.

Base Realignment And Closure Strategy

With the Congressional approval of Base Realignment and Closure (BRAC) I through IV, the Department's focus is on implementing all of its BRAC-related efforts. BRAC -95 identified 37 bases/activities for closure and 7 for realignment, bringing the grand total for all four rounds of BRAC to 135 bases/activities for closure and 43 for realignment. To date, 115 closure/realignment actions have been completed. The Department continues its efforts to implement BRAC actions and experience the savings that will become available through the remaining closures and realignments. The prompt and efficient closure of excess shore infrastructure generated savings of approximately $1.9 billion in FY 1996 with additional savings of about $13.1 billion projected between FY 1997-FY 2001 that can be applied to modernizing naval forces and supporting infrastructure.

Base Realignment and Closure

($ in Millions)

Costs	FY 1996	FY 1997*
BRAC II	423	88
BRAC III	1,570	835
BRAC IV	509	452
Total	$2,502	$1,375

Savings*	FY 1996 Savings	FY 1997 Savings	Annual Steady State
BRAC II	638	649	466
BRAC III	680	985	1,360
BRAC IV	559	480	732
Total	$1,877	$2,11	$2,558

* estimated

Post-Base Closure Strategy

Beyond the significant savings to be attained through closure and realignment of bases, additional efficiencies are targeted in operation of the remaining bases. The key to this is the comprehensive integration of shore requirements with new business practices and improved organizational approaches. Shore infrastructure requirements have been carefully analyzed to ensure that remaining shore capacity is used to best support current and projected force structure.

FINANCIAL MANAGEMENT ACCOMPLISHMENTS

Improve Department of the Navy Systems To Achieve CFO Compliance

The Department of the Defense selected the existing Standard Accounting and Reporting System as the interim migratory system for Navy general funds. In its final configuration, this system will have accounting modules for departmental, headquarters and field level accounting. The headquarters module is resident at all major acquisition commands. The field level module is now deployed at 93 percent of the Navy's shore locations and deployment will be completed by the end of 1996. The Navy operating forces fleet accounting is also being accommodated in the field level module by October 1997.

The headquarters and field level modules have an on-line bill paying module called Standard Accounting and Reporting System-One Pay, which includes the capability to "prevalidate" invoices (i.e., to locate a matching obligation record before making the payment). The changes necessary to bring existing software of the headquarters and field level modules into compliance with government-wide accounting standards are scheduled to be completed in 1997.

For the Marine Corps, the interim migratory system selected for general funds accounting is the Standard Accounting, Budgeting and Reporting System. When upgraded and fully deployed, the Standard Accounting, Budgeting and Reporting System will provide the general ledger accounting for all general funds and eliminate five general fund legacy systems.

Improve the Accuracy of Financial Information

Financial statements can only be as good as the data in our accounting systems. Thus, deployment of compliant systems alone is only part of the solution. While the Defense Finance and Accounting Service has the primary Department of Defense responsibility for the integrity of the data in accounting systems used by the Department of the Navy, the Department of the Navy plays the major role to (1) ensure the accuracy of the data at the point or source of entry into the accounting system(s); (2) make payments for certain expenditures; (3) generate the data on most reimbursable transactions and receivable; and (4) provide and maintain the data for inventory, property, plant and equipment accounting and on contingent liabilities in areas such as contracts and environmental cleanup. Fortunately, a number of actions are already underway within the Department of the Navy that will improve the accuracy of data, such as electronically transmitting data from the source directly to Defense Finance and Accounting Service.

Improve Financial Services To The People We Serve

<u>Direct Deposit/Electronic Funds Transfer for Travel Pay</u> - The Navy began prototyping direct deposit/electronic funds transfer for travel pay in August 1996. The shore-based activities' personnel support detachments in Norfolk and San Diego, and the *USS Mount*

Overview

Whitney and *USS Vella Gulf*, both homeported in Norfolk, are the test platforms. As part of the implementation, the current Navy travel computation program, Micro-computer Computation Payment System, will be replaced in a one or two stage implementation by the Integrated Automated Travel System. Claims are submitted directly to one of the sites and are computed using a Navy version of Integrated Automated Travel System. The payment information is downloaded daily to Defense Finance and Accounting Service-Cleveland. Defense Finance and Accounting Service-Cleveland either mails a check or makes the direct deposit/electronic funds transfer transaction. Check payments will be replaced by direct deposit/electronic funds transfers for all travel advances, partial payments and settlements. The anticipated number of travel payments for civilian and military travelers to be handled by the prototype sites is 3,800 transactions a week.

During April 1996, the Integrated Automated Travel Systems was installed at 24 Marine Corps travel offices worldwide and the Marine Corps School in Camp LeJeune, NC., and incorporated into the Corps' financial management training program. Defense Finance and Accounting Service-Kansas City provided the technical and logistical support for the Marine Corps to purchase computers and other peripherals. Travel payment information is electronically received from field sites and payments sent either by check or direct deposit via electronic funds transfer within 24 hours of receipt by Defense Finance and Accounting Service-Kansas City. The Marine Corps has also implemented electronic funds transfer for all new recruits to receive their pay, thus streamlining the payroll process from a hard-copy check to direct deposit.

Commercial Banking Afloat - The Department is testing an initiative that will enhance the current automated teller machine system on Navy ships by providing the sailors access to commercial banking. The upgraded automated teller machines-at-sea system will be connected through the Challenge Athena Satellite with the Armed Forces Financial Network. This will enable connectivity to commercial financial institutions. This quality of life initiative will allow shipboard personnel that have a commercial banking debit card that is on the Armed Forces Financial Network, the ability to withdraw cash or transfer funds to the shipboard safekeeping system from their commercial banking account. The Naval Supply Systems Command is the program sponsor for this initiative. Prototype testing is scheduled for this fall on the USS Theodore Roosevelt.

Improve Performance of Financial Managers Through Workforce Training

In FY 1996, the Naval Financial Management Career Center sponsored training and education courses designed to broaden functional knowledge and to enhance careers in financial management for GS-500 (financial management) series employees. The number of personnel trained at the entry level was 1,227, with 368 mid-level personnel receiving training. Seventy individuals took part in the Department of Defense sponsored graduate education program leading to a master's degree in public administration, with strong emphasis on financial management.

DEPARTMENT OF THE NAVY

PRINCIPAL STATEMENTS

Principal Statements

PRINCIPAL STATEMENTS

The Department of the Navy's FY 1996 Principal Statements are presented in the format prescribed by the Office of Management and Budget and the Department of Defense. The statements present the overall financial position and operating results of the Department for the fiscal year ending September 30, 1996.

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

- Statement of Financial Position
- Statement of Operations (and Changes in Net Position)

The principal statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990 as amended by the Government Management Reform Act.

The footnotes should be considered an integral part of the principal statements.

Limitations of the Financial Statements:

While the statements have been prepared from the books and records of the entity in accordance with the format prescribed by Office of Management and Budget and Department of Defense, the statements are different from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Principal Statements

Principal Statements

Department of Defense
Department of the Navy
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS	1996
1. Entity Assets:	
a. Transactions with Federal (Intragovernmental) Entities:	
(1) Fund Balance with Treasury (Note 1G and 2)	$64,801,567
(2) Investments, Net (Note 1L and 4)	7,532
(3) Accounts Receivable, Net (Note 1I and 5)	1,928,010
(4) Interest Receivable	
(5) Advances and Prepayments	66,579
(6) Other Federal (Intragovernmental) (Note 6)	
b. Transactions with Non-Federal (Governmental) Entities:	
(1) Investments, Net (Note 1L and 4)	297
(2) Accounts Receivable, Net (Note 1I and 5)	4,360,849
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	
(4) Interest Receivable, Net	
(5) Advances and Prepayments	202,972
(6) Other Non-Federal (Governmental) (Note 6)	
c. Cash and Other Monetary Assets (Note 1G and 3)	51,339
d. Inventory, Net (Note 1K and 8)	41,441,119
e. Work in Process (Note 9)	5,277
f. Operating Materials/Supplies, Net (Note 10)	27
g. Stockpile Materials, Net (Note 11)	
h. Seized Property (Note 12)	
i. Forfeited Property, Net (Note 13)	
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	
k. Property, Plant and Equipment, Net (Note 1M and 15)	340,975,064
l. Other Entity Assets	74
m. Total Entity Assets	$453,840,706
2. Non-Entity Assets:	
a. Transactions With Federal (Intragovernmental) Entities:	
(1) Fund Balance with Treasury (Note 1G and 2)	($572,625)
(2) Accounts Receivable, Net (Note 1I and 5)	117,075
(3) Interest Receivable, Net	
(4) Other (Note 6)	

