

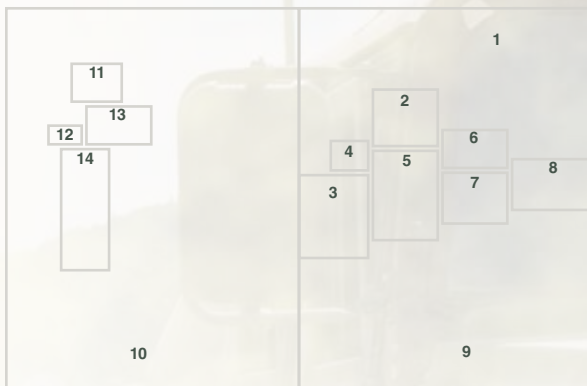


Fiscal Year 2017 United States Army Annual Financial Report

2017



A NATION'S STRENGTH, A PEOPLE'S SECURITY



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SOLDIERS MANEUVER THROUGH A CENTRAL CORRIDOR
DURING TRAINING. (U.S. ARMY PHOTO BY SGT. DAVID EDGE)



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A photograph of two soldiers in full tactical gear, including helmets and vests, looking at a device together. The soldier on the left has an American flag patch on his vest. The soldier on the right has a name tag that reads "PARDOLORA". The background is blurred, showing other personnel in a control room or operations center. The text "A NATION'S **STRENGTH**, A PEOPLE'S **SECURITY**" is overlaid on the image in a bold, sans-serif font.

A NATION'S **STRENGTH**,
A PEOPLE'S **SECURITY**



100 years ago, on April 2, 1917, President Woodrow Wilson, in his joint address to Congress leading to a declaration of war against Germany, declared “(t)he world must be made safe for democracy.” At that time, the United States Army totaled fewer than 128,000 Soldiers, with an arsenal comprising few machine guns, no heavy artillery, few planes, no tanks, and small numbers of munitions, trucks and vehicles. Yet in the following 18 months, by the end of World War I, U.S. presence in the global conflict was unquestionably decisive in turning the tide and rendering us and our allies victorious.

For almost two decades now, the Army has provided the majority of overall U.S. forces fighting two extended counterinsurgencies in Iraq and Afghanistan. Our capabilities are instrumental in deterring Russian, Chinese, Iranian, and, more recently, North Korean challenges to U.S. national interests. Our Soldiers defend our homeland against intercontinental ballistic missile threats and provide support to civil authorities in unforeseen natural and man-made disasters, most recently the onslaught of three devastating hurricanes striking our shores in less than one month. The Army’s 2017 Annual Financial Report (AFR) provides insights into the resources utilized and outcomes generated for an Army that continues to be engaged around the world.

To maintain our capabilities, our emphasis in the near term is on modernization and readiness. Three years ago, the Army began to transition from training for a decade-long counterinsurgency campaign to training for major combat operations. And while our Army made great progress in improving overall force readiness, being ready to fight potential adversaries is not enough. Our challenge continues to be to balance the need to remain regionally engaged, while also preparing to meet the demands of a globally responsive contingency force. We must therefore focus on modernizing our forces to be ready to fight tomorrow against increasingly capable adversaries and near peer competitors. Although time consuming and costly, our investment in our Soldiers is infinitely more critical, and sending Soldiers into battle unprepared, and with limited resources, is far costlier to our Nation. Our Soldiers must be prepared to respond, with sufficient training and the best available equipment, to any number of crises, whether from our adversaries, terrorist groups or even natural or man-made disasters, some of which were unimaginable even a decade ago. The Army’s Cyber Command division initiated a new modernization plan to enhance cyber capabilities in helping defend our Nation’s network. With such a fully resourced and staffed end strength, the Army can sustain its numerous global commitments.

There is no greater responsibility we possess than to lead American Soldiers both in peace and in war. As people join the Army to defend and protect our Nation and its people, we in turn must ensure that we support those among us who step forward and answer the call of duty. Our Army continues to be the most trained and ready-to-fight worldwide. Our Soldiers remain the backbone of every Army capability. In addition, our Army Civilians, as part of the Army generating force, ensure the readiness and availability of our formations in performing their critical role both at home and around the world. We must never lose sight that our most important assets are the Soldiers, Department of Army Civilians, and Families that make up the Total Army, and we must continually strive to safeguard these valuable resources placed under our care.

RYAN D. MCCARTHY, Acting
Secretary of the Army



A NATION'S ***STRENGTH,***
A PEOPLE'S ***SECURITY***



With the end of fiscal year (FY) 2017, the Army begins the transition to full financial statement audits. Sustaining the momentum built during FY 2017 remains a top priority to meet the demands of achieving audit success, while also supporting the Army's missions, and managing our financial resources with timely, accurate and reliable information. Our Army Annual Financial Report (AFR), an alternative to the Performance and Accountability Report, reflects our enduring commitment to fiscal responsibility and accountability.

This AFR highlights our financial commitment to our Army priorities and demonstrates the progress toward producing reliable and complete financial data in our quest to meet congressionally mandated audit readiness requirements by September 30, 2017. The AFR details the material weaknesses in our Internal Controls over Financial Reporting currently being addressed within corrective action plans. These plans have been generated from insights gained from independent public audits of the Army's Schedules of Budgetary Activity for FY 2015 and 2016, in addition to reviews of specific balance sheet items and the current FY 2017 combined Statement of Budgetary Resources audit. As stewards we are accountable for the resources required to produce the outcomes in these engagements and are therefore committed to the efficient and effective use of those resources by improving and reforming our processes. To that end the Army is working toward a successful audit of its financial statements as of

September 30, 2017, with an overall goal of improving a culture of accountability and fiscal stewardship of our Nation's resources.

The existing audit environment within Army has become increasingly integrated with our everyday business. Our goal is continuous improvement objectives, addressing corrective action plans resulting from issues and findings identified in Independent Public Accounting audits conducted in FY 2017 on the Army General Fund (GF) and Working Capital Fund (WCF) Statements of Budgetary Resources (SBR) and specific elements of their Balance Sheets. We have undertaken corrective actions based on deficiencies and internal control weaknesses noted in the Department of Defense Office of the Inspector General FY 2017 financial statement audit and reports on the Internal Controls over Financial Reporting. These audit findings helped us identify areas of improvement related to audit weaknesses and noncompliance priorities for FY 2018, and to revise corrective actions plans, as necessary, to address these. Army management continues to assess progress toward improved fiscal accountability, transparency, and our ability to achieve an overall successful financial statement audit for FY 2018 and beyond. This job is tough, but we are committed.

Our financial accounting systems continue to improve, enhancing functionality, and incorporating our information technology general controls (ITGCs). General Fund Enterprise Business System (GFEBS), Logistics Modernization Program (LMP), and Global Combat Support System (GCSS)-Army are our primary systems of record and provide audit trails and financial management visibility into the resources at hand to achieve Army's operating goals at all levels. The Army has also begun development of the military Integrated Personnel and Pay System (IPPS)-Army, to manage military orders and personnel records efficiently, and progress on the GFEBS-Sensitive Activities (SA) accounting system is well under way.

As Army leaders remain fully committed to ensuring compliance with congressionally mandated auditability requirements, the Army's financial management community likewise demonstrates an unwavering commitment toward meeting the Army's missions: providing for our Soldiers, Civilians, Families and their welfare; acquisition and budget execution; complying with the requisite laws and regulations; and keeping America ready and able to combat threats to our interests at all levels, while safeguarding our most important assets – our people.

MICHAEL T. POWERS, Acting
Assistant Secretary of the Army, Financial Management and Comptroller



TYING A ROPE IN AN EFFORT TO ASSIST SOLDIERS ACROSS AN OBSTACLE DURING A LEADERSHIP REACTION COURSE.
(U.S. ARMY PHOTO BY SPC. JEFFERY HARRIS)

A NATION'S STRENGTH, A PEOPLE'S SECURITY





2017

OVERVIEW

Over the past 16 years of war, the United States Department of the Army (Army) has continuously provided trained and ready forces for combat operations in Iraq and Afghanistan to a standard of excellence equal to any in our Nation's history. Simultaneously, the Army has executed a wide array of Combatant Commander missions; providing forces to Europe, the Pacific, the Middle East, Africa, Latin America, and the homeland. Today, the Army assigns or allocates over 187,000 Soldiers to meet Combatant Commander requirements. However, the fiscal impacts of the *Budget Control Act of 2011* and continuing resolutions required the Army to take risks when meeting current operational requirements while maintaining a ready force for major combat operations.

The Army requires resources that allow us to improve readiness. With consistent, strategy-based funding over time, the Army can increase capacity, train contingency forces, close critical modernization gaps, and rebuild installation and training infrastructure – all while maintaining excellence in the execution of current operations. To that end, the Army aims to achieve the objectives in the Defense Planning Guidance, which are critical to the Army accomplishing assigned missions to a standard expected by the American people.

MISSION AND ORGANIZATION OF THE ARMY

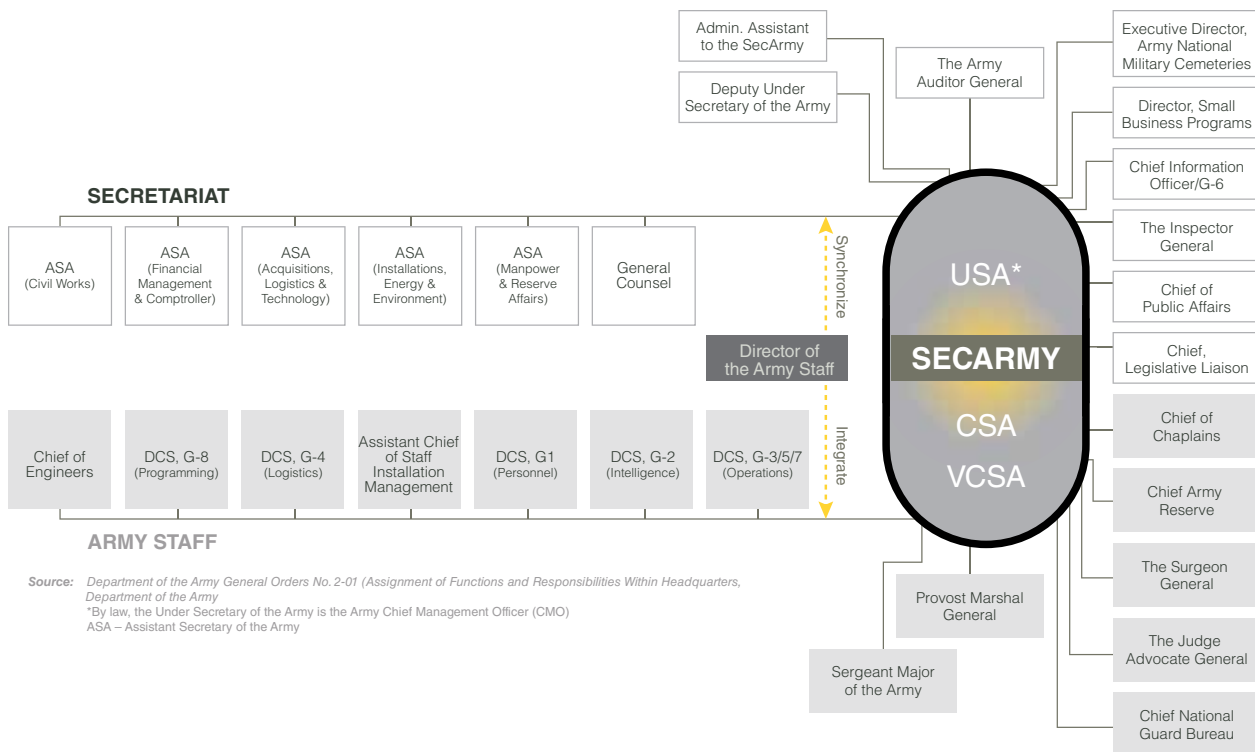
The mission of the Army is to fight and win the Nation's wars through prompt and sustained land combat as the foundation of the Joint Force. The Army organizes, equips, and trains Soldiers for rapid, sustained combat operations on land; integrates the Army's capabilities with those of the other armed services; accomplishes all missions assigned by the President, the Secretary of Defense, and Combatant Commanders; and remains ready while preparing for the future.