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS, Continued	1996
2. Non-Entity Assets:	
b. Transactions With Non-Federal (Governmental) Entities:	
(1) Accounts Receivable, Net (Note 11 and 5)	($26,673)
(2) Interest Receivable, Net	
(3) Other (Note 6)	
c. Cash and Other Monetary Assets (Note 1G and 3)	65,316
d. Other Non-Entity Assets	
e. Total Non-Entity Assets	($416,907)
3. Total Assets	$453,423,799
LIABILITIES	
4. Liabilities Covered by Budgetary Resources:	
a. Transactions with Federal (Intragovernmental) Entities:	
(1) Accounts Payable (Note 1V)	$2,547,156
(2) Interest Payable	
(3) Debt (Note 16)	
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	302,605
b. Transactions with Non-Federal (Governmental) Entities:	
(1) Accounts Payable (Note 1V)	6,461,703
(2) Accrued Payroll and Benefits (Note 1V)	
(a) Salaries and Wages	250,455
(b) Annual Accrued Leave (Note 1Q)	
(c) Severance Pay and Separation Allowance	405,939
(3) Interest Payable	
(4) Liabilities for Loan Guarantees (Note 7)	
(5) Lease Liabilities (Note 18 and 1O)	
(6) Pensions and Other Actuarial Liabilities (Note 19)	
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	40,253
c. Total Liabilities Covered by Budgetary Resources:	$10,008,111

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
Statement of Financial Position
As of September 30, 1996
(Thousands)

LIABILITIES, Continued	1996
5. Liabilities Not Covered by Budgetary Resources:	
a. Transactions with Federal (Intragovernmental) Entities:	
(1) Accounts Payable (Note 1V)	
(2) Debt (Note 16)	
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	
b. Transactions with Non-Federal (Governmental) Entities:	
(1) Accounts Payable (Note 1V)	
(2) Debt (Note 16)	
(3) Lease Liabilities (Note 18 and 1O)	
(4) Pensions and Other Actuarial Liabilities (Note 19)	$2,161,377
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	1,148,870
c. **Total Liabilities Not Covered By Budgetary Resources**	$3,310,247
6. Total Liabilities	$13,318,358
NET POSITION (Note 20 and 1R)	
7. Balances:	
a. Unexpended Appropriations	$60,976,097
b. Invested Capital	382,395,684
c. Cumulative Results of Operations	(12,421)
d. Other	56,328
e. Future Funding Requirements	(3,310,247)
f. **Total Net Position**	$440,105,441
8. Total Liabilities and Net Position	$453,423,799

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	1996
REVENUES AND FINANCING SOURCES	
1. Appropriated Capital Used	$56,535,616
2. Revenues from Sales of Goods and Services	
a. To the Public	54,478
b. Intragovernmental	6,645,888
3. Interest and Penalties, Non-Federal	616
4. Interest, Federal	580
5. Taxes (Note 21)	
6. Other Revenues and Financing Sources (Note 22)	4,426
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	
8. **Total Revenues and Financing Sources**	$63,241,604
EXPENSES	
9. Program or Operating Expenses (Note 23)	$56,466,260
10. Cost of Goods Sold (Note 24)	
a. To the Public	48,515
b. Intragovernmental	6,672,509
11. Depreciation and Amortization	176
12. Bad Debts and Writeoffs	78,600
13. Interest	
a. Federal Financing Bank/Treasury Borrowing	
b. Federal Securities	
c. Other	237
14. Other Expenses (Note 25)	
15. **Total Expenses**	$63,266,297
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($24,693)
17. Plus (Minus) Extraordinary Items (Note 26)	
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($24,693)

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

EXPENSES, Continued	1996
19. Net Position, Beginning Balance, as Previously Stated	$443,232,471
20. Adjustments (Note 27)	(1)
21. Net Position, Beginning Balance, as Restated	$443,232,470
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(24,693)
23. Plus (Minus) Non Operating Changes (Note 28)	(3,102,336)
24. Net Position, Ending Balance	$440,105,441

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
Statement of Cash Flows (Indirect Method)
For the Period Ended September 30, 1996 (Revolving Funds Only)
(Thousands)

	1996
CASH FLOWS FROM OPERATING ACTIVITIES	
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0
Adjustments affecting Cash Flow:	
2. Appropriated Capital Used	
3. Decrease (Increase) in Accounts Receivable	(511,597)
4. Decrease (Increase) in Other Assets	
5. Increase (Decrease) in Accounts Payable	21,673
6. Increase (Decrease) in Other Liabilities	
7. Depreciation and Amortization	
8. Other Unfunded Expenses	
9. Other Adjustments	
10. Total Adjustments	($489,924)
11. Net Cash Provided (Used) by Operating Activities	($489,924)
CASH FLOWS FROM INVESTING ACTIVITIES	
12. Sale of Property, Plant and Equipment	
13. Purchase of Property, Plant and Equipment	
14. Sale of Securities	
15. Purchase of Securities	
16. Collection of Loans Receivable	
17. Creation of Loans Receivable	
18. Other Investing Cash Provided (Used)	
19. Net Cash Provided (Used) by Investing Activities	$0
CASH FLOWS FROM FINANCING ACTIVITIES	
20. Appropriations (Current Warrants)	$1,024,220
21. Add:	
a. Restorations	
b. Transfers of Cash from Others	
22. Deduct:	
a. Withdrawals	954,357
b. Transfers of Cash to Others	
23. Net Appropriations	$69,863

The accompanying notes are an integral part of these statements.

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Principal Statements

Department of Defense
Department of the Navy
Statement of Cash Flows (Indirect Method)
For the Period Ended September 30, 1996 (Revolving Funds Only)
(Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	1996
24. Borrowing from the Public	
25. Repayments on Loans to the Public	
26. Borrowing from the Treasury and the Federal Financing Bank	
27. Repayments on Loans from the Treasury and the Federal Financing Bank	
28. Other Borrowings and Repayments	
29. Net Cash Provided (Used) by Financing Activities	$69,863
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($420,061)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	2,266,133
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$1,846,072

Supplemental Disclosure of Cash Flow Information:	1996
33. Total Interest Paid	$0

Supplemental Schedule of Financing and Investing Activity:	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0
36. Other Exchanges of Non-cash Assets or Liabilities	$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE NAVY

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

Footnotes

Footnotes

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of the Navy, as required by the Chief Financial Officers Act of 1990 expanded by the Government Management Reform Act of 1994 (Public Law 103-356), and other appropriate legislation. This report encompasses the financial activities of both the U.S. Navy and the U.S. Marine Corps herein referred to as the Department of the Navy. The financial statements are prepared from the books and records of the Department in accordance with Department of Defense Guidance on Form and Content of Financial Statements for Fiscal Year 1996 Financial Activity (as adopted from the Office of Management and Budget Bulletin No.94-01, "Form and Content of Agency Financial Statements") and subsequent issues. These statements, therefore, are different from the financial reports, also prepared for the Department of the Navy pursuant to Office of Management and Budget directives, that are used to monitor and control the Department of the Navy's use of budgetary resources.

The Chief Financial Officers Act requires that the Department of the Navy issue consolidated principal financial statements with notes for all departmental funds that they manage. These statements are (1) Statement of Financial Position, and (2) Statement of Operations and Changes in Net Position. A Statement of Cash Flows is also required and provided for the revolving fund.

B. Reporting Entity:

The Department of the Navy was created on April 30, 1798 by an act of Congress (I Stat. 533; 5 U.S.C. 411-12). The Marine Corps and the Navy joined as the Department of the Navy by an act of Congress on July 11, 1798. The overall mission of the Department of the Navy is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies.

Fiscal year 1996 was the first year that the Department of the Navy has prepared and had audited financial statements for all its departmental managed funds as required by the Chief Financial Officers Act and the Government Management Reform Act. The Trust and Management funds which were previously reported separately, are also incorporated into these consolidated Chief Financial Officers Act financial statements.

The accompanying financial statements account for all funds for which the Department of the Navy is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. The financial statements are presented on the accrual basis of accounting as required by the Department of Defense accounting policies. Financial statements and reports are prepared by the Defense Finance and Accounting Service - Cleveland Center, based upon data provided by financial reporting systems and specialized data calls.

Footnotes

The accounts used to prepare the principal statements are classified as entity/non-entity and by type of fund. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

Entity Accounts:

General funds

17X0380	Coastal Defense Augmentation, Navy
17 0380	Coastal Defense Augmentation, Navy, (fiscal year)
17 0703	Family Housing, Navy and Marine Corps (fiscal year)
17 1105	Military Personnel, Marine Corps (fiscal year)
17 1106	Operation and Maintenance, Marine Corps (fiscal year)
17 1107	Operation and Maintenance, Marine Corps Reserve (fiscal year)
17 1108	Reserve Personnel, Marine Corps (fiscal year)
17 1109	Procurement, Marine Corps (fiscal year)
17 1205	Military Construction, Navy (fiscal year)
17 1235	Military Construction, Naval Reserve (fiscal year)
17X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X1319	Research, Development, Test and Evaluation, Navy
17 1319	Research, Development, Test, and Evaluation, Navy (fiscal year)
17 1405	Reserve Personnel, Navy (fiscal year)
17 1453	Military Personnel, Navy (fiscal year)
17 1506	Aircraft Procurement, Navy (fiscal year)
17 1507	Weapons Procurement, Navy (fiscal year)
17 1508	Procurement of Ammunition, Navy and Marine Corps (fiscal year)
17X1611	Shipbuilding and Conversion, Navy
17 1611	Shipbuilding and Conversion, Navy (fiscal year)
17 1804	Operation and Maintenance, Navy (fiscal year)
17 1806	Operation and Maintenance, Navy Reserve (fiscal year)
17 1810	Other Procurement, Navy (fiscal year)
17X3980	Navy Management Fund

Revolving funds

17X4557	National Defense Sealift fund, Navy
17 4557	National Defense Sealift Fund, Navy (fiscal year)

Trust funds

17X8008	Office of Naval Records and History fund
17X8423	Midshipmen's Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship's Stores Profits, the Navy
17X8730	United States Naval Academy Museum Fund

Trust funds (cont'd)

17X8733	United States Naval Academy General Gift Fund

Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration fund, Navy

Non Entity Accounts

Special funds (Receipt Accounts)

17 3041	Recoveries under the Foreign Military Sales Programs
17 3210	General Fund proprietary Receipts, Defense Military, Not Otherwise Classified
17F3875	Budget Clearing Account (Suspense)
17F3878	Budget Clearing Account (Deposits)
17F3879	Undistributed and Letter of Credit Differences (Suspense)
17F3880	Unavailable Check Cancellations and Overpayments (Suspense)

Special funds

17X3885	Undistributed Intra-Governmental Payments, Navy
17X9082	Intra-Budgetary Transactions-Trust Funds National Defense

Deposit funds

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps, Deposit Fund
17X6050	Employees Payroll Allotment Accounts (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for payment of Employee Organization dues, Navy
17X6083	Withheld Allotment of compensation from Charitable Contributions Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotments Account, Navy
17X6706	Commercial Communication Service, Navy
17X6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

Footnotes

C. Budgets and Budgetary Accounting:

The Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for directing the Department of the Navy's budget and monitoring its execution against funds appropriated by Congress. Funds are distributed by appropriation directors through major commands to activities responsible for accomplishing the diverse missions for which the Department of the Navy is responsible. As missions are performed, activities report obligations and disbursements against the applicable appropriations.

The Department of the Navy funds are divided into various types, i.e. general, revolving, trust, special, deposit and receipt accounts. These accounts are used to fund and report how the resources have been used in the course of executing the Department of the Navy's missions.

General fund accounts are used to record the amounts appropriated by Congress and the financial transactions utilizing the funds. The Department of the Navy manages 24 general fund accounts: nine are funded by current year appropriations, 10 are funded by multi-year appropriations, and five are funded by no-year appropriations (appropriation which is available for incurring obligations until exhausted). Current year appropriations received budget authority of $49,770 million in fiscal year 1996. Multi-year appropriations received budget authority of $26,621 million, and no-year appropriations received $25 million. Within the General funds there is a management fund account, Navy Management Fund, which is a working fund account authorized by law to facilitate accounting for administrating intra-governmental activities other than business-type operations. In accordance with the CFO Act (Public Law 101-576) and prior audit findings, a DoD Comptroller memorandum of 17 June 1994 requested that the Navy Management Fund be closed for new reimbursement earnings as of October 1, 1996.

Revolving fund accounts are funds authorized by specific provisions of law to finance a continuing cycle of operations in which expenditures generate receipts and the receipts are available for expenditure without further action by Congress.

Trust fund accounts are used to record the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of a donor, trust agreement, or statute. Trust accounts include funds collected through gifts and bequests, assets held for particular purposes and interest earned in investments. The Department of the Navy maintains six trust fund accounts.

Special fund accounts for receipts are credited with collections from specific sources that can only be used in accordance with specific provisions of law. The Department of the Navy maintains two special fund accounts.

Deposit fund accounts generally are used to 1) hold assets whose distribution awaits legal determination or for which the Department of the Navy acts as agent or custodian, and 2) account for unidentified remittances. The Department of the Navy expressly requires all check

collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown. The Department of the Navy maintains 16 deposit funds.

Receipt accounts are used to categorize collections or receipts. Receipts are "Available" or "Unavailable," meaning an agency may or may not spend its collections depending upon Congressional decisions made during the appropriation process. During fiscal year 1996, the Department of the Navy maintained six special fund receipt accounts and internally processed their activities using the pseudo account number reference "17 0002."

D. Basis of Accounting:

Transactions are generally recorded on an accrual basis and a budgetary basis with one exception, the Navy Management Fund. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the actual receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate the Department of the Navy's compliance in meeting both legal and internal control requirements associated with the use of federal funds. The Navy Management Fund transactions are recorded on the cash basis; that is, expenditures and receipts are recorded from the Centralized Expenditure and Reimbursement Processing Reports. All funds' cash basis are reconciled monthly with the Treasury balance.

The Department of the Navy's Chief Financial Officers Act financial statements are prepared from a consolidation of accounting information reported from multiple field level accounting systems as well as departmental level data input by the Defense Finance and Accounting Service - Cleveland Center. At this time, this consolidated accounting data is maintained in the Navy Headquarters Financial System departmental general ledger located at the Naval Computer and Telecommunications Command, Washington Center.

General ledger account balances have been verified to the year-end departmental budget execution and expenditure reports. Budget execution reports are prepared from activity reports that are certified for accuracy and completeness by activity commanders. Other methods, to include feeder reports and logistic data calls, must be used to verify the accuracy of general ledger balances in those instances where budget execution and expenditure reports do not contain the particular information, for example, "Property, Plant and Equipment."

E. Revenues and Other Financing Sources:

The Department of the Navy receives the majority of funding required to support its programs through Congressional appropriations. A financing source, "Appropriated Capital Used," is recognized each fiscal year to the extent that appropriated funds have been consumed. Purchases of capital items and accruals of unfunded liabilities are excluded from the "Appropriated Capital Used" account. Appropriations may also be supplemented, when authorized, by revenues generated by sales of goods or services through a reimbursable order process. Revenue is

Footnotes

recognized to the extent the revenue is payable to the Department of the Navy from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable process.

Other revenues and financing sources include the donated revenue and inventory and other gains. Donations to the Department of the Navy are recognized as a financial source upon acceptance of the donated asset. Revenue is recorded for the value of the increase to the asset account.

F. Accounting for Intra-Governmental Activities:

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

1. The Department of the Navy'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 interests costs are not apportioned to federal agencies. The Department's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

3. The Department's civilian employees participate in the Civil Service Retirement System and Federal Employees Retirement System, while military personnel are covered by the Military Retirement System. Additionally, employees and personnel also have varying coverage under Social Security. The Department funds a portion of and discloses the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees.

Reporting pension benefits under these retirement systems is the responsibility of the Office of Personnel Management for the Civil Service Retirement System and the Federal Employees Retirement System and the Department of Defense for the Military Retirement System. In fiscal year 1996, the Department contributed the following amounts to the retirement plans and Social Security:

	(in thousands)
Civil Service Retirement System	$361,602
Federal Employees Retirement System	428,911
Military Retirement System	2,986,306
Social Security	265,856
	$4,042,675

Footnotes

The Department also contributed $146.6 million to the Federal Employees Retirement System Thrift Savings Plan on behalf of its participating employees.

4. Most legal actions, other than contract claims, to which the Department of the Navy may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Chapter 163 of Title 10, United States Code, governing military claims. Either because payments under these statutes are limited to amounts well below the threshold of materiality for claims payable from the Department of the Navy's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (Judgment Fund), these legal actions should not materially affect the Department of the Navy's operations or financial condition.

5. In fiscal year 1996, the Navy sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under provisions of the Act, the Department of the Navy has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to trust funds maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In fiscal year 1996, the Department of the Navy received reimbursements of $721 million for assets and services sold under the Foreign Military Sales program.

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

The Department of the Navy's funding resources are maintained in Treasury receipt and expenditure accounts. The account "Fund Balance with Treasury" represents the aggregate of all the Department of the Navy appropriations. The Department of the Navy is an agent for the Department of the Treasury for cash on hand. As of September 30, 1996, the Department of the Navy had $64.8 billion in Fund Balance with Treasury.

H. Foreign Currency:

The Department of the Navy conducts a significant portion of its operations overseas. Gains and losses from foreign currency transactions for four general fund appropriations (Operation and Maintenance, Military Construction, Family Housing Operation and Maintenance, and Family Housing Construction) are recognized and reported in the statement of operations. The gains or losses are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year. In fiscal year 1996, the Department recognized a net loss of $235.3 million due to foreign currency transactions for the four appropriations. Similar gains and losses for other appropriations are not recognized in the Statement of Operations. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations.