The Army is organized to support and sustain the mobilization, training, and deployment of its Soldiers anywhere in the world. Headquarters,

Department of the Army (HQDA) (Figure 1), under the direction of the Secretary of the Army, leads and manages the entire Army. The HQDA Staff is composed of the Secretariat and the Army Staff (ARSTAF). The HQDA Staff:

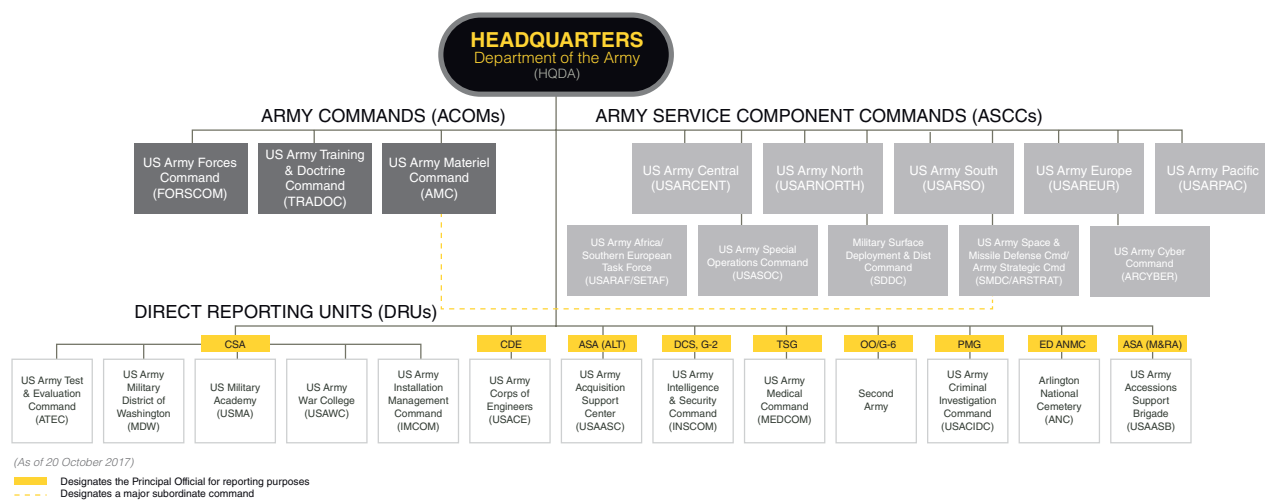
- Develops policies, plans, and programs.
- Establishes and prioritizes requirements.
- Provides resources to organize, man, train, and equip Soldiers to meet the combatant commands' current and future operational requirements and other needs as defined by the President and the Secretary of Defense.

FIGURE 1. HEADQUARTERS, DEPARTMENT OF THE ARMY (HQDA)



Organizations reporting to HQDA as part of the Army's command structure (Figure 2) include the Army Commands (ACOMs), Army Service Component Commands (ASCCs), and Direct Reporting Units (DRUs). The operational Army consists of numbered armies, corps, divisions, brigades, and battalions that conduct the full range of military operations. The institutional Army supports the operational Army by providing the infrastructure necessary to man, train, equip, deploy, and ensure the readiness of all Army forces.

FIGURE 2. ARMY COMMAND STRUCTURE



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Maintaining credible strategic land-power requires the Army to assess and refine continually how it operates, manages its human capital, and increases its capabilities. The Army will build globally responsive, regionally engaged strategic land forces with a versatile mix of capabilities, formations, and equipment that are mission tailored, scalable, and cost effective. Going beyond materiel and equipment solutions, the Army's modernization strategy is a comprehensive effort that includes doctrine, organizations, training, leadership and education, personnel, facilities, and policy. The Army will develop, field, and sustain equipment that provides Soldiers and units the capabilities they need to be successful.

SUSTAIN

The Army must maintain the quality and viability of the all-volunteer force, as well as the many capabilities it provides the Nation, to sustain Soldiers, their Families and Army Civilians in an era of

persistent conflict. Sustainment ensures that Soldiers and their Families have the quality of life they deserve which leads to improved retention rates.

Manning the Force—Recruiting and Retaining Soldiers

While the recruiting environment is challenging, the Army remains committed to bringing only the very best into its ranks. The Army's goal is to achieve no less than a 90 percent rate of new recruits with Tier 1 educational credentials, i.e., high school diploma or above. The Army achieved approximately 96 percent

Tier 1 recruits in Fiscal Year (FY) 2017. The overall attrition rate remained virtually unchanged over the last three years. The unvarying attrition rate and overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force.



STRAPPING ON A GAS MASK DURING A CHEMICAL, BIOLOGICAL, RADIOLOGICAL AND NUCLEAR SCENARIO. (U.S. ARMY PHOTO BY SGT. 1ST CLASS TEDDY WADE)

TABLE 1. QUALITY PERCENT TIER 1 EDUCATIONAL CREDENTIAL HOLDERS (ACTIVE COMPONENT)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Tier 1 Goal	90%	90%	90%	90%	90%
Tier 1 Actual	99%	95%	98%	96%	96%

While the recruiting environment remained tough, the Army met all recruiting requirements in the Active Component, United States Army Reserve (USAR), and Army National Guard (ARNG) in FY 2017.

TABLE 2. ENLISTED RECRUITING

	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Goal	FY 2017 Actual
Active Component	69,154	57,101	59,177	62,681	68,500	68,862
Army National Guard	44,734	43,280	38,430	33,135	40,000	34,298
U.S. Army Reserve	15,568	14,595	14,971	15,865	14,400	13,272

TABLE 3. ACTIVE COMPONENT END STRENGTH

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Goal	552,100	520,000	490,000	475,000	476,000
Actual	532,506	508,324	491,439	475,487	476,245
Percent Delta	-3.5%	-2.3%	+0.3%	+0.1%	+0.05%

Performance Measure: *The number of Soldiers on active duty at the end of the FY; data as of September 30, 2017; includes Soldiers on Active Duty for Operational Support (over 1,095 days). Under presidential-declared states of national emergency, end-strength limits may be waived. Goals and minimums based upon Sections 401 and 402 of appropriate FY's National Defense Authorization Act (NDAA).*

TABLE 4. RESERVE (ARNG AND USAR) END STRENGTH

	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Goal	FY 2017 Actual
Army National Guard	357,735	354,072	350,023	341,590	343,000	343,603
U.S. Army Reserve	198,209	195,438	198,552	198,395	199,000	194,318

Performance Measure: *The number of Soldiers in ARNG and USAR at the end of the FY; data as of September 30, 2017.*

TABLE 5. ACTIVE AND RESERVE COMPONENT RETENTION

	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Goal	FY 2017 Actual
Active Component	64,012	58,739	51,628	50,083	55,181	62,800	58,373
Army National Guard	49,272	51,145	43,817	35,713	31,319	31,859	31,530
U.S. Army Reserve	14,377	15,731	15,230	16,102	15,886	12,546	16,737

Performance Measure: *The number of Soldiers reenlisted during a given FY against published goals.*

The retention program continued to support the Army readiness by retaining Soldiers serving in high demand special skills areas. In FY 2017, the Army offered a Critical Skills Retention and Selective Retention Bonus to attract and retain personnel in specific skill areas, including Special Forces, Cyber, and Language proficiencies. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army to exceed its FY 2017 retention goal. Careful and deliberate adjustments to bonuses, including designation of targeted critical skills, ensured the correct mixture of skilled Soldiers. Recruiting and retaining Soldiers—confident, adaptive, competent, and able to handle the complexity of 21st century warfare in a combined, joint, expeditionary environment—is a highly-competitive endeavor. The Army will continue to develop and implement programs to address them.

Strengthening Soldier and Family Readiness

Family readiness means being prepared to navigate effectively the challenges of daily living experienced in the unique context of military service. Prepared Soldiers and their Families understand the challenges they may face, are aware of supportive resources, have the skills needed to function in the face of challenges, and use those skills and resources to manage challenges.

Total Army Strong succeeds the Army Family Covenant as the Army’s commitment and responsibility to our Total Army Family—Soldiers, their Families, and Civilian employees. Through Total Army Strong, the Army remains steadfast in its commitment to maintain trust; foster an environment of adaptability and self-reliance; promote physical, emotional, social, family, and spiritual strengths; and honor the service and sacrifices of those who serve our Nation.

Soldiers, their Families, and Civilians have primary responsibility for their well-being, but through Total Army Strong, the Army remains committed to a system of programs and services to mitigate the unique demands of military life, foster life skills, strengthen resilience, and promote a strong and ready Army.

As the Nation and the Army prepare for the future, the Army must anticipate the evolving needs of Soldiers and their Families and increase flexibility to ensure programs and services are available where and when they are needed by our most precious resources—Soldiers, their Families, and Civilians.



AN ARMY VETERAN HUGS HIS SON. (DOD PHOTO BY EJ HERSOM)



CONDUCTING PRACTICE LAPS IN A RACING WHEELCHAIR. (U.S. ARMY PHOTO BY SPC. FRANCISCO ISREAL)

Warrior Care and Transition

The Army has seen the wounded, ill, and injured Soldier population entering into the Army's Warrior Care and Transition Program (WCTP) stabilize in FY 2017. As a result of a stabilized population, the Army has not made significant changes to the structure of Warrior Transition Units (WTUs) and has focused on oversight and policy improvements to increase efficiency while maintaining the quality of care for our wounded, ill, and injured population. Additionally in FY 2017, the WCTP has completed the transition of the Warrior Transition Command (WTC) to the Warrior Care and Transition (WCT)—a Deputy Chief of Staff (DCS) element under United States Army Medical Command (MEDCOM) Headquarters. Though no longer a command, the organization's mission remains the same—to provide the Army's wounded, ill, and injured Soldiers, Veterans, and their Families with the care, medical management, and transition support they need and deserve. The MEDCOM DCS WCT ensures focused and effective management across all aspects of the WCTP. In FY 2017, the Department of Defense dedicated \$143.5 million to the Army to resource the WCTP with support staff, training, information technology, and adaptive reconditioning/rehabilitative programs and events.

As the Army's proponent for the WCTP, DCS WCT provides centralized oversight, guidance, and advocacy empowering wounded, ill, or injured Soldiers, Veterans, and their Families using integrated medical and nonmedical plans for successful reintegration into the force or the community with dignity, respect, and self-determination. Currently, there are approximately 2,438 Soldiers receiving care and transition services at 14 WTUs and Community Care Units on Army installations throughout the continental United States, Hawaii, and Puerto Rico. In support at each of these locations are the Army's Soldier Family and Assistance Centers and other installation-provided community support activities.

To empower each WCTP Soldier to either return to the Force or transition to veteran status, the Army developed a systematic framework known as the Comprehensive Transition Plan (CTP). The CTP is a dynamic, living plan of action that focuses on the Soldier's future and encompasses the six domains: career, physical, emotional, social, family, and spiritual. The individual plan is created by the Soldier with the assistance of a dedicated Triad of Care and Interdisciplinary Team. Using a standardized

framework and specifically developed software, the process enables wounded, ill, and injured Soldiers to customize their recovery plans to set and reach their personal and professional goals. In total, through FY 2017, resourcing allowed approximately 43 percent of the Wounded Warrior population to return to the force, while enabling many others, through internships, civilian education and training, to transition to civilian life confidently and, when possible, successfully enter the workforce. The program's success can be attributed, in part, to an aggressive clinical, and non-clinical rehabilitative approach, along with career and education assistance.

The Army's Wounded Warrior (AW2) Program is a vital part of the Army's WCTP. AW2 provides personalized support to more than 16,000 Soldiers and veterans and their families and caregivers, throughout the recovery and transition process. Each Soldier is assigned an AW2 Recovery Care Coordinator (RCC). AW2 RCCs are integrated into the WTU's interdisciplinary team of medical and non-medical professionals where they help facilitate the Soldier's CTP goals, as well as educate the Soldier and their family/caregiver on available benefits and resources, ensure continuity of care as the Soldier recovers and rehabilitates, and transfers the responsibility to the Department of Veterans Affairs (VA).

For those Soldiers that meet AW2 eligibility, once the Soldier transitions from the WTU, they are transferred from an AW2 RCC to a regional AW2 Advocate closest to their community who specializes in managing veterans, and their family/caregiver until a point where they are fully transitioned to the VA and other federal, state and local agencies for enduring support. At this point of transition they become part of the AW2 Alumni Program (AWAP). There are currently more than 12,000 AW2 alumni.

The Army continues to remain dedicated to the mission of holistic healing for our most critically wounded, injured and ill Soldiers through the work of the WCTP.

Ready and Resilient Campaign

The Ready and Resilient Campaign (R2C) is a comprehensive plan to address the immediate and enduring needs of the Total Army, including USAR, and ARNG Soldiers, their Families, and Army Civilians. The R2C guides the Army's efforts to build and maintain resilience across the Total Army to improve unit readiness and further reinforce the Army profession. The Army supports R2C through various programs and services delivered on the Garrison, such as, but not limited to, Sponsorship, the Army Substance Abuse Program, Suicide Prevention, Comprehensive Soldier and Family Fitness Program, Soldier Family Assistance Centers, Army Communities of Excellence, internships, and Transition programs.

Improving Soldier and Family Housing

The Army has pledged to provide for Soldiers and their Families a quality of life commensurate with their service. The Army continues to receive Congressional support for housing programs in order to improve both family housing (FH) and unaccompanied housing (UH) to enable the Army to fulfill its pledge. The Army continues to eliminate inadequate family housing at enduring locations through replacement and improvement projects, and divestiture of excess or substandard inventory.

The Army supports securing adequate and affordable housing on the local economy for the approximately 70 percent of Soldiers with Families through the Housing Services Offices at the Army Garrisons worldwide. Providing guidance and assistance to all incoming and departing personnel on housing information; mediating disputes and counseling customers; and collecting local housing data to be used for the annual Basis Allowance for Housing survey.

The Army maintains about 10,500 Army-owned family housing units and seeks to improve or replace inadequate family residences to achieve an inventory that consists of 90 percent being quality-rated Q1 or Q2. Most of the Army-owned FH inventory is



A PLATOON LEADER COMMUNICATES VIA A RADIO DURING A LIVE-FIRE EXERCISE. (U.S. ARMY PHOTO BY CAPT. SCOTT WALTERS)

located outside the continental United States. The Army also continues to rely on the private sector to meet the majority of its FH needs; where in support of Service Members and their Families, the Army leases FH where affordable and adequate private-rental housing is not readily available. If necessary, the Army programs for FH construction projects to build inventory where there are quality and/or quantity deficits.

The Army has also utilized FH and UH privatization options to deliver adequate housing. FH privatized housing exists at 44 installations in the United States for an inventory of 85,288 family homes. The Army

also executes five UH privatization projects at Forts Irwin, Drum, Bragg, Stewart, and Meade. Together, these five privatized UH projects provide 2,408 bedrooms at five installations.

The Army's inventory of inadequate lodging is being eliminated at enduring United States locations through the Privatization of Army Lodging (PAL) program, and divestiture of excess or substandard buildings. The PAL program is operating at 40 installations with an end-state of 12,431 guest rooms.

As of the end of FY 2017, the UH, also known as Barracks, portfolio is vast. The Office of the Assistant Chief of Staff for Installation Management is responsible for over 33,838 UH buildings that encompass over 350,000 spaces. The types of barracks include Permanent Party, Training, and Transient; and they are tracked from construction, to occupancy or vacancy, and until demolition or conversion to other uses.

The Army's resource investment over the years in UH allows us to meet the Office of the Secretary of Defense (OSD) directed targets of 90 percent of the inventory at 80 percent or higher facility condition index (FCI). While OSD uses the FCI, the Army equivalent are Q ratings and the ratings Q1 and Q2 are the Army equivalent of ratings that are 90 percent or higher.

- For Training barracks, which has been a focus, we expect to achieve this in FY 2018.
- For Permanent Party we expect to achieve this in FY 2020.
- For Transition Training we expect to achieve this by FY 2023.

PREPARE

The Army prepares Soldiers, units and equipment for success in current operations, such as those in Afghanistan and Iraq, as well as maintaining forces capable of rapidly responding if deterrence

fails. In order to sustain this readiness, the Army continuously trains units to win in complex and uncertain environments against increasingly more capable adversaries.

Providing Ready Forces

Readiness is the number one priority because the Army cannot afford to be unprepared to respond to new threats or major contingencies with anything less than ready and available units. The Army continuously prepares and sustains forces for a complex operational environment. The high operational tempo demanded of the Army requires continuous efforts to mitigate the risk of being unprepared.

Generating ready forces requires the Army's leaders to optimize resources and synchronize training activities to maximize readiness for the operational demand. Operational demand includes known demand for forces as well as potential war plan requirements. The key resources and activities needed to sustain this readiness include manning, equipping, sustaining, installation support, leading, and training. Sustainable Readiness, the Army's method of force generation, describes both what a ready Army looks like and how much readiness can be generated. This concept and process drives the Army to maximize overall readiness posture while minimizing risk to war plan contingencies. Sustainable Readiness provides flexibility to respond to the varied challenges of the complex environment.

Sustainable Readiness builds and preserves the highest possible unit and overall Army strategic readiness within existing resources. The Army uses Sustainable Readiness to manage risk and maximize the ability to fight and win when called for both existing and contingency war plan demands. Ultimately, the objective is to sustain readiness throughout the Total Army for an operational force including early-deployers for war plans as well as the follow-on forces providing operational and strategic depth.

Security Force Assistance Brigades

In 2017 the Army announced the development of security force assistance (SFA) structure to meet combatant command theater security cooperation requirements, to restore Army readiness by

relieving regular Army brigade combat teams (BCT) of these missions, and to serve as the foundation for regeneration of BCT, as required. The first Security Force Assistance Brigade (SFAB) will be stationed at Fort Benning. The Army plans to activate five additional SFABs to help fulfill Combatant Commander requirements for security force assistance capabilities. SFABs will consist of approximately 500 senior officers and noncommissioned officers with proven expertise to train and advise foreign security forces, and will be built on infantry and armored brigade combat team models. In addition to meeting combatant command requirements, SFABs will help improve the readiness of the Army by reducing the demand for brigade combat teams to conduct security force assistance operations, thereby preserving BCT readiness for



SOLDIERS SWEEP A MOCK CITY FOR ENEMY SOLDIERS DURING A JOINT AIR TO GROUND INTEGRATION TRAINING EXERCISE. (U.S. ARMY PHOTO BY STAFF SGT. JORDEN M. WEIR)

decisive action operations. SFABs can also serve as the framework around which to build a BCT rapidly, if required in the future.

Training Soldiers

The Army's institutional training and education system for Soldiers includes Initial Military Training (IMT), Professional Military Education, and Special Skills / Functional Training. In IMT, the Army builds the foundation for Soldiers to be experts in critical combat skills and cultivates self-confidence, adaptability, physical strength, resilience, and mental agility. A primary part of a Soldier's IMT instruction includes basic skills called warrior tasks and battle drills. Warrior tasks and battle drills are reviewed about every two years to ensure their relevancy to current combat operations and doctrine. The IMT is the Army's top priority within the institutional training base. Throughout their career, Soldiers acquire knowledge and skills through resident courses, mobile training teams, and distributed learning.

TABLE 6. INDIVIDUAL TRAINING

Initial Military Training	Basic Combat Training	One-Station Unit Training	Advanced Individual Training	Basic Officer Leader Course	Officer Candidate School	Warrant Officer Candidate School	Initial Entry Rotary Wing
FY 2014 Trained (Actual)	67,815	26,771	88,381	13,309	868	1,702	979
FY 2015 Trained (Actual)	65,971	26,052	85,804	12,746	756	1,511	837
FY 2016 Trained (Actual)	66,090	27,046	87,796	13,919	734	1,716	743
FY 2017 Trained (Interim)	56,730	20,363	70,930	10,531	685	1,785	734

Data reflects only Army students, all Components.

Data includes multiphase courses.

FY 2017 interim data is based on report data as of September 19, 2017, i.e., not a complete reporting year.

Training Units

In the 1st quarter FY 2017, training by Army units was constrained by the Continuing Resolution Authority and budget controls, even though there were increases in ground home station training and the flying hour program resources. The Army focused training resources on maintaining the decisive action readiness of BCTs through demanding training and live fire exercises at home stations and Combat Training Centers (CTC). The official results for training miles and hours executed in FY 2017 were not yet available at the time of this publication.

The Army's CTC Program remains the cornerstone of an integrated Training strategy that builds trained and proficient, combat-ready units and leaders to conduct operations as part of the Joint Force – ready to win in a complex world.

The purpose of the CTCs is to provide a crucible experience for units and leaders training in a complex and highly realistic Decisive Action environment designed to replicate combat by stressing every Warfighting Function with operations against tough, free-thinking, realistic hybrid threats under the most difficult conditions possible. The CTCs will accelerate a return to a decisive action focus from a counter-insurgency focus by challenging units and leaders to adapt to battlefield conditions, and by enhancing lethality and our ability to operate with our Unified Action Partners and Special Operations Forces across the range of military operations. The desired end state of a CTC rotation is units and leaders who are prepared to deploy worldwide, fight with confidence, and win, at any time, against any adversary, under any conditions.

In FY 2017 the Army conducted 18 rotations at the maneuver CTCs: 16 Decisive Action/Unified Land Operations (DA/ULO) rotations for Active BCT and two DA/ULO rotations for ARNG BCTs. The Mission Command Training Program conducted command post exercises for 53 HQs (5 Army Service Component Command, 1 Corps, 6 Division, 5 BCT, 4 Expeditionary Sustainment Command, 6 Sustainment Brigade, 24 Functional or Multifunctional Brigade, 1 Special Forces Group and 1 Canadian Maneuver Battle Group paid for by the Canadian Government).

Training Support Systems


The Army's Training Support System (TSS) enables training at home stations, CTCs, and other institutions by creating realistic conditions that reflect the operational environment. The TSS also enables Soldier self-development by modernizing the Army's distributed learning point of delivery infrastructure. The TSS provides training support products, services, and facilities in the form of critical training enablers, such as ranges and targets; live-virtual-constructive and gaming Training Aids, Devices, Simulators, and Simulations (TADSS); instrumentation systems; training facilities; maintenance of fielded TADSS; and training support operations and management. The FY 2017 funding levels provided base capability to enable training readiness. The TSS will continue to utilize the Strategic Portfolio Analysis and Review, which provides strategic guidance to prioritize and sequence the products within the TSS portfolio.

The CTC Modernization Program (CTC Mod) continues to field the Range Communications System, which provides an updated voice and data communications system that enables the CTC Instrumentation System (CTC IS) to include a third maneuver battalion and to provide a realistic operational environment necessary to stimulate and track rotational units, Opposing Force, and role player activities. It also tracks operational ground-truth, combat engagements, and unit performance necessary to provide the rotational unit's fully analyzed feedback in the form of After Action Reviews. The Army continues to address challenges of implementing system performance and testing. The FY 2017 Government Acceptance Test (GAT) at National Training Center is complete and the Army is working close out items with the contractor and anticipates completion in early FY 2018. The Joint Readiness Training Center GAT is scheduled in late FY 2018.