Footnotes

I. Accounts Receivable:

As presented in the Consolidated Statement of Financial Position, Accounts Receivable includes accounts, claims, and refunds receivable and advance payments to other entities.

(in Thousands)

Division	Amount	Allowance	Total Net
Accounts Receivable			
Government	$2,045,085	$0	$2,045,085
Public	4,412,759	78,583	4,334,176
Refunds	0	0	0
Claims	0	0	0
Total	$6,457,844	$78,583	$6,379,261

Allowances for uncollectible accounts are based upon analysis of collection experience by fund type. During fiscal year 1996, the Department wrote off approximately $78.6 million in uncollectible receivables.

J. Loans Receivable:

Not applicable

K. Inventories:

Inventories, including operating supplies and nonconsumable items, are valued at latest acquisition cost as required by the Department of Defense accounting policies. Generally, these prices are based on prices paid for recently acquired items plus appropriate surcharges. No gains or losses are recognized in the Consolidated Statement of Operations as a result of changes in valuation for operating materials and supplies. Such changes are reflected in the asset valuations and related invested capital as reported in the Statement of Financial Position.

L. Investments in U.S. Government Securities:

Investments in U.S. government securities are reported by the Department of the Navy Trust funds at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. The Department of the Navy reported $7.83 million in investments. It is the intent of the Department of the Navy to hold its trust fund investments to maturity unless they are needed to finance claims or otherwise sustain operations. Therefore, no provisions are made for unrealized gains or losses on these securities.

M. Property, Plant and Equipment:

Property, plant, and equipment consists of tangible assets, including land, that must have estimated useful lives of 2 years or more and meet the threshold requirements as required by the

Department of Defense. All fixed assets, including land held in public domain, are valued at acquisition cost. Acquisition cost includes such costs as: purchase price, broker's commissions, fees for examining and recording the title, surveying, razing and removal costs (less salvage proceeds) of structures on the land, transportation, handling and storage, activity, interest, preparation, labor, engineering, appropriate share of the cost of equipment and facilities used in construction, inspections, supervision, legal recording fees, and other related costs of obtaining the property. When the acquisition cost can not be determined, fair market value at the time of acquisition is used.

The various criteria used to establish the fair market value are:

a. Cash realized in transactions involving the same or similar assets,
b. Quoted market prices,
c. Fair market value of other assets or services received in exchange of property, or
d. Independent appraisals.

Current Department of Defense financial capitalization policy requires that assets previously capitalized at lower thresholds-$1,000 prior to FY 85; $5,000 from FY 85-91; $15,000 from FY 92-93; $25,000 in FY 94; $50,000 in FY 95; and $100,000 in FY 96 to remain in the accounts after the threshold is raised.

No gains or losses were recognized in the Statement of Operations for revaluation changes and/or loss of equipment. However, the assets and related investment accounts reflect both pricing and value changes based on periodic updates to the general ledger. Depreciation is recorded for assets financed by trust fund activities, but not for assets financed by general fund appropriations. Routine maintenance and repair costs are expensed when incurred.

Real property comprising land and facilities are valued at cost. Buildings are capitalized when constructed or at the date of acquisition.

N. Prepaid and Deferred Charges:

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related goods and services are received.

Cash advances to the Navy Management Fund will be accounted for as unearned revenue and will be used to finance operations in the interim between the time expenditures are made and reimbursements are obtained from benefiting appropriations. Activities advancing funds will record the advance as an asset and retain obligational authority for these funds.

O. Leases:

As of September 30, 1996 the Department of the Navy was committed to numerous annual operating leases and rental agreements.

Footnotes

The Department owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds, however, title is retained by the host country.

P. Contingencies:

At any given time, the Department of the Navy may be a party to various legal and administrative actions and claims brought against it. These relate primarily to tort claims resulting from aircraft, ship, and vehicle accidents, medical malpractice, property and environmental damages resulting from Departmental activities, and contract disputes.

Most legal actions, other than contract claims, to which the Department of the Navy may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Chapter 163 of Title 10, United States Code, governing military claims. Either because payments under these statutes are limited to amounts well below the threshold of materiality for claims payable from the Department's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment fund), these legal actions should not materially affect the Department's operations or financial condition.

The Department is subject to various asserted contract claims for over $100 million which total approximately $5,107 million as of September 30, 1996. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims' likely outcome or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote.

As of September 30, 1996, the Department of the Navy or its components were a party to approximately 650 contract appeals before the Armed Services Board of Contract Appeals. Total value of these appeals was approximately $1,250 million. According to management, approximately 80% of appeals are successfully defended by the Department. In fiscal year 1996, contractors recovered about $370 million from resolved claims. Such claims are funded primarily from Department appropriations.

Liabilities for the Department of the Navy's Environmental Program are comprised of cleanup costs at Navy installations. This estimated environmental requirement includes environmental restoration efforts and environmental costs at Base Realignment and Closure sites. The possible fiscal year 1997 cost to completion for these efforts totals $7,082 million. The Department of the Navy resources for these requirements in the Base Realignment and Closure and the Environmental Restoration, Navy accounts.

Q. Accrued Leave:

Civilian annual leave is earned and the accrued amounts are reduced as leave is taken. The balances for annual leave at the end of the fiscal year reflect current pay rates for the leave that is

earned but not taken. Sick and other types of non-vested leave are expensed as taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Accrued leave for the Navy is recorded in this business area through automatic postings from the Defense Business Management System.

R. Net Position:

Net Position consists of unexpended appropriations, invested capital, donations, and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made. The total department equity is shown as $440.1 billion.

Invested capital, as presented in the consolidated Statement of Financial Position, represents the value of the Department's capital assets which consists of property, plant and equipment and inventory not held for sale. The donated capital and trust fund balances have been included in invested capital.

Cumulative results of operations for working capital funds represent the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

S. Aircraft/Ship Crashes:

An operating loss of $805 million has been recognized in fiscal year 1996 for aircraft/ships which were either destroyed or damaged beyond repair due to aviation/navigation mishaps. The loss represents the book value at unit cost of those aircraft/ships that were either destroyed or damaged. No loss has been separately recognized for aircraft/ships which were damaged by accidents but were repairable. Costs associated with repair of such aircraft/ships are recorded as operating expenses and generally funded from operation and maintenance appropriations.

T. Treaties for Use of Foreign Bases:

The Department of the Navy has the use of land, buildings, and other facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the Department of the Navy continued use of these properties until the treaties expire. Capital investments in buildings, runways, aircraft shelters, and other facilities located on the overseas bases are capitalized. As of September 30, 1996, the Department of the Navy has not financed the cost values of buildings and facilities located in foreign countries. These fixed assets are subject to loss in the event the treaties are not renewed or other agreements are not reached which allow for the continued use by the Department of the Navy. In the event these treaties or agreements are terminated, losses will be recorded for the value of nonretrievable capital assets.

Footnotes

U. Comparative Data:

Comparative data for the prior year has not been presented because this is the first year for which financial statements for the total Department of the Navy managed funds have been prepared. In future years, comparative data will be presented in order to provide an understanding of changes in financial position and operations of the Department of the Navy reporting activities and the Department of Defense.

V. Other Liabilities:

- **Undelivered Orders:**

The Department of the Navy activities are obligated for goods which have been ordered but not yet received (undelivered orders). As of September 30, 1996 undelivered orders amounted to $45 billion.

- **Accounts Payable:**

Accounts payable for goods and services are generally recognized upon receipt of a receiving report providing notification of acceptance of goods or services.

- **Accrued Payroll and Benefits:**

Accrued payroll and benefits represents civilian and military payroll and benefits earned but not paid as of the end of the accounting month. The amount is accrued in the financial statements as a non-federal liability. Fiscal year 1996 amounts accrued for civilian and military personnel were $125.2 million and $531.2 million respectively. Accrued Payroll and Benefits includes severance pay and separation allowances in the amount of $405.9 million.

Footnotes

Note 2. Fund Balances with Treasury

A. Business Operations Fund (USD(C)) and All Other Funds and Accounts:

	Entity Assets				
	Trust Funds	Revolving Funds	Appro-priated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	$14,114	$462,614	$12,275,950	$40,582	$12,793,260
Restricted			2,163,793		2,163,793
Reserve For Anticipated Resources		(11,821)	372,032		360,211
Obligated (but not expensed)	(16,239)	1,395,279	48,100,196	5,067	49,484,303
Unfunded Contract Authority					
Unused Borrowing Authority					
Treasury Balance	($2,125)	$1,846,072	$62,911,971	$45,649	$64,801,567

B. Business Operations Fund Activities Below (USD(C)) Level:

	Entity Assets	
	Funds Collected	Funds Disbursed
Beginning Balance	$0	$0
Transfers of Cash to Others		
Transfers of Cash from Others		
Funds Collected		
Funds Disbursed		
Ending Balance	$0	$0

C. All Funds and Accounts:

	Non-Entity Assets	
	Funds Collected	Funds Disbursed
Beginning Balance	$1,028,207	$0
Funds Collected	311,695	
Funds Disbursed		1,912,527
Ending Balance	$1,339,902	$1,912,527

D. Other Information: The Trust Funds have a ($16,239) thousand obligated but not expensed balance as a result of 3 unprocessed documents which total $17,100 thousand.