The Mission Command Training Support Program modernizes Mission Training Complexes (MTCs) and training simulations to upgrade individual and collective training to include battle-staff training for mission-rehearsal capabilities for units. The MTCs provide units the ability to train and sustain critical individual/operator and collective



CONDUCTING SLING LOAD AND AIR ASSAULT TRAINING WITH M777A2 HOWITZERS. (U.S. ARMY PHOTO BY SPC. STEFAN ENGLISH)



The Army is focused on developing our Military and Army Civilian leaders to meet the challenges of the 21st century and holding Commanders responsible for developing and executing progressive, challenging, and realistic training guided by the doctrine of mission command.

battle-staff skills on Mission Command Information Systems. The MTCs network with other installations and simulation capabilities to support the Army, Joint, and Coalition training events. New TSS capabilities were fielded to support requirements driven by the Army Campaign Plan. A persistent Live, Virtual, Constructive-Integrating Architecture (LVC-IA) has been implemented at selected home stations. The LVC-IA links Home Station Instrumentation Training Systems in live training areas to MTCs, which house constructive, virtual, and gaming TADSS. The MTC serves as the nexus for the installation's LVC-IA, which has completed fielding to 12 installations.

Sustainable Range Program (SRP) and Integrated Training Area Management (ITAM) maximize the capability, availability, and accessibility of ranges and training lands to support doctrinal requirements, mobilization, and deployments under normal and surge conditions. The SRP provides modernization of the Army's range complexes using training systems fielded on ranges. The SRP also provides range operations and maintenance to support individual and crew-serviced weapons qualification at over 100 Continental United States (CONUS) and outside the Continental United States (OCONUS) locations, and collective live fire capability on the largest

25 installations. The capabilities provided at each of these locations were reduced to levels appropriate with the reduction of the force. Ranges continue to be modernized to integrate digital systems that enable squads and platoons to train as they fight, as well as to provide Commanders and leaders with objective data to assess their units' performance and training levels. The ITAM provides Army range officers with the capabilities to manage and maintain training lands and support mission readiness. By implementing a uniform land management program, ITAM integrates the mission requirements derived from the SRP, with environmental requirements and environmental management practices. It also establishes the policies and procedures to achieve optimal, sustainable use of training and testing lands.

Soldier Training Support Program (STSP) reduced programmed acquisition and fielding for systems, such as the Homestation Instrumentation System, Engagement Skills Trainer (EST), Call for Fire Trainer (CFFT), and Medical Simulation Training Centers (MSTC), which are critical components of the Live, Virtual, Constructive – Integrated Training Environment (LVC-ITE). However, Instrumentable Multiple Integrated Laser Engagement System (IMILES) buyout continued an accelerated fielding

to achieve “pure fleet” distribution. Additionally, the lack of funding for planned upgrades and improvements to support concurrency, relevance, and usefulness of fielded devices, such as the EST, CFFT, and the Improvised Explosive Device Effects Simulator, has had a negative impact on modernization of devices fielded at home station and institutional locations for nearly a decade. The STSP continued to provide Common Levels of Support manpower and services: however, directed TSS manpower Table of Distribution and Allowances authorization reductions have significantly challenged execution commands in delivering specified services to mission Commanders. New requirements, driven by the fielding of approved systems, e.g., flight simulators, MSTCs, and the LVC-ITE, increased manpower requirements in an era of significant reductions. The result will be a reduction of baseline services to all customers at most installations. Because Reserve Component units must habitually train on evenings and weekends, there will be an even greater reduction in available services to the Reserve Component customer base at installations with regional training support service delivery responsibility. Reductions in authorized Training Support Center manpower have resulted in systemic maintenance challenges and operational ready rates for complex TADSS, e.g., IMILES, as diagnostics and troubleshooting are conducted by inexperienced users, rather than by trained contact teams, resulting in significant increases in repair costs, repair turnaround times, and decreases in training benefit to Soldiers and Commanders.

The Army Training Information System (ATIS) provides an enterprise capability to enable the training environment for scheduling, development, learning management, training management, and resource management for individual and collective training and education. The Army Acquisition Executive (AAE) approved the Materiel Development Decision, which authorized proceeding to the Materiel Solution Analysis phase (now referred to Business Solution Analysis (BSA)) of the Acquisition process. On March 10, 2017, the AAE approved ATIS to exit the BSA phase and enter the Business

System Functional Requirements & Acquisition Planning phase (BSFRAP), formerly referred to the Technical Maturity Risk Reduction (TMRR) phase, which authorized competitive prototyping and delegated Milestone Decision Authority (MDA) to Program Executive Office Enterprise Information Systems (PEO EIS). The ATIS Team is seeking an Acquisition-Authority to Proceed (A-ATP), formerly referred to as Milestone-C, in 3rd quarter FY 2019. Army TSS, including manpower and operations support required to maintain and operate TADSS, must continue to keep pace with equipment modernization and Army transformation. This will ensure that training supports current operations, addresses Sustainable Readiness Model training and readiness requirements, and enables training Army forces for prompt and sustained land combat operations.

Adaptive Army Leaders for a Complex World

Unit training and leader development are the Army's life-blood. Developing leaders is a competitive advantage the Army possesses that cannot be replaced by technology or substituted with advanced weaponry and platforms. Developing leaders today is the key to preparing the Army for 2020 and beyond. The increasingly uncertain, complex, and interconnected global environment demands that an Army of preparation invests in leader development: the life-long synthesis of training, education, and experience acquired through opportunities in the operational, institutional, and self-development domains. The Army is focused on developing our Military and Army Civilian leaders to meet the challenges of the 21st century and holding Commanders responsible for developing and executing progressive, challenging, and realistic training guided by the doctrine of mission command. These efforts will result in more adaptive forces capable of achieving regional alignment or mission tailoring as required. Guided by the Army Leader Development Strategy, the Army is undertaking efforts to foster continued commitment to the Army profession, preserve the all-volunteer force, and build leaders for our Nation.

The Army must balance its commitment to the training, education, and experience components of leader development. Resulting from the high operational demand over the past 16 years, many Army leaders did not attend professional military education (PME) at the optimal time in their careers. To mitigate these effects, the Army leveraged the One Army School System, implemented Structured Self-Development, increased the use of Distributed Learning to conduct PME, and implemented Select-Train-Educate-Promote (STEP) policy requiring enlisted Soldiers to graduate from the appropriate formal Noncommissioned Officer Education System course before attaining eligibility for promotion. STEP policy sets conditions to better prepare Noncommissioned Officers before assuming the duties and responsibilities of the next higher grade.

TABLE 7. PROFESSIONAL DEVELOPMENT (ACTIVE COMPONENT SCHOOLS ONLY)¹

	2017 Professional Development (Active Component Schools Only)								
	NonCommissioned Officer Education System (NCOES) Graduates				Officer Education System (OES) Graduates		Warrant Officer Education System (WOES) Graduates		
	Basic Leader Course	Advanced Leader Course	Senior Leader Course	Sergeants Major Course Resident/PH 2 Non-resident	Intermediate Level Education Resident/ Common Core	Senior Service College (SSC) Resident/ Distance Learning	Warrant Officer Advance Course Resident/Non-resident	Warrant Officer Staff Course Resident/Non-resident	Warrant Officer Senior Staff Course Resident/Non-resident
FY 2013 Trained (Actual)	23,252	17,888	9,595	450/520	1,133/946	901/756	2,485/294	1,087/900	381/345
FY 2014 Trained (Actual)	19,491	16,159	8,838	404/564	1,118/943	930/662	2,347/345	969/930	387/387
FY 2015 Trained (Actual)	18,726	11,861	7,603	423/496	1,021/941	879/660	2,461/523	1,182/1,089	358/367
FY 2016 Trained (Actual) ²	17,546	16,560	8,801	507/458	893/900	516/336	2,537/430	1,202/974	420/384
FY 2017 Trained (Interim) ²	17,109	16,874	11,369	0/545	0/571	655/0	2,373/386	1,132/802	458/409

Note 1: This data represents Active Component, ARNG, and USAR students graduating from Active Component schools. All data is based on start date, i.e., if a class starts in FY 2015 and graduates in FY 2016, it is counted as FY 2015 data.

Note 2: Actual FY 2016 trained data and interim FY 2017 trained data are as of October 27, 2017.

Army Civilian Training and Leader Development

The Army is keenly aware of the valuable contributions made by its Civilian corps in supporting the National Military Strategy. Thus, the Army must provide training, education, and operational experiences that develop and improve the leadership competencies, which collectively enhance this cadre’s ability to support Soldiers, the Army, and the Nation. To advance this goal, the Army maintains the Civilian Education System (CES) leader development program. Courses are sequential and progressively targeted at specific civilian grade levels to be taken throughout the civilian’s career. Specifically, the CES meets the Secretary of the Army’s mandate that the leaders of tomorrow be adaptable and multi-skilled. This mandate demands a centralized education, training, and development program to “grow” Civilian leaders who, in both operational and institutional capacities and in evolving environments, can meet and succeed in their missions.



SETTING UP AN M18 CLAYMORE MINE AS PART OF AN EXERCISE. (PHOTO COURTESY OF THE U.S. ARMY)

TABLE 8. CIVILIAN PROFESSIONAL DEVELOPMENT

Program	Students
Senior Service College (Army War College/Dwight D. Eisenhower)	50
DoD Leader Development Programs	66
Army Civilian Education System Leader Development Courses-Resident	4,464
Army Civilian Education System Leader Development Courses-Online	27,920
Supervisor Development Courses-Online	15,705
Career Field Functional Training Courses	10,775

Section 1113 of the *NDAA* for FY 2010, and the *Federal Supervisory Training Act of FY 2010*, outline specific requirements for the development of a mandatory supervisor training course for all Department of Defense (DoD) supervisors, both Civilian and Military. Specifically, supervisor training must include the use of new *NDAA* authorities, instruction on prohibited personnel practices, and mentoring of new supervisors. First-time supervisors who are in their jobs for less than two years are required to complete training no later than one year from the date on which they are appointed to a supervisory position. Supervisors are also required to take refresher training every three years.

Training for all supervisors of Civilian employees promotes the development of world-class leaders and provides opportunities for new managers and supervisors to interact, share experiences, and learn from each other. This training ensures continuity of the leadership and supervisory pipeline, and promotes the Army's vision for competency-based development across the leadership continuum. The Army is committed to improving employee



engagement by investing in efforts that make the Army an employer of choice in the Federal Government.

The Army will continue in its pursuits to develop and implement Civilian training and leader development initiatives to ensure a robust, accessible training program for all Army Civilians. These initiatives include, but are not limited to, the following:

- An Army-wide Civilian training management system.
- Fellowships and experience-broadening interagency and multinational assignments.
- Increased outreach and communication to the Army Civilian Corps with the goal of increasing training and leader development participation.
- The Army will continue to refine, improve, and update the Civilian training and leader development programs to meet emerging initiatives and requirements and enhance employee performance.

RESET

In FY 2017, Congress appropriated \$1.7 billion to resource operational (Operation and Maintenance, Army) and procurement programs (Other Procurement, Army) for Overseas Contingency Operations Reset. As of September 5, 2017, the Army obligated 87 percent of Reset operational and sustainment funding. Eight brigades completed Field Level Reset. Army Materiel Command

(AMC) repaired 29,706 items in Sustainment Level Reset, including the completion of 96 aircraft and 1,137 vehicles. The FY 2017 requirements were adjusted periodically to reflect real-world changes in demand, due to the dynamic operating environment. The Army executed 99 percent of the \$1,001 million available from FY 2015 Procurement Funding, 96 percent of the \$1,204 million available

from FY 2016 Procurement Funding, and 66 percent of the \$572.8 million available from FY 2017 Procurement Funding.

Army Modernization

The Army recognizes that the character of warfare is changing, and is taking steps to anticipate, learn, and adapt faster than its adversaries. While the Army focused its investments on meeting urgent needs for counterinsurgency and counterterrorism operations in Iraq and Afghanistan, our adversaries used the last 16 years to modernize for high-end warfare. As a result, the Army's capabilities need improvement in important areas such as long-range fires, electronic warfare, air defense and unmanned aerial systems, as well as the ability to operate without constant air support.

The Army is developing new concepts, force structure, and operational and institutional models to address the changing character of war, but limited modernization resources constrain these long-term efforts. In the current resource environment, the Army is conducting a value analysis to assess capabilities and the impacts and risks inherent to capability trades. This analysis will provide information to senior leaders when prioritizing capability and technology investments to shape the future force within available resources.

As evidenced by the actions of regional and emerging global military powers in Ukraine, Syria, and the Western Pacific, great power competition is returning to a world racked by irregular war and increasingly stressed by violent instability and rapid change. All forms of warfare are becoming faster, deadlier, and more ambiguous, and they are expanding into new physical and virtual fields that will challenge our forces in all domains of warfare—air, land, sea, space, and cyberspace.

The Army focused its modernization resources principally on meeting the pressing operational needs and challenges of counterinsurgency and counter-terrorism operations in Iraq and Afghanistan over the last 16 years, and its modernization

resources remain severely constrained today. The Army now needs to focus its modernization on maintaining overmatch and simultaneously developing new military capabilities to deter and, if necessary, defeat emerging regional and global peer adversaries as part of the Joint Force. Specifically, Army modernization must support a force that:

- Provides the combat capabilities, readiness, responsiveness, versatility, depth, and endurance required against adversaries capable of high-end conventional warfare.
- Projects forces into a contested theater and rapidly transitions to offensive operations.
- Operates in and projects power into the air, land, sea, and cyber domains to support and enable joint operations.
- Fights in complex, urban terrain.
- Retains the competencies, capabilities, and capacity for counterterrorism and counterinsurgency.

To better focus and prioritize its limited modernization resources over a long-term time horizon, the Army has consolidated previously separate modernization forums into an annual Strategic Portfolio Analysis Review (SPAR). The SPAR process reviews the Army capabilities over a 30 year period, assesses cross-portfolio priorities, identifies investment or divestment opportunities across the program, and enables senior leaders to make informed decisions. It enables the Army, in an era of constrained resources, to make tough decisions and invest in the forces and capabilities most critical for meeting our toughest threats, while taking risk and/or divesting in other areas that—while still important—are less threatening to the security of our citizens and our national interests.

Key areas of investment in the current SPAR process include air and missile defense; long-range fires; munitions; mobility, lethality, and protection of BCT; active protection systems – air and ground; assured positioning, navigation, and timing; electronic

warfare/signals intelligence; offensive and defensive cyber; assured communications; and vertical lift.

Brigade Combat Team Reorganization

In June 2017, the Army announced the retention of 4/25 Infantry Division (ID) Airborne Infantry BCT (IBCT), stationed at Joint Base Elmendorf-Richardson, Alaska, which was previously scheduled to inactivate. The retention of 4/25 IBCT brings the number of regular Army BCTs to 31. Additionally one Army National Guard BCT converted from an armored brigade combat team to a Stryker BCT. America's decisive force remains committed to securing the United States' interests across the full range of operations.

Science and Technology (S&T) Program

The Army Science and Technology (S&T) Enterprise is focused on discovery, innovation and transition of technologies that will facilitate land force capabilities from the near-term into the deep future. Cohesive and comprehensive efforts across the S&T enterprise are anticipated to provide:

- S&T solutions to enable a more globally-responsive land force in the near-term.
- S&T advances to empower a leaner, more capable, and more expeditionary land force in the mid-term.
- S&T developments to realize a fundamentally different and fully expeditionary, multi-domain land force in the far-term.

For the imaginable future, the nation's landpower dominance will continue to rely heavily on significant S&T advances to ensure the Army and the Joint Force possess a competitive advantage. As a safeguard against technological surprise, the Army's S&T portfolio is dedicated to future investments, which provide informative technological options to our senior leadership and acquisition programs. These portfolio investments preserve S&T development continuity to maintain leading edge technologies; enable a broad technology outlook;

shape emerging Joint Capabilities Integration and Development System (JCIDS) requirements; and go beyond the limits of threat assessments to consider the "possible" and "unthinkable" to prevent tactical, operational, and strategic discontinuities. Collectively, these investments support the Army S&T mission:

- Identify, develop, and demonstrate technology options that inform and enable effective and affordable capabilities for the Soldier.

To achieve this mission, the Army's S&T investment portfolio is structured to provide Soldiers with the technology to win by simultaneously enhancing the current force and enabling the future force. Accordingly, the Army's S&T Strategy enables foundational developments to facilitate a continuous flow of disruptive capabilities through a balanced portfolio to mitigate current and future threats across the Range of Military Operations (ROMO); and address goals articulated through the Army Equipment Modernization Strategy to effectuate the Army Operating Concept (AOC).

Investments in the Army's S&T Portfolios are dedicated to addressing identified technology needs and pursuing S&T advances that are expected to enable future national security capabilities. These are:

Ground Maneuver S&T Portfolio – leads the research, development, and technology demonstration of technologies that ensure freedom of maneuver for the ground force. The Portfolio is dedicated to discovery, innovation, and transition of S&T products that ensure ground combat formations can enter austere environments, survive and counter emerging threats to close with and destroy the enemy while maintaining a sustainment footprint that is operationally feasible.

Soldier and Squad S&T Portfolio – leads research, development, and demonstration of S&T products to enhance individual and team performance by focusing on the Army's need for rapid deployment



A DRILL SERGEANT MAKES HER WAY DOWN A SLIDE-FOR-LIFE OBSTACLE. (U.S. ARMY PHOTO BY STEPHEN STANDIFIRD)

to operations. The Portfolio focuses on integrated, lightweight, energy-efficient Soldier-centric systems and equipment; human performance research; advanced training aids; and simulation and training methodologies for the current and future force. The Portfolio is dedicated to discovery, innovation, and transition of S&T products that enable Soldiers and small units for future operating environments through the development of vital expeditionary capabilities in human performance, maneuver support, protection, and training methodologies to facilitate a ready and capable land force.

Air Systems S&T Portfolio – leads research, development and demonstration of S&T products to support longer range/persistence, larger payloads, increased speed, combat overmatch, and battlefield dominance with overall lower cost of ownership. The Portfolio is dedicated to discovery, innovation, and transition of S&T products to enable United States

technical superiority and combat overmatch for aviation systems.

Command, Control, Communications and Intelligence (C3I) S&T Portfolio – leads research, development and demonstration of S&T capabilities for situational understanding; assured positioning, navigation, and timing; communications; cyberspace maneuverability; electronic warfare (EW); intelligence collection; mission command; and information fusion for the future land force. The Portfolio is dedicated to discovery, innovation, and transition of S&T capabilities to enable data collection, analysis and dissemination for Commanders' decisions; and adaptive capabilities for assured operations in congested and contested environment.

Lethality S&T Portfolio – leads research, development, and demonstration of S&T products to improve affordability, increase range and precision, and improve the breadth of effects available to the Army. The Portfolio is dedicated to discovery, innovation, and transition of S&T products to enable offensive and defensive overmatch for Fire Support, Air Defense, and Close Combat mission areas.

Medical S&T Portfolio – leads the research, development, and demonstration of technologies that sustain, optimize, restore, and enhance Soldier health and performance from accession through training, deployment, treatment of injuries, and return-to-duty or transition to civilian life. The Portfolio enables a medically ready Force through technologies and knowledge that instill Soldier confidence, prevent injury and disease, save lives, and improve the return-to-duty rate.

Environment and Terrain S&T Portfolio – leads research, development and demonstration of S&T products to ensure Army's ability to understand and operate effectively in the military environment from training to combat operations for the current and future force. The Portfolio is dedicated to discovery, innovation, and transition of S&T products that help to understand the military environment.

Basic Research S&T Portfolio – leads research that underpins Army capability development and the applied and advanced technology research in all the other portfolio efforts and enables potential solutions to enduring Army challenges. The Portfolio is dedicated to advancing the frontiers of fundamental science and technology and driving long-term, game-changing capabilities for the Army through a multidisciplinary portfolio which collaboratively links the Army’s in-house researchers with the global academic community.

Maturation S&T Portfolio – is dedicated to reducing risk, speeding transition, and lowering lifecycle costs for innovative technologies to enable mature and ready systems for Army Warfighter dominance in any environment.

As a means to address current capability shortfalls and outpace anticipated threats, the Army S&T Program postures the Army’s S&T Enterprise to pursue foundational technology developments for the future; leverage organic capacity and the capacity of our partners; mature technologies into innovative, affordable, and sustainable solutions; and make investments today in fundamental science and technology initiatives that will ensure breakthroughs that will yield affordable, decisive advantages for the future.

Further, this strategy establishes a robust framework to efficiently pursue S&T advances that are essential to meeting Chief of Staff, Army’s priorities concomitant with Joint Force operational goals articulated by the Secretary of Defense, thereby overcoming enduring technological challenges as well as emerging threats to agile and high-tempo land operations.

LandWarNet Operational Capabilities and Focus

In the complex world described in the Army Operating Concept, the network operating environment presents ever-evolving threats and opportunities. Even as network capabilities enable the Army to conduct successful business and

warfighting functions, our adversaries have access to similar technologies with which to avoid our strengths and exploit our vulnerabilities. This and other challenges to the development and defense of an “always on, always available” capability require a robust combination of materiel, personnel, processes, and policy solutions.

The Army is pivoting to a new network modernization approach. Army studied the network for over a year in detail and concluded the current network does not meet our Warfighting needs. It is the result of 16 years of operations in Iraq, Afghanistan and other counter-terrorism missions, operating from fixed locations. The current network is too complex, fragile, not sufficiently mobile or expeditionary, and will not survive against a peer threat or in contested environments. When considering its network needs, the Army must address jamming, cyber, EW, power and spectrum consumption, interoperability (joint and interagency partners) and air-to-ground



CRAWLING THROUGH A TUNNEL DURING A COMPETITION.
(U.S. ARMY PHOTO BY SGT. KALIE JONES)

communications. The Army needs a network that is simple, intuitive, resilient, mobile, survivable and capable of operating in a contested environment against peer adversaries. The assessment is further corroborated by operational Commanders' feedback and several external studies that have been done, including a recent Institute for Defense Analyses study that was directed by Congress, the Army and DoD testing agencies.

In FY 2017, the investments made continue to focus on optimizing the Signal force, enhancing cybersecurity capabilities, increasing network capacity, delivering IT services to the edge, and strengthening network operations. These efforts are consistent with the Joint Information Environment, cover 95 percent of the CONUS population, and represent significant modernization of the network in DoD history.

In the path forward, the Army must address priority needs to ensure the Army is ready to address adversaries at any given time. The Army's four priorities are: (1) command posts: improve survivability and mobility, (2) transport: simplify the tactical networks and increase their survivability against electronic warfare and cyber threats, (3) mission command applications: resolve incompatibilities of mission command applications and (4) improve joint and coalition interoperability.

Efficiencies and Cost Savings

LandWarNet investments in FY 2017 continued to adapt to the continuing uncertain financial environment during the Program Objective Memorandum years. The Army has taken disciplined steps to deliver standardized solutions, to improve network resilience and regionalize data centers continuously, and to enhance cyber security, by leveraging commodity buys, consolidation activities, and proactive contract management. As a result, the Army continues to reduce operating costs and create efficiencies to reinvest in LandWarNet modernization. Table 9 lists specific cost reduction/avoidance successes. Table 10 displays the savings that these investments are expected to yield.