Footnotes

Note 3. Cash, Foreign Currency and Other Monetary Assets

	Entity Assets	Non-Entity Assets
A. Cash	$43,075	$65,316
B. Foreign Currency	8,264	
C. Other Monetary Assets:		
(1) Gold		
(2) Special Drawing Rights		
(3) U.S. Reserves in the International Monetary Fund		
(4) Other		
(5) Total Other Monetary Assets	0	0
D. Total Cash, Foreign Currency and Other Monetary Assets	$51,339	$65,316

E. Other Information:

Note 4. Investments

	(1) Cost	(2) Market Value	(3) Amortization Method	(4) Amortized Premium/ (Discount)	(5) Investment Net
A. Intragovernmental Securities:					
(1) Marketable	$461	$0		$0	$461
(2) Non-Marketable Par Value	7,080			(9)	7,071
(3) Non-Marketable Market Based					
Subtotal	7,541	0		(9)	7,532

	(1) Cost	(2) Market Value	(3) Amortization Method	(4) Amortized Premium/ (Discount)	(5) Investment Net
B. Governmental Securities:					
Commercial paper	$297	$0		$0	$297
Subtotal	$297	$0		$0	$297
Total	$7,838	$0		($9)	$7,829

C. Other Information: B. represents short term investments with Nations Bank by Midshipmen's Store, U.S. Naval Academy.

Footnotes

Note 5. Accounts Receivable, Net

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Method Used	(4) Amount Due
A. Entity Receivables:				
Intragovernmental	$1,928,010	$0		$1,928,010
Governmental	4,439,432	78,583	Pct.	4,360,849
B. Non-Entity Receivables:				
Intragovernmental	$117,075	$0		$117,075
Governmental	(26,673)			(26,673)

C. Other Information: The Department of the Navy does not have a Department wide allowance for estimated uncollectibles. Using the Report on Receivables Due from the Public, the overall Department of the Navy allowance was calculated to be 2.5%. In instances where historical rates exist, the chart below shows the allowances that were used. National Defense Sealift Fund, appropriation 4557, has an Entity Receivable, Governmental balance of $2,081,109 thousand. DFAS-CL, OPLOC Charleston, and Naval Audit Service are working in concert with DFAS-HQ to resolve the error. Because the $2,081,109 thousand is erroneously recorded in accounts receivable, no allowance for uncollectibles was calculated against this amount. The following recording is required per GAO audit "AIMD-96-7(MAR 96)". An additional $1,574,944 thousand cancelled contracts receivables are recorded and maintained by the Defense Debt Management System.

Appropriation	Allowance
1453	14.50%
1105	3.50
1106	.01
1108	4.95

Negative Governmental Non-Entity Receivables of $26,672 thousand are a result of collections that have exceeded billings, and undistributed collections.

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets: Not applicable

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers: Not applicable

Footnotes

Note 8. Inventory, Net

	(1) Inventory Amount	(2) Allowance For Losses	(3) Inventory, Net	(4) Valuation Method
A. Inventory Categories:				
(1) Held for Current Sale	$44	$0	$44	a
(2) Held in Reserve for Future Sale	41,413,657		41,413,657	a
(3) War Reserve Material	27,418		27,418	a
(4) Excess, Obsolete and Unserviceable				
(5) Held for Repair				
Total	$41,441,119	$0	$41,441,119	

Valuation method a = Latest Acquisition Cost

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

C. Other Information: The data shown in A.(2) and A.(3) is taken from the Supply System Inventory Report for the period ending September 30, 1995. The data for the period ending September 30, 1996 is not available until early 1997. The data reported in A.(3) is secondary item values only.

Note 9. Work in Process

	(1) Work In Process Amount	(2) Valuation Method
A. Work in Process:		
In House	$5,277	
Contractor		
Other Government Activities		
Government Furnished Materials		
Total	$5,277	

B. Other Information:

Footnotes

Note 10. Operating Materials and Supplies (OM&S), Net

	(1) OM&S Amount	(2) Allowance For Losses	(3) OM&S, Net	(4) Valuation Method
A. OM&S Categories:				
(1) Held for Use	$27	$0	$27	C
(2) Held in Reserve for Future Use				
(3) Excess, Obsolete and Unserviceable				
Total	$27	$0	$27	

Valuation method c = Actual Cost

B. Restrictions on operating materials and supplies:

Note 11. Stockpile Materials Net: Not applicable

Note 12. Seized Property: Not applicable

Note 13. Forfeited Property, Net: Not applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable

Footnotes

Note 15. Property, Plant and Equipment, Net

Classes of Fixed Assets	(1) Depreciation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land			$693,530	$0	$693,530
B. Structures, Facilities, & Leasehold Improvements	SL	1-5	24,287,068	1,010	24,286,058
C. Military Equipment			297,841,888		297,841,888
D. ADP Software					
E. Equipment	SL	6-10	1,157	811	346
F. Assets Under Capital Lease					
G. Other			9,238,938		9,238,938
H. Natural Resources			190,000		190,000
I. Construction-in-Progress			8,724,304		8,724,304
Total			$340,976,885	$1,821	$340,975,064

*Keys:

Depreciation Methods
- SL - Straight Line
- DD - Double-Declining Balance
- SY - Sum of the Years' Digits
- IN - Interest (sinking fund)
- PR - Production (activity or use method)
- OT - Other (describe)

Range of Service Life

1-5	1 to 5 years
6-10	6 to 10 years
11-20	11 to 20 years
>20	Over 20 years

Note 16. Debt: Not applicable

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liability	Current Liability	Total
1. Intragovernmental			
(1) Unearned revenue	$0	$7,145	$7,145
(2) Miscellaneous	2,343	88,408	90,752
(3) Non-entity A/R	87,688	371	88,059
(4) Disbursing Officer cash		116,650	116,650
Total	$89,936	$212,670	$302,605

	Non-Current Liability	Current Liability	Total
2. Governmental			
(1) Unearned revenue	$0	($3,548)	($3,548)
(2) Miscellaneous		43,801	43,801
Total	$0	$40,253	$40,253

B. Other Information:

C. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current Liability	Current Liability	Total
1. Intragovernmental			
Cancelled Budget Authority	$0	$0	$0
Total	$0	$0	$0

	Non-Current Liability	Current Liability	Total
2. Governmental			
(1) Cancelled Budget Authority	$0	$0	$0
(2) Unfunded accrued annual leave	197,903		197,903
(3) Unfunded accrued military annual leave		950,967	950,967
Total	$197,903	$950,967	$1,148,870

D. Other Information:

Note 18. Leases: Not applicable

Footnotes

Note 19. Pensions and Other Actuarial Liabilities

Major Program Activities	(1) Actuarial Present Value of Projected Plan Benefits	(2) Assumed Interest Rate (%)	(3) Assets Available to Pay Benefits	(4) Unfunded Actuarial Liability
A. Pensions and Health Plans:	$0		$0	$0
B. Insurance/Annuity Programs:				
Workers compensation	2,161,377	7%	0	2,161,377
Total	$2,161,377		$0	$2,161,377
C. Other:				
Total	$0		$0	$0
D. Total Lines A+B+C:	$2,161,377		$0	$2,161,377

E Other Information:

Note 20. Net Position

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1)Unobligated,				
a. Available	$462,614	$2,292	$12,316,532	$12,781,438
b. Unavailable	(11,821)		3,114,817	3,102,996
(2)Undelivered Orders	3,454,591		41,637,072	45,091,663
B. Invested Capital		19,316	382,376,368	382,395,684
C. Cumulative Results of Operations		(12,421)		(12,421)
D. Other		276	56,052	56,328
E. Future Funding Requirements		(170)	(3,310,077)	(3,310,247)
F. Total	$3,905,384	$9,293	$436,190,764	$440,105,441

G. Other Information: The negative balance of $12,421 thousand in cumulative results of operations for Trust Funds pertains to the negative cumulative results of operations in the Navy Management Fund.

Note 21. Taxes: Not applicable

Note 22. Other Revenues and Financing Sources

	1996
A. Other Revenues and Financing Sources:	
(1) Commissions - Western Union	$12
(2) Gain/Loss dairy herd	(6)
(3) Annual donations	1,884
(4) New accounts	41
(5) New facilities	2,477
(6) Miscellaneous income	18
Total	$4,426

B. Other Information: New facilities, line A(5): The Naval Academy Alumni Association and Midshipmen Welfare Fund donated $1,624 thousand to supplement the Military Construction funds for the construction of the Visitors Center. The Naval Academy Alumni Association also donated $750 thousand for the renovation of Mahan Hall, and the Naval Academy Memorial Fund donated $103 thousand to repair the Columbarium. These facilities are accounted for in the Operation and Maintenance, Navy appropriation.