TABLE 9. EFFICIENCIES AND COST SAVINGS

Commodity Buys (Enabled Regionalization and Divestiture Strategy)
Utilized bulk-purchase for MPLS routers and end-user building switches
Army Data Center Consolidation
Data Center Closures: 429
Personnel Efficiencies: 140 (Reductions)
Application Efficiencies: 1,299 applications (Kills in Closure Reports)
Server Efficiencies: 2,799 servers (Decommissioned)
Floor Space Efficiencies: 148,019 square feet (Relinquished or Repurposed)
Reported Cost Savings: \$54.3 million
Estimated Annual Energy Savings: \$1,546,157

TABLE 10. EXPECTED SAVINGS

Initiative (Amounts in millions)	Total To-Date Realized Savings	Total Expected Savings thru FY 20
Enterprise Services	(\$350.2)	(\$626.0)
Enterprise License/Service Agreements	(107.0)	(354.6)
Enterprise E-mail	(188.0)	(139.9)
Elimination of Devices (Desktop/Laptop/Tablets/Mobile Devices/Air Cards)	(55.2)	(29.4)
Unified Communications (Voice, Video & Chat)	-	(102.1)
Capacity	(55.8)	(310.9)
Army Data Center Consolidation Plan (ADCCP)	(55.8)	(76.6)
Bulk Buys for Switches - EAS, ACS & ADS	-	(234.3)
Security	-	(341.6)
Network Modernization - Top Level Architecture (TLA) to JRSS (NIPR & SIPR)	-	(341.6)
Grand Total	(\$406.0)	(\$1,278.5)

Building Force Projection Readiness

Given the current strategic security environment, the ability of the Army to project expeditionary land power remains as important as ever. The Army can get to the fight but it is increasingly necessary to have the ability to get to the fight rapidly to deploy sufficient land power in support of contingency plan requirements. To do so, the Army must posture itself to project and reposition trained and ready forces, enabled by joint and commercial partners to meet Combatant Commander and national security requirements in an increasingly complex, contested environment.

Through the Army's Power Projection Program the Army is increasingly focusing on its ability to be ready to deploy and is examining a myriad of lines of effort to ensure success. From reviewing and revising policy; ensuring units are trained and ready to deploy; maintaining logistics system capacity; ensuring infrastructure is capable of supporting deployment timelines, and; appropriately influencing Joint strategic mobility the Army is improving its ability to project forces rapidly.

To practice its ability to rapidly project land power, the Army conducted two Emergency Deployment Readiness Exercises (EDRE) and one Sea Emergency Deployment Readiness Exercise (SEDRE) this year. A part of one EDRE, a 4th Infantry Division element deployed from Fort Carson, CO to Grafenwoehr, Germany. During the exercise, the unit was placed on a 14-day Prepare to Deploy Order during which over 600 Soldiers were alerted and deployed to Germany. The exercise tested multiple headquarters to include HQDA, U.S. Army Europe, Installation Management Command Surface Deployment and Distribution Command and Army Materiel Command as well as the 4th Infantry Division. The SEDRE saw the deployment of I Corps forces from Fort Lewis, WA to San Diego, CA aboard strategic sealift vessels and the subsequent onward movement of Soldiers from 2nd Infantry Division and over 1,400 pieces of equipment to the National Training Center at Fort Irwin, CA.

As part of the Army's Prepositioned Stocks (APS) Program, the Army is aggressively pursuing a program called Configured for Combat (CFC). Under the CFC program, those pieces of equipment termed enablers—pieces of equipment normally added to vehicles only after forces have been notified of a contingency operation, such as certain communications systems—are being procured and distributed globally in order to speed the deployment and integration of land power overseas. This program will see the first designated APS sets receive CFC enablers as early as 1st quarter, FY 2018.

Implementing Base Realignment and Closure/Restationing Forces

Base Realignment and Closure (BRAC) 2005 provided an unprecedented opportunity that improved Army training, deployment, and supply capabilities. The primary goal of BRAC 2005 was to transform the Army so it could properly support Combatant Commanders conducting two simultaneous conflicts and meet American security commitments around the world. BRAC 2005 was fully synchronized with other Army stationing initiatives, including global defense posture realignment, Grow the Army, and the Army modular forces. In addition, BRAC 2005 is currently saving the Army more than \$1 billion of net recurring savings per year. It did so by closing low military value, single purpose installations, and leased facilities that were either no longer relevant or less effective in supporting a joint and expeditionary Army. In partnership with other Services, the Army used BRAC 2005 to transform Reserve Component infrastructure to create more operational opportunities for joint training and deployment. This transformation created efficiencies in core Army business processes.

The Army fully supports the OSD's most recent request for an additional BRAC round in 2019. As the Army's end strength declines alongside available funding, millions of dollars will be wasted maintaining buildings at underutilized installations. The Army must immediately address excess infrastructure



SOLDIERS POSITION MKII BRIDGE ERECTION BOATS AGAINST THREE IMPROVED RIBBON BRIDGE BAY SECTIONS. (U.S. ARMY RESERVE PHOTO BY SGT. 1ST CLASS CLINTON WOOD)

and reduce costs at its installations. The Army has taken action within current authorities to reduce our inventory of underutilized facilities, but installation-level footprint reduction efforts will have a limited impact on the overall excess capacity in the Army. The Army estimates those reductions will result in \$150 million cost avoidance after units consolidate into the best facilities on the installation and facility disposals are completed over the next 5 to 8 years. Without an additional BRAC round, the Army will still be required to spend substantial amounts of scarce resources to maintain underutilized facilities.

On January 25, 2013, the Secretary of Defense directed a European Infrastructure Consolidation (EIC) analysis with a focus on reducing long-term expenses through footprint consolidation and eliminating excess capacity, while ensuring that the infrastructure properly supports our operational requirements and strategic commitments. The Army, other Services, and four Joint Working Groups, identified and analyzed opportunities for consolidation of functions, including common support functions, such as logistics, training, medical, and

Command, Control, Communications, Computers, and Information Technology.

On November 13, 2014, the Secretary of Defense approved 26 EIC actions. The OSD assigned 20 to the Army for implementation, along with 13 “Quick Win” EIC actions that the Secretary of Defense approved and announced in May 2014. The Army received approximately \$177 million across FY 2016 and FY 2017 from OSD for EIC implementation. In 2017 the Army spent approximately \$40 million to implement EIC actions. The Army completed one additional EIC action in FY 2017, bringing the total completed to 15 of 33 actions. Collectively, the 33 EIC actions require one-time costs across FY 2016-21 of \$326 million and will yield \$153 million in annual savings beginning in FY 2021. The EIC effort produces beneficial outcomes for the Army and the Joint Force. The net effect is to reduce costs significantly; eliminate excess infrastructure; and validate the remaining European infrastructure without degrading strategic or operational capabilities.

BUSINESS TRANSFORMATION INITIATIVES

Throughout FY 2017, the Army significantly improved the effectiveness of its business governance, while accelerating its business transformation. Army

business transformation efforts continue to focus on linking business processes to defined strategies based on complete understanding and analysis of

requirements and cost drivers. Following direction from the Army Business Strategy (ABS), we continue to improve the business processes and information technology that drives the Institutional Army. The Army's multi-faceted approach to business transformation enabled the Institutional Army to provide trained and ready forces in a smarter, faster, and cost-effective manner. Army business transformation seeks to:

- Enable strategic outcome based and cost-informed enterprise governance.
- Improve the efficiency and effectiveness of business operations.
- Provide better alignment between business operations and operational forces.
- Improve business process alignment between the Army and DoD.
- Achieve audit-readiness.

The Army developed and published its innovation strategy to create the culture, structures and systems that will unleash the creativity of the entire force and enable the Army to obtain capabilities ahead of competitors and adversaries; address the use of disruptive, asymmetric tools that decrease the value of United States conventional weapons; and streamline processes and systems within the institutional Army. The strategy will serve as an embedding mechanism to advance a culture of innovation and entrepreneurship across the enterprise. To implement this strategy, the Army established the Army Ideas for Innovation program. The program is designed to promote the sharing, elevation and adjudication of innovative ideas to improve the Army and its operations.

Continuous Process Improvement (CPI) leadership continues efforts to streamline and improve Army processes, infrastructure and organization. In FY 2017 the Army completed over 1,300 projects with over \$1.75 billion in estimated financial benefits-conferred (savings and cost avoidance). Since 2006 when the CPI effort was initiated by

the Secretary of the Army and Chief of Staff of the Army, the program has averaged annual savings of \$1 billion. In addition to the fiscal savings, CPI efforts have improved logistics throughput, program management, better buying practices, headquarters restructuring, and other functions to enhance the effectiveness and efficiency of Army operations. This capability introduces real efficiencies for our Soldiers, their Families, and our Civilians. The desired end state is an Army generating force that: (1) strives to eliminate all process activity that does not directly lead to enabling operational capability and adaptability, (2) possesses a multi-disciplinary capability and institutionalizes various levels of this capability in Army training and schools, (3) employs technology as applicable to streamline the Army generating processes, and (4) continues to improve the adaptability of generating processes through organizational redesign, innovation, and integration. The Army maintains its CPI strategy and approach to assure that the best methods and tools are applied to the complex challenges that face the Army.

In 2017, the Army continued Business Process Reengineering (BPR) "deep dives" to improve business processes and identify improvement opportunities. BPR is a logical methodology for accessing capability gaps and implementing innovative solutions to achieve dramatic improvements. These deep dives are designed to remove unnecessary duplication and complexity from selected business processes and their supporting information technology systems. Deep dives included: streamlining ammunition management and accountability, transportation management, prioritization of IT systems by Program Evaluation Group, Program Executive Office - Owned Assets to account for property using the Defense Property Accountability System and interface with the Army's Enterprise Resource Planning (ERP) systems for management and auditability, and determination for military pay disbursement for future ERP development. Outputs from these deep dives will streamline business processes and inform future requirements as part of the Business Capability Acquisition Cycle. Efforts currently underway

include: Cost of Training Readiness, Single Army Logistics Enterprise, Transition to Sustainment Governance Group, Aviation Logistics Platform for an auditable maintenance management and recordkeeping for both Army Doctrine and Federal Aviation Administration requirements, and Information Management Data Integrity Project that will form the foundational methodology the Army uses to create enterprise cost models.

To support these increased business process reengineering deep dives, the Office of Business Transformation and Army Materiel Command's Communications and Electronics Command's Software Engineering Center established the BPR Center of Excellence (CoE). The BPR CoE supports the Army by tackling challenging Enterprise-level problems and training a cadre of BPR professionals to support the optimization of end-to-end business processes across all domains.

The Army's portfolio management of Army business systems, its compliance orientation in support of DoD business system certification requirements, and its continued emphasis upon the ERP system federation continued in FY 2017. Based on the plan developed in 2015 to reduce the number of Defense Business Systems (DBS) in its portfolio by more than one-third, the Army retired over 120 legacy DBS. The Army also expanded oversight of business systems residing within the Warfighter and Enterprise Information Mission Areas. The Army continued implementation of the Army Business Strategy, along with continued progress in development and use of the Army business enterprise architecture, structured annual business portfolio reviews, and business system certification processes. The goals and objectives of the ABS focus business leaders on process improvement, performance assessment, training, education and IT portfolio management resulting in improved leadership and fact-based decision making. In conjunction with RAND, the Army executed a pilot to harness the power of data analytics. The project analyzed repair parts history for the M1 Abrams tank to provide insights leading

to decreased costs and increased maintenance throughput. The Army Business Strategy supports the improvement of data and information availability for decision making, data management, and business process performance to enable better alignment of resources with Army priorities.

The Army continued to evolve its four core ERP systems throughout FY 2017. This focus enabled the Army to reduce program risks associated with these complex ERPs and their associated business processes. The Army's Overarching Integrated Project Team completed its review of ERPs and provided recommendations on achieving long-term affordability and sustainment of current and future Defense Business Systems. The effort was focused on requirements definition, ERP sustainment, and return on investment including the reinvestment of efficiencies. The Under Secretary of the Army and Vice Chief of Staff of the Army approved multiple recommendations that support the Army implementation of the new DODI 5000.75, *Business Systems Requirements and Acquisition*.

The General Fund Enterprise Business System (GFEBs) is the Army's integrated financial management system for funds distribution, execution, and reporting, as well as real property management and maintenance. The GFEBs was implemented across the Army, i.e., the Active Army, ARNG and USAR, and, within the CONUS and with the deployed Army world-wide. Since the Army's full deployment in 2012, there have been 36,000 active end users in over 200 locations and 71 countries. The use of GFEBs enabled the Army to retire over 48 separate systems to date and has plans for an additional anticipated 64 systems by FY 2021.

While GFEBs involved implementing a new system, changes in business processes and the integration of data, it also improved standardization and common business processes across the Army. The GFEBs has achieved a total 97 percent compliance rate with the *Federal Financial Management Improvement Act of 1996* (FFMIA), Business Enterprise Architecture,

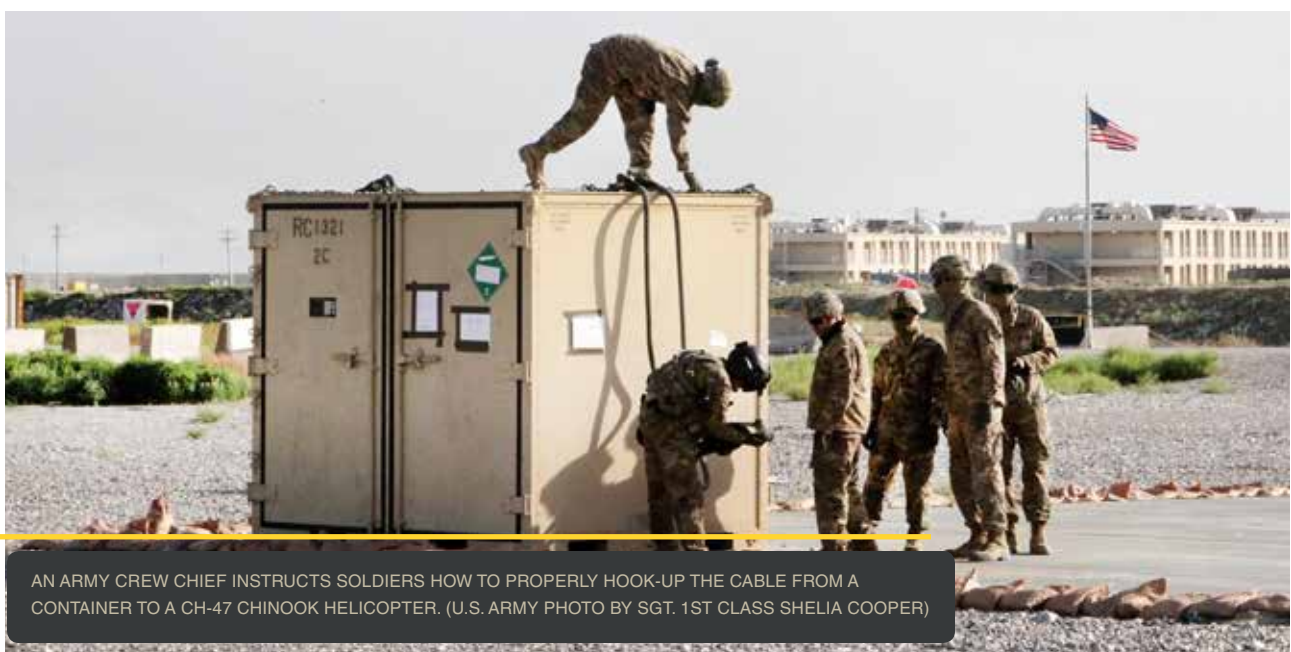
Standard Financial Information Structure, Federal Information System Controls Audit Manual, and other statutory and regulatory requirements, standards, attributes, and business rules. In FY 2017, the Army:

- Obligated \$164 billion in GFEBS – an increase of \$7 billion over FY 2016.
- Processed payroll of over 198,000 civilian employees bi-weekly.
- Processed over 94 million transactions.

Additionally, GFEBS operates collaboratively with the Global Combat Support System–Army (GCSS-Army), the Army’s logistics related financial ERP system. While these are two separate ERP systems, they are fully integrated with GCSS-Army utilizing a financial execution module from GFEBS. Both GCSS-Army and GFEBS provide improved readiness, accountability, and financial auditability by integrating key capabilities such as centralized funds distribution and retraction, consolidated status of funds and trial balance reporting, centralized reimbursable execution, and comprehensive managerial cost accounting and reporting.

The Army is continuing to build additional GFEBS capabilities by providing core ERP Central Component enhancements and Business Intelligence Architecture/Infrastructure upgrades. Also, GFEBS direct disbursing solution which the Department of Treasury continues to expand, supported a total of 84 percent of GFEBS-entitled CONUS invoices in August 2017. The disbursing solution enables the Army to maintain zero difference between GFEBS accounting and Fund Balance with Treasury, integrated payment offsets for unsettled debts, and accelerated vendor payments.

The Integrated Personnel and Pay System – Army (IPPS-A) will move the Army from an Industrial Age personnel system to a 21st century talent management system, that provides an audit capability for pay and benefits to ensure the best use of Army dollars to employ human capital, while providing continuous reconciliation with GFEBS. The Army will have complete visibility of the total force in one Human Resource System—over 1.1 million Soldiers from the Active and Reserve components within IPPS-A. The IPPS-A design standardized business processes to reduce the number of processes from over 157 to 34. IPPS-A



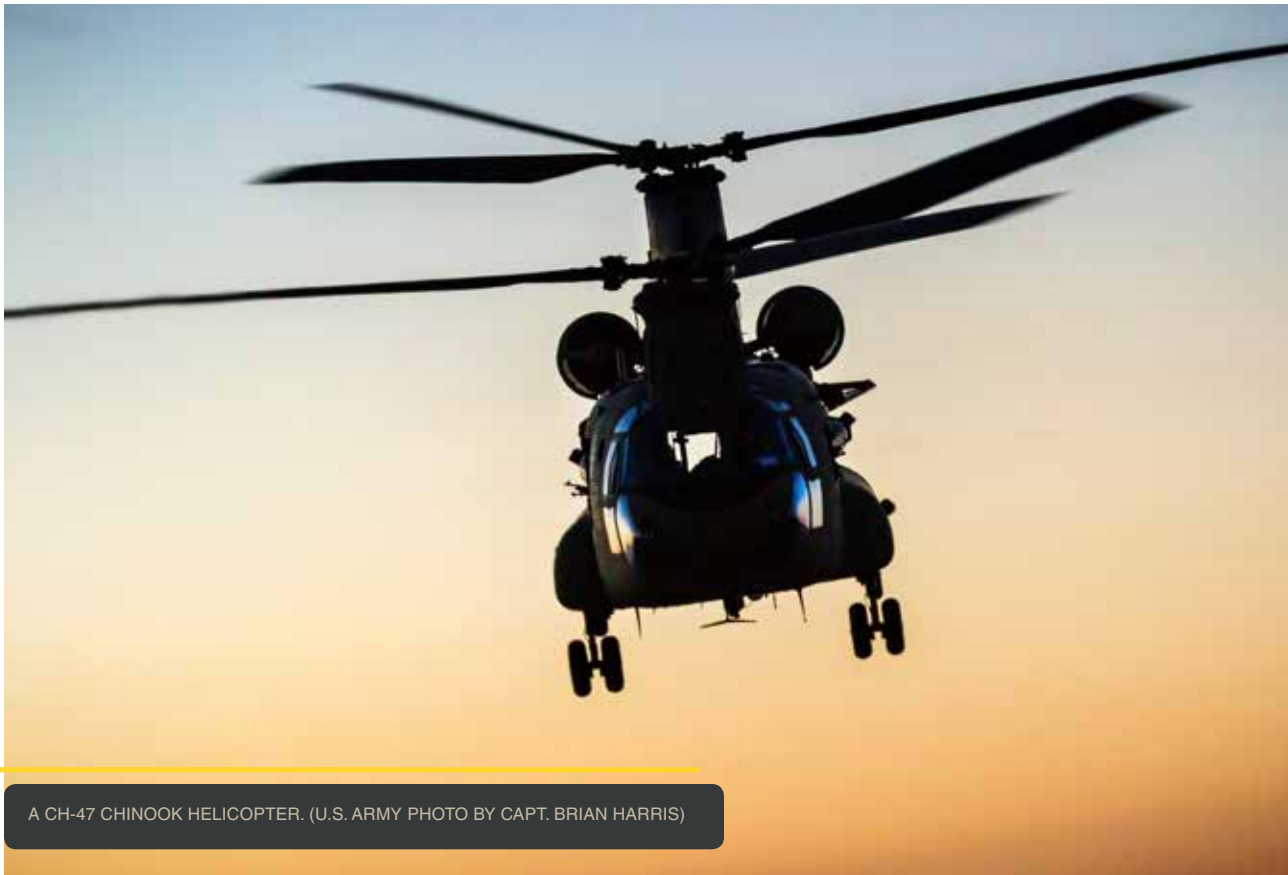
AN ARMY CREW CHIEF INSTRUCTS SOLDIERS HOW TO PROPERLY HOOK-UP THE CABLE FROM A CONTAINER TO A CH-47 CHINOOK HELICOPTER. (U.S. ARMY PHOTO BY SGT. 1ST CLASS SHELIA COOPER)

will eliminate over 30 legacy systems, and over 100 cross-system data exchanges that create errors, data inaccuracies, and inefficiencies.

The Army continues with targeted efforts to improve operations across the force, reduce financial waste, and lay the groundwork to transform into a high performing organization, capable of responding to emerging threats over the next 30 years. Full and continued funding of the Army's ERPs is essential to achieving and managing readiness through effective Financial, Human and Logistics resource management, auditability and accountability across the entire Department of the Army. Continued investment in the Army's business transformation efforts drives the Army to deliver readiness at best value and provide our Soldiers the support that they deserve.

CONCLUSION

Now is the time to substantially increase readiness, improve modernization, and increase capacity. Readiness remains unequivocally our number one priority—it underpins everything the Army does. We have an opportunity to fix readiness losses and prepare for the future. However, building a professional Army takes time. To build readiness, Soldiers require specialized and sufficient training; modern, properly maintained equipment; sufficient quantities of the proper munitions; and stability. These efforts ensure that our Soldiers are ready for the missions of today, as well as for the unforeseen conflicts of tomorrow.



A CH-47 CHINOOK HELICOPTER. (U.S. ARMY PHOTO BY CAPT. BRIAN HARRIS)

MANAGEMENT ASSURANCES

Commanders and managers throughout the Department of the Army annually ensure the integrity of their reporting systems, programs, and operations. This section focuses on the Army's system of internal controls to comply with such laws as the FFMA of 1996 and the *Federal Manager's Financial Integrity Act of 1982*. The requirements promote the production of reliable, timely, and accurate financial information through efficient and effective internal controls. By having effective internal controls, the Army is able to improve efficiency and operating effectiveness as well as enhance public confidence in Army stewardship of public resources.

Chief Financial Officer Compliance

The passage of the CFO Act of 1990 required major federal agencies to prepare audited financial statements for the first time. In 1994, the Government Management Reform Act (GMRA) extended the CFO Act to include agency-wide reports from all major executive branch agencies and their components. The *Government Performance and Results Act (GPRA) of 1993* required agencies to systematically report on plans and performance. The FFMA of 1996, along with the *Clinger-Cohen Act of 1996* (also known as the *Information Technology Management Reform Act*), required that agencies install integrated systems that comply with federal accounting standards and produce auditable financial statements in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. Additionally, agencies must follow generally accepted accounting principles formulated by the Federal Accounting Standards Advisory Board.

Internal Controls

The Army operates a robust Manager's Internal Control Program in compliance with OMB Circular A-123 to employ a comprehensive system of continuous evaluation of internal controls. The Army's program is fully integrated with functional program control assessments. In strict adherence to the Office of the Under Secretary of Defense (Comptroller) guidance, the Army reports a level of assurance over its internal controls in three distinct areas: Internal Controls over Non-Financial Operations (ICONO), Internal Controls over Financial Reporting (ICOFR), and Internal Controls over Financial Systems (ICOFS).

ICOFR and ICOFS

As stated in the Army's Annual Statement of Assurance dated September 21, 2017, the Army also conducted its assessment of the effectiveness of ICOFR reporting in accordance with OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*. Based on the results of this assessment, the Army is able to provide a modified statement of assurance that the internal controls over financial reporting were operating effectively, with the exception of 29 material weaknesses. In order to address the findings associated with the weaknesses, the Army has implemented the necessary corrective actions across the organization. The Army continues to show progress in strengthening the internal control environment through leadership involvement and audit readiness training efforts.