Note 23. Program or Operating Expenses

	1996
A. Operating Expenses by Object Classification:	
(1) Personnel Services and Benefits	$26,482,945
(2) Travel and Transportation	1,523,958
(3) Rental, Communication and Utilities	902,988
(4) Printing and Reproduction	49,906
(5) Contractual Services	23,420,870
(6) Supplies and Materials	1,026,411
(7) Equipment not Capitalized	1,325,230
(8) Grants, Subsidies and Contributions	89,503
(9) Insurance Claims and Indemnities	1,724
(10) Other (describe):	
(a) Capital assets	35,030
(b) Purchased services	647,837
(c) Land and structures	1,797
(d) Other	183,343
(11) Total Expenses by Object Class	$55,691,542

Footnotes

Note 23. Program or Operating Expenses (cont'd)

	1996
B. Operating Expenses by Program:	
(1) Ammunition - All types	$102,595
(2 Weapons & track combat vehicles	81,891
(3) Guided missiles & equipment	50,428
(4) Communications	149,757
(5) Support vehicles	39,551
(6) Engineer and other equipment	105,774
(7) Spare parts	45,514
(8) Operations	26,446
(9) Utilities	34,023
(10) Leases	11,525
(11) Foreign currency fluctuations	25
(12) Maintenance	49,892
(13) Servicemen's mortgage insurance	1
(14) Unallocated Expense	77,296
Totals	$774,718

C. Other Information:

Note 24. Cost of Goods Sold

A. Cost of Services Sold:	
(1) Beginning Work-in-Process	$0
(2) Plus: Operating Expenses	6,707,000
(3) Minus: Ending Work-in-Process	5,277
(4) Minus: Completed Work for Activity Retention	
Cost of Services Sold	$6,701,723

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):	
(1) Beginning Inventory - L.A.C.	$1,620
(2) Less: Beginning Allowance for Unrealized Holding Gains (Losses)	
(3) Plus: Purchases at Cost	18,506
(4) Plus: Customer Returns - Credit Given	
(5) Plus: DLR Exchange Credits	
(6) Less: Inventory Losses Realized	
(7) Less: Ending Inventory - L.A.C.	
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	
(9) Less: Equity Transfers of Inventory to Others	825
(10) Plus: Equity Transfers of Inventory from Others	
(11) Equals: Cost of Goods Sold from Inventory	$19,301

Footnotes

Note 24. Cost of Goods Sold (cont'd)

C. Cost of Goods Sold from Inventory (using Historical Cost):	
(1) Beginning Inventory	$0
(a) Plus: Purchases at Cost	
(b) Plus: Inventory Gains	
(c) Minus: Inventory Losses	
(2) Less: Ending Inventory	
Cost of Goods Sold	$0

Note 25. Other Expenses: Not applicable

Note 26. Extraordinary Items: Not applicable

Note 27. Prior Period Adjustments

A. Prior Period Adjustments:	
Change in accounting policy	($1)
Total	($1)

B. Other Information:

Note 28. Non-Operating Changes - (Transfers and Donations)

	1996
A. Increases:	
(1) Transfers-In:	
Other New Authority Realized	$1,315
(2) Unexpended Appropriations	2,457,819
(3) Other Increases	84,433
(4) Total Increases	$2,543,567

	1996
B. Decreases:	
(1) Transfers-Out:	
Other	$28,181
(2) Other Decreases	5,617,722
(3) Total Decreases	5,645,903
C. Net Non-Operating Changes (Transfers):	($3,102,336)

D. Other Information: B.(3) contains unfunded accrued military and civilian annual leave balance of $1,148,870 thousand. The decrease in Non-Operating Changes of $1,315 thousand offsets the increase of the same amount shown in A. (1). This value is included in both totals and represents certain transfers authorized under P. L. 104-61 and 104-106.

Footnotes

Note 29. Intrafund Eliminations:

Schedule A Selling Activity:	A Column Accounts Receivable	B Column Revenue	C Column Unearned Revenue	D Column Collections
Operation and Maintenance	$339,613	$1,102,615	n/a	$1,264,113
Procurement	(246)	59	n/a	160
Research and Development	4,683	44,600	n/a	51,406
Military Construction	(6,286)	15,896	n/a	24,080
Other Funds and Accounts	(12)		n/a	(20)
Unearned Revenue			($38,205)	
Total	$337,752	$1,163,170	($38,205)	$1,339,739

Customer Activity	A Column Accounts Payable	B Column Expenses	C Column Advances	D Column Disbursement
Operation and Maintenance	$339,613	$1,102,615	n/a	$1,264,113
Procurement	(246)	59	n/a	160
Research and Development	4,683	44,600	n/a	51,406
Military Construction	(6,286)	15,896	n/a	24,080
Other Funds and Accounts	(12)		n/a	(20)
Unearned Revenue			($38,205)	
Total	$337,752	$1,163,170	($38,205)	$1,339,739

Schedule B Not Applicable

Schedule C Not Applicable

Schedule D Selling Activity:	A Column Accounts Receivable	B Column Revenue	C Column Unearned Revenue	D Column Collections
Department of the Navy	$1,307,415	$3,635,460	n/a	$5,303,389
Unearned Revenue	136,480	469,596	(45,700)	1,631,666
Total	$1,443,895	$4,105,056	($45,700)	$6,935,055

Customer Activity	A Column Accounts Payable	B Column Expenses	C Column Advances	D Column Disbursement
Other DoD Components	$1,307,415	$3,635,460	n/a	$5,303,389
Advances	136,480	469,596	(45,700)	1,631,666
Total	$1,443,895	$4,105,056	($45,700)	$6,935,055

Note 29. Intrafund Eliminations (cont'd)

Schedule E Selling Activity:	A Column Accounts Receivable	B Column Revenue	C Column Unearned Revenue	D Column Collections
Department of the Navy	$160,127	$230,972	n/a	$299,420
Total	$160,127	$230,972	$0	$299,420

Customer Activity:	A Column Accounts Payable	B Column Expenses	C Column Advances	D Column Disbursements
Other US Govt./ Non-Defense	$160,127	$230,972	$0	$299,420
Total	$160,127	$230,972	$0	$299,420

Note 30. Contingencies

Liabilities for the Department of the Navy's environmental program are comprised of cleanup costs at Navy installations. This estimate environmental requirement includes environmental restoration efforts and environmental costs at Base Closure and Realignment Commission (BRAC) sites. The possible FY 1997 cost to completion for these efforts totals $7,082 million. The Department of the Navy resources for these requirements in the BRAC and the Environmental Restoration, Navy (ERN) accounts.

The Department is subject to various asserted contract claims for over $100 million which total approximately $5,107 million as of September 30, 1996. These claims are in phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims' likely outcome or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote.

As of September 30, 1996, the Department of the Navy or its components were a party to approximately 650 contract appeals before the Armed Services Board of Contract Appeals. Total value of these appeals was approximately $1,250 million. According to management, approximately 80% of appeals are successfully defended by the Department. In fiscal year 1996, contractors recovered about $370 million from resolved claims. Such claims are funded primarily from Department appropriations.

Footnotes

Note 31. Other Disclosures:

The following amounts reflect the total effect of reopening of cancelled year appropriations. The balances in the entity section of the Principle Statements include amounts from cancelled years that were reopened.

Fund balance with Treasury	$3,931,344
Accounts receivable - Intragovernmental	157,540
Accounts receivable - Government	9,659
Accounts receivable - Public	(43)
Advances and prepayments	4,174
Total assets	$4,102,674
Accounts payable - Intragovernmental	$21,785
Accounts payable - Government	986,428
Accounts payable - Public	494,853
Other liabilities	1,228
Total liabilities	$1,504,294
Net position, ending balance	$2,598,380
Total liabilities	$4,102,674

Other information: The following table presents unmatched disbursements, negative unliquidated obligations and aged in-transit disbursements.

Treasury Index 17
Navy

Appropriations	September 1995 *	September 1996	Change	Percent Change
Unmatched Disbursements	$6,849,280	$6,423,544	($425,736)	(6.22%)
Negative Unliquidated Obligations	3,282,970	2,690,246	(592,724)	(18.05%)
Total	$10,132,250	$9,113,790	($1,018,460)	(10.05%)

* September 1995 data is not available by the Department of the Navy only. Data is the total submitted to DFAS-HQ from DFAS-CL for all problem disbursements.

DEPARTMENT OF THE NAVY

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

Supplemental Information

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

Financial statement attributes represent core DoD financial performance measures used to analyze financial results and trends affecting the overall health and position of the Department of the Navy's financial programs. Identified are five agency attributes; Operating Cost Attribute, Operating Results Attribute, Financial Obligations Attribute, Financial Condition Attribute, and the Operating Efficiency Attribute which form the focus of our financial statement analysis. There will be no trend analysis comparisons as this is our first year to prepare these financial statements and all information reported will be for the year ending 30 September 1996. Cross-sectional analyses are presented comparing similar attributes for the Department of the Navy's General, Revolving, Trust, and Other Funds.

General Funds contain the bulk of congressional appropriations for the Department of the Navy. These appropriations include the military pay and the operations and maintenance accounts which are used to pay and maintain the functional and administrative support of our operating forces. The research and development funds are used to operate and maintain world-wide facilities which perform ongoing test, evaluation and research of systems to be used in the completion of the Department of the Navy's military missions. Finally, the investment/construction accounts are used for specific purposes approved by Congress for acquiring or construction of weapons systems, property and infrastructures.

The Department of the Navy has one revolving fund, the National Defense Sealift Fund, Navy. This account supports vessels for national defense purposes. These vessels are privately owned and operated and constructed in the United States and are documented under the laws of the United States. This fund also supports research and development relating to national defense sealift. The account deposits receipts from the disposition of national defense sealift vessels, charter of vessels, and the disposition of gifts.

Trust funds are used to record the receipt and outlay of funds held in trust by the government for use in carrying out specific purposes in accordance with the terms of a trust agreement or statute. Trust accounts received through gifts and bequests (as well as interest earned on the investments of some of these gifts) and assets held for particular purposes.

Other funds include special, deposit, and special receipt accounts. Special funds are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law. Deposit funds are generally used to hold assets that are awaiting legal determination or where the Department of the Navy acts as agent or custodian. These accounts may also be used for unidentified remittances.

Supplemental Information

The Operating Costs Attribute represents how much it cost to operate a program. This information is useful for planning, budgeting, and cost control purposes.

OPERATING COSTS ATTRIBUTE

	General	Revolving	Mgmt & Trust	Other	Total
Total Costs	62,000,846	741,679	525,388	(1,593)	63,266,297
Revenue & Reimb	5,463,636	741,679	500,873	0	6,705,988
Net Operating Cost	56,537,209	0	24,693	(1,593)	56,560,309

The Operating Results Attribute identifies when a program's operations results in an excess of expenses over revenues and appropriations or vice-versa.

OPERATING RESULTS ATTRIBUTE

	General	Revolving	Mgmt & Trust	Other	Total
Revenues					
Appropriations Realized	56,537,209	0	0	(1,593)	56,535,616
Federal Sources	5,433,537	741,679	471,252	0	6,646,468
Public Sources	30,099	0	29,421	0	59,520
Total Revenues	62,000,846	741,679	500,673	(1,593)	63,241,604
Expenses & Losses	62,000,846	741,679	525,388	(1,593)	63,266,297
Net Operating Deficit	0	0	(24,693)	0	(24,693)

The Financial Obligation Attribute represents the liabilities that a program incurs in its operations or asset acquisitions. The current ratio indicates the program's ability to pay its obligations that will be due within a year.

FINANCIAL OBLIGATION ATTRIBUTE

	General	Revolving	Mgmt & Trust	Other	Total
Total Current Assets	108,784,999	3,932,469	102,461	45,649	112,865,568
Total Current Liabilities	9,758,162	27,075	132,843	0	9,918,080
Current Ratio	11.15	145.24	0.77		11.38
Total Quick Assets	67,343,924	3,927,162	102,390	45,649	71,419,145
Total Current Liabilities	9,758,162	27,075	132,843	0	9,918,080
Acid Test Ratio	6.90	145.05	0.77		7.20

Supplemental Information

The Financial Condition Attribute shows the ability to generate financial resources to maintain operations and to meet financial obligations, when they are due, without considering financial assistance.

FINANCIAL CONDITION ATTRIBUTE

	General	Revolving	Mgmt & Trust	Other	Total
Sources of Cash	62,963,305	1,846,072	(2,120)	45,649	64,852,906
Future Req. for Cash	13,158,270	27,075	133,013	0	13,318,358
Cash Surplus (Shortfall)	49,805,035	1,818,997	(135,133)	45,649	51,534,548
Total Assets	449,303,385	3,932,459	142,306	45,649	453,423,799
Total Liabilites	13,158,270	27,075	133,013	0	13,318,358
Assets to Debt Ratio	34.15	145.24	1.07		34.05

The Operating Efficiency Attribute relates performance of a program in terms of what it accomplished to the resources it consumed.

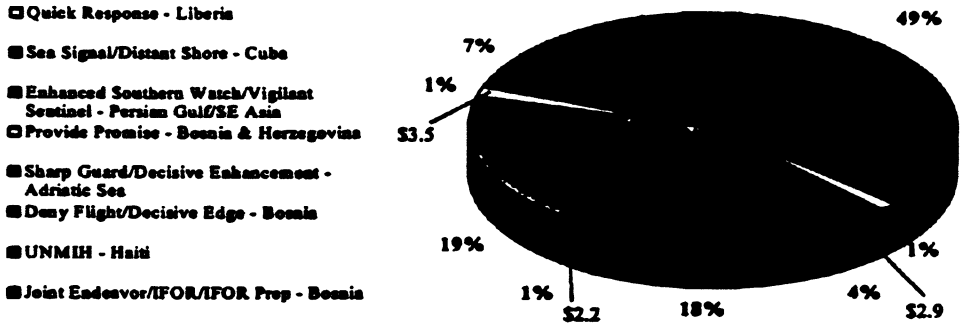
OPERATING EFFICIENCY - ASSET MANAGEMENT

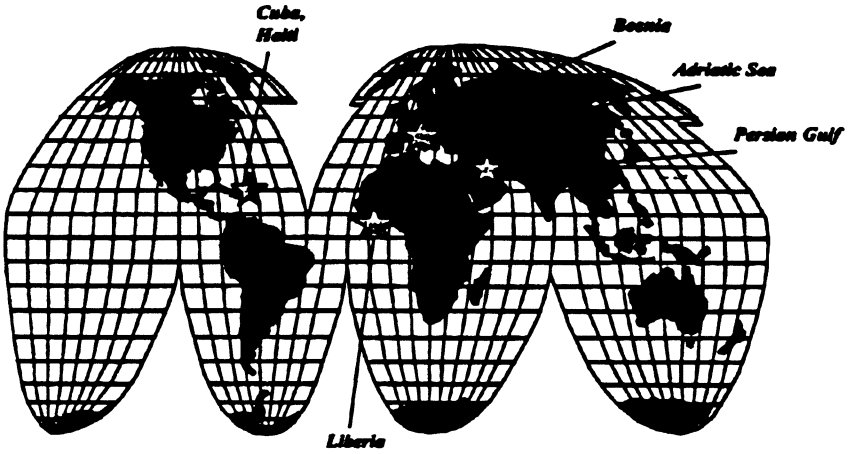
	Revolving	Trust	Total
Cost of Goods Sold	741,679	19,230	760,909
Average Inventory	0	0	0
Inventory Turn Ratio or in Days			
Sales Revenue	0	0	0
Daily Accounts Rec.	5,781	2	5,783
Average Rec. Turn Ratio or in Days	0	0	0
OP Cycle=Inv. Turn Day +Acct Rec Turn Day	0	0	0

Supplemental Information

The Department of the Navy is required to support various Contingency Operations around the world. These costs are normally unbudgeted and therefore must be accommodated by reductions in budgeted programs such as ship and real property maintenance. Total incremental costs (costs above those budgeted), for contingency operations in FY 1996 were $262.9 million, including $217.9 million in the O&M accounts and $45 million in Personnel costs. Funding in the amount of $201.1 million was provided to support these operations in the FY 1996 appropriations, reprogrammings and supplemental. The were funded by deferrals of ship and real property maintenance.

Contingency Operations
(in millions)





Supplemental Information

Consolidating Schedules
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS	General Fund	Revolving Fund	Management & Trust Fund	Other	Total
1. Entity Assets:					
a. Transactions with Federal (Intragovernmental) Entities:					
(1) Fund Balance with Treasury	$62,911,971	$1,846,072	($2,125)	$45,649	$64,801,567
(2) Investments, Net	0	0	7,532	0	7,532
(3) Accounts Receivable, Net	1,831,381	0	96,629	0	1,928,010
(4) Interest Receivable	0	0	0	0	0
(5) Advances and Prepayments	66,579	0	0	0	66,579
(6) Other Federal (Intragovernmental)	0	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:					
(1) Investments	0	0	297	0	297
(2) Accounts Receivable, Net	2,279,740	2,081,109	0	0	4,360,849
(3) Credit Program Receivables/ Related Foreclosed Property, Net	0	0	0	0	0
(4) Interest Receivable, Net	0	0	0	0	0
(5) Advances and Prepayments	202,919	1	52	0	202,972
(6) Other Non-Federal (Governmental)	0	0	0	0	0
c. Cash and Other Monetary Assets	51,334	0	5	0	51,339
d. Inventory, Net	41,441,075	0	44	0	41,441,119
e. Work in Process	0	5,277	0	0	5,277
f. Operating Materials/Supplies, Net	0	0	27	0	27
g. Stockpile Materials, Net	0	0	0	0	0
h. Seized Property	0	0	0	0	0
i. Forfeited Property, Net	0	0	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net	0	0	0	0	0
k. Property, Plant and Equipment, Net	340,935,293	0	39,771	0	340,975,064
l. Other Entity Assets	0	0	74	0	74
m. Total Entity Assets	$449,720,292	$3,932,459	$142,306	$45,649	$453,840,706
2. Non-Entity Assets:					
a. Transactions With Federal (Intragovernmental) Entities:					
(1) Fund Balance with Treasury	(572,625)	0	0	0	(572,625)
(2) Accounts Receivable, Net	117,075	0	0	0	117,075
(3) Interest Receivable, Net	0	0	0	0	0
(4) Other	0	0	0	0	0
b. Transactions With Non-Federal (Governmental) Entities:					
(1) Accounts Receivable, Net	(26,673)	0	0	0	(26,673)
(2) Interest Receivable, Net	0	0	0	0	0
(3) Other	0	0	0	0	0
c. Cash and Other Monetary Assets	65,316	0	0	0	65,316
d. Other Non-Entity Assets	0	0	0	0	0
e. Total Non-Entity Assets	($416,907)	$0	$0	$0	($416,907)
3. Total Assets	$449,303,385	$3,932,459	$142,306	$45,649	$453,423,799

Supplemental Information

Consolidating Schedules
Statement of Financial Position
As of September 30, 1996
(Thousands)

LIABILITIES	General Fund	Revolving Fund	Management & Trust Fund	Other	Total
4. Liabilities Covered by Budgetary Resources:					
a. Transactions with Federal (Intragovernmental) Entities:					
(1) Accounts Payable	2,499,066	5,277	42,813	0	2,547,156
(2) Interest Payable	0	0	0	0	0
(3) Debt	0	0	0	0	0
(4) Other Federal (Intragovernmental) Liabilities	214,197	0	88,408	0	302,605
b. Transactions with Non-Federal (Governmental) Entities:					
(1) Accounts Payable	6,438,456	21,798	1,449	0	6,461,703
(2) Accrued Payroll and Benefits					
(a) Salaries and Wages	250,282	0	173	0	250,455
(b) Annual Accrued Leave	0	0	0	0	0
(c) Severance Pay and Separation Allowance	405,939	0	0	0	405,939
(3) Interest Payable	0	0	0	0	0
(4) Liabilities for Loan Guarantees	0	0	0	0	0
(5) Lease Liabilities	0	0	0	0	0
(6) Pensions and Other Actuarial Liabilities	0	0	0	0	0
(7) Other Non-Federal (Governmental) Liabilities	40,253	0	0	0	40,253
c. Total Liabilities Covered by Budgetary Resources:	$9,848,193	$27,075	$132,843	$0	$10,008,111
5. Liabilities Not Covered by Budgetary Resources:					
a. Transactions with Federal (Intragovernmental) Entities:					
(1) Accounts Payable	0	0	0	0	0
(2) Debt	0	0	0	0	0
(3) Other Federal (Intragovernmental) Liabilities	0	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:					
(1) Accounts Payable	0	0	0	0	0
(2) Debt	0	0	0	0	0
(3) Lease Liabilities	0	0	0	0	0
(4) Pensions and Other Actuarial Liabilities	2,161,377	0	0	0	2,161,377
(5) Other Non-Federal (Governmental) Liabilities	1,148,700	0	170	0	1,148,870
c. Total Liabilities Not Covered By Budgetary Resources	3,310,077	0	170	0	3,310,247
6. Total Liabilities	13,158,270	27,075	133,013	0	13,318,358
NET POSITION					
7. Balances:					
a. Unexpended Appropriations	57,022,772	3,905,384	2,292	45,649	60,976,097
b. Invested Capital	382,376,368	0	19,316	0	382,395,684
c. Cumulative Results of Operations	0	0	(12,421)	0	(12,421)
d. Other	56,052	0	276	0	56,328
e. Future Funding Requirements	(3,310,077)	0	(170)	0	(3,310,247)
f. Total Net Position	436,145,115	3,905,384	9,293	45,649	440,105,441
8. Total Liabilities and Net Position	449,303,385	3,932,459	142,306	45,649	453,423,799

Supplemental Information

Consolidating Schedules
Statement of Financial Position
As of September 30, 1996
(Thousands)

REVENUES AND FINANCING SOURCES	General Fund	Revolving Fund	Management & Trust Fund	Other	Total
1. Appropriated Capital Used	56,537,209	0	0	(1,593)	56,535,616
2. Revenues from Sales of Goods and Services					
a. To the Public	29,492	0	24,986	0	54,478
b. Intragovernmental	5,433,537	741,679	470,672	0	6,645,888
3. Interest and Penalties, Non-Federal	607	0	9	0	616
4. Interest, Federal	0	0	580	0	580
5. Taxes	0	0	0	0	0
6. Other Revenues and Financing Sources	0	0	4,426	0	4,426
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0	0	0	0
8. Total Revenues and Financing Sources	62,000,845	741,679	500,673	(1,593)	63,241,604
EXPENSES					
9. Program or Operating Expenses	56,458,979	0	8,874	(1,593)	56,466,260
10. Cost of Goods Sold					
a. To the Public	29,492	0	19,023	0	48,515
b. Intragovernmental	5,433,537	741,679	497,293	0	6,672,509
11. Depreciation and Amortization	0	0	176	0	176
12. Bad Debts and Writeoffs	78,600	0	0	0	78,600
13. Interest					
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0	0
b. Federal Securities	0	0	0	0	0
c. Other	237	0	0	0	237
14. Other Expenses	0	0	0	0	0
15. Total Expenses	62,000,845	741,679	525,366	(1,593)	63,266,297
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	0	0	(24,693)	0	(24,693)
17. Plus (Minus) Extraordinary Items	0	0	0	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0	(24,693)	0	(24,693)
19. Net Position, Beginning Balance, as Previously Stated	439,220,585	3,905,384	60,853	45,649	443,232,471
20. Adjustments	0	0	(1)	0	(1)
21. Net Position, Beginning Balance, as Restated	439,220,585	3,905,384	60,852	45,649	443,232,470
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0	(24,693)	0	(24,693)
23. Plus (Minus) Non Operating Changes	(3,075,470)	0	(26,866)	0	(3,102,336)
24. Net Position, Ending Balance	436,145,115	3,905,384	9,293	45,649	440,105,441

Supplemental Information

The Department of the Navy Fiscal Year 1996 Annual Financial Report was prepared jointly by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Defense Finance and Accounting Service Center in Cleveland. It is the culmination of the efforts of many dedicated personnel of the Department of Defense.

This report was prepared in accordance with the Chief Financial Officers Act of 1990, as amended, and subsequent guidance.

Questions related to this report should be addressed to:

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Appendix C. Audit Process

Audit Work Performed. To fulfill our responsibilities under the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, for determining the accuracy and completeness of the independent audit conducted by the NAS, we reviewed the NAS audit approach and monitored audit progress at key points.

Reviewing NAS Audit Approach and Planning. We used the President's Council on Integrity and Efficiency "Federal Financial Statement Audit Manual" as the criterion for reviewing the NAS audit approach. Specifically, we reviewed the notification letter, strategy formulation, entity profile, general risk analysis, audit programs, and cycle memorandums.

We reviewed additional documentation as deemed necessary to accomplish the audit objective. We also participated in an audit planning workshop at NAS.

Monitoring Audit Progress at Key Points. Through the IG, DoD, Integrated Audit Process Team and the Executive Steering Committee, we provided a forum for a centrally managed exchange of guidance and information leading to a focused DoD-wide audit of the DoD consolidated financial statements, to include the supporting financial statements of major DoD Components. Audit initiatives for monitoring the progress of the audit at key points also involved reviewing and commenting on AFAA draft audit reports, including the audit opinion report.

In addition to the oversight procedures, we performed other procedures deemed necessary to determine the fairness and accuracy of the NAS audit approach and conclusions.

Audit Period and Standards. We performed this financial audit from May 17, 1996, through March 1, 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD. We did not use computer-processed data or statistical sampling procedures to conduct this audit.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD audit community. Further details are available on request.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland Center
Director, Defense Intelligence Agency

Non-Defense Federal Organizations

Inspector General, Department of Education
Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information and Technology, Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Audit Team Members

This report was produced by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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