In addition to the 29 ICOFR material weaknesses, there are two ICOFS material weaknesses for a total of 31 material weaknesses.



ANALYSIS OF FINANCIAL STATEMENTS

As discussed in the accompanying independent auditor's reports, long-standing financial management challenges prevent the Army from producing auditable financial statements for the Army General Fund and the Army Working Capital Fund. The Army, however, continues to work with the DoD to develop sustainable business practices and enhanced internal controls to improve financial management processes and produce quality financial management information. These processes must be supported by compliant business systems and an effective set of management controls.

ARMY GENERAL FUND FINANCIAL RESULTS AND BALANCE SHEET

The Army General Fund Balance Sheet includes total assets of \$291.7 billion. Two asset categories, Fund Balance with Treasury and General Property, Plant and Equipment (PP&E), comprise 89 percent of total assets, with values of \$108.1 billion and \$151.3 billion, respectively.

Liabilities primarily consist of \$29.4 billion in Environmental Liabilities, \$9.7 billion in Other Liabilities and \$3.3 billion in Accounts Payable.

FIGURE 3. COMPOSITION OF ARMY GENERAL FUND FY 2017 ASSETS AND LIABILITIES

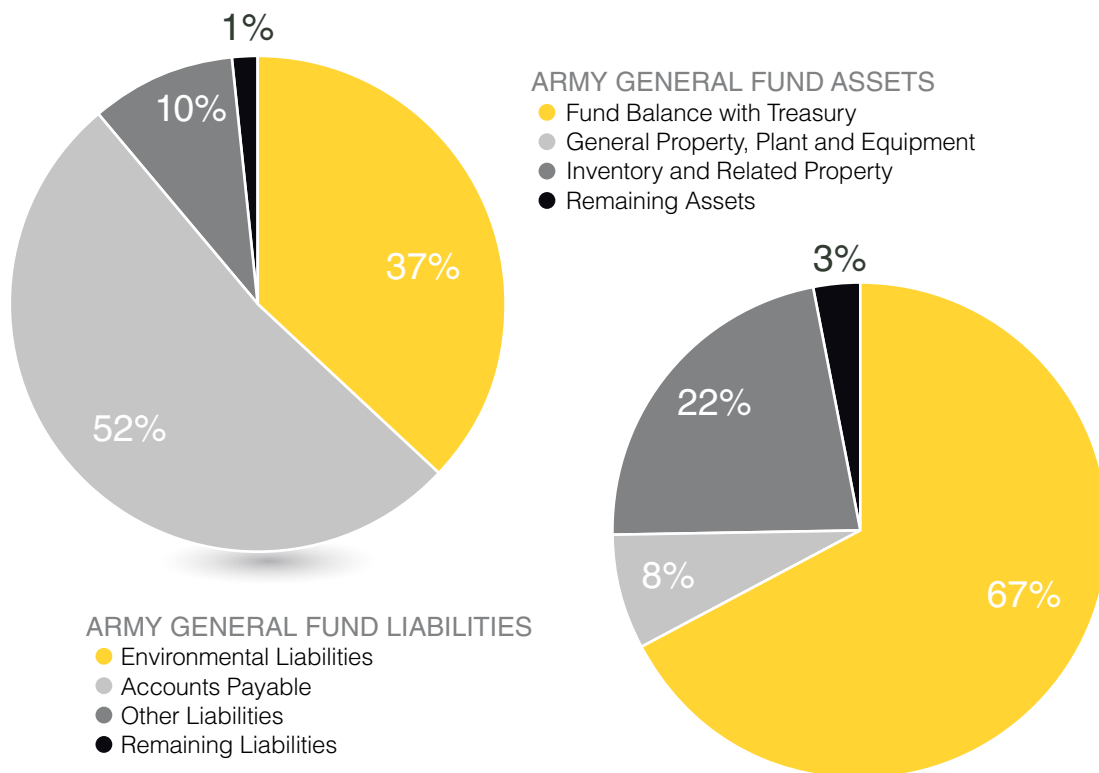


TABLE 11. SELECT ARMY GENERAL FUND ASSETS AND LIABILITIES*(Amounts in billions)*

Asset Type	FY 2016	FY 2017	Change	Percentage of FY 2017 Assets
Fund Balance with Treasury	\$106.1	\$108.1	\$2.0	37.1%
General Property, Plant and Equipment	150.2	151.3	1.1	51.9%
Inventory and Related Property	29.7	28.1	(1.6)	9.6%
Remaining Assets	4.9	4.2	(0.7)	1.4%
Total Assets	\$290.9	\$291.7	\$0.8	100%
Liability Type	FY 2016	FY 2017	Change	Percentage of FY 2017 Liabilities
Environmental Liabilities	\$26.2	\$29.4	\$3.2	67.3%
Accounts Payable	2.9	3.3	0.4	7.5%
Other Liabilities	10.5	9.7	(0.8)	22.2%
Remaining Liabilities	1.2	1.3	0.1	3.0%
Total Liabilities	\$40.8	\$43.7	\$2.9	100%

ARMY WORKING CAPITAL FUND FINANCIAL RESULTS

The Army Working Capital Fund activities maintain the Army's combat readiness by providing supplies, equipment, and ordnance to prepare, sustain, and reset our forces in the most efficient and cost-effective manner possible. In performing this mission, Working Capital Fund activities are obligated to control and minimize costs. Financial performance is measured through cash management, net operating results (NOR), and accumulated operating results (AOR). Operational performance is measured by carryover, stock availability, and production.

CASH MANAGEMENT

The current balance of funds with the U.S. Treasury equals the beginning of the fiscal year amount plus the cumulative fiscal-year-to-date amounts of collections, appropriations and transfers-in, minus the cumulative fiscal year-to-date amounts of disbursements, withdrawals and transfers-out. The Army Working Capital Fund is required to maintain a positive cash balance to prevent an Anti-deficiency Act (ADA) violation under 31 U.S.C. 1517(a), Prohibited Obligations and Expenditures. Unlike appropriated funds, the Army Working Capital Fund cash balance is not equal to outstanding obligations; however, the cash-on-hand at Treasury must be sufficient to pay bills when due.

Sufficient cash levels should be maintained to support operational disbursements, plus adequate cash to meet six months of capital investment program disbursements, plus the amount of any positive accumulated operating results that is to be returned to customers. In concert with a newly developed process, the cash requirement is developed based on four primary elements: (1) the rate of disbursements, (2) the range of operations, (3) risk mitigation, and (4) cash reserves.

The cash balance is primarily affected by cash generated from operations; however, the balance is also affected by appropriations, transfers, and withdrawals. Maintaining a proper cash balance depends on setting rates to recover full costs—including prior year losses—accurately projecting workload and meeting established operational goals. The Army Working Capital Fund ended FY 2017 with a cash balance of \$1,520.9 million within the upper and lower operating range for the year.

Table 12 shows an overall growth in cash primarily from operations and direct appropriations offset by transfers out. The Army Working Capital Fund received direct appropriations for war reserve materiel and arsenals initiative.

TABLE 12. ARMY WORKING CAPITAL FUND CASH

<i>(Amounts in millions)</i>	FY 2015	FY 2016	FY 2017
Beginning Cash	\$1,835.2	\$1,810.4	\$1,321.2
Collections	8,132.0	13,417.8	10,372.6
Disbursements	7,840.9	13,214.4	10,081.9
Net Disbursements and Collections	291.1	203.4	290.7
Appropriations Received	238.7	195.4	245.0
Transfers In	-	-	-
Transfers Out	554.6	888.0	336.0
Net Cash Transactions	(24.8)	(489.2)	199.7
Ending Cash Balance	\$1,810.4	\$1,321.2	\$1,520.9

NET OPERATING RESULTS AND ACCUMULATED OPERATING RESULTS

The NOR represents the difference between revenues and costs within a fiscal year. The AOR represents the aggregate of all recoverable and non-recoverable net earnings, including prior-year adjustments, since inception of the Army Working Capital Fund. The goal of the Army Working Capital Fund is to establish rates that will bring the AOR to zero in the budget year. An activity group's financial performance is measured by comparing actual results to the budget's NOR and AOR.

TABLE 13. NET AND ACCUMULATED OPERATING RESULTS BY ACTIVITY GROUP

<i>(Amounts in millions)</i>	FY 2015	FY 2016	FY 2017
Industrial Operations NOR*	(\$47.5)	\$14.4	(\$73.0)
Industrial Operations AOR	384.8	399.2	326.2
Supply Management NOR*	(12.9)	(403.2)	(192.3)
Non-Recoverable AOR	-	-	-
Supply Management AOR*	144.9	(258.3)	(450.6)

*Includes prior-period AOR and NOR adjustments.

CARRYOVER

Carryover is the dollar amount of orders accepted from customers that have not been completed by fiscal year-end. It is a normal part of doing business. These orders enable the industrial workforce to maintain continuity in production operations. The Army expects the carryover for FY 2017 to be less than the maximum allowable amount. The figures shown in Table 14 for FY 2017 are estimates.

TABLE 14. ARMY WORKING CAPITAL FUND CARRYOVER

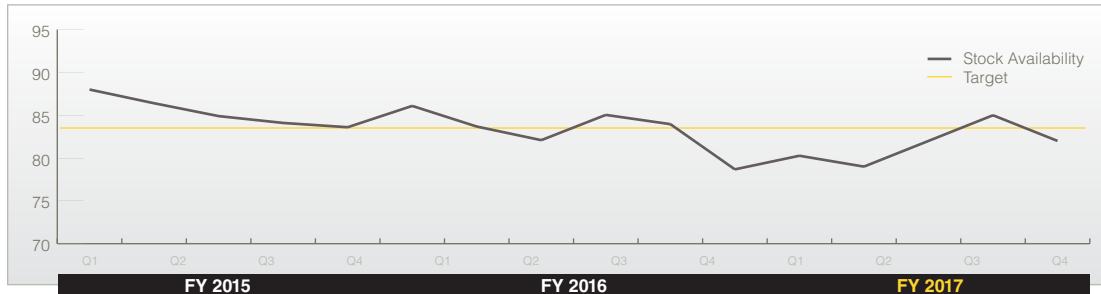
<i>(Amounts in millions)</i>	FY 2015	FY 2016	FY 2017
New Orders*	\$4,473.8	\$4,089.7	\$4,006.7
Allowable Carryover	3,084.3	2,455.7	2,437.2**
Calculated Carryover	4,022.7	3,478.8	2,992.5**

*Includes prior year adjustments **Preliminary

STOCK AVAILABILITY

Stock availability measures the percentage of requisitions filled within established timeframes. The DoD and Army have set a target average 85 percent first pass stock availability. For FY 2017, the average stock availability was below the 85 percent target at 82 percent.

FIGURE 4. STOCK AVAILABILITY (PERCENTAGE)



PRODUCTION

Although the Industrial Operations Activity Group is comprised of 13 Government Owned Government Operated activities, the preponderance of workload is performed at the five hard-iron maintenance depots. As a result of the higher operating tempo, rough desert environments, and limited depot maintenance available in theater, operational fleets age at a far greater pace than expected. To counter this, the Army established a reset program designed to reverse the effects of combat stress on equipment and to prepare equipment for future missions.

The Army's depots and their efforts to partner with industry are critical to the entire reset effort. These repair programs must continue through the end of the current conflict and for at least three additional years to reconstitute equipment completely. Due to Sequestration, which caused a reduction in personnel and funding, the Industrial Operations Activity Group depot production was negatively impacted, as illustrated in Table 15.

The decrease in High Mobility Multipurpose Wheeled Vehicle (HMMWV), Bradleys and Helicopter Engines shown in the FY 2017 column of Table 15 is due to a decrease in requirements for the respective programs. The increase in Track Shoes from FY 2015 forward is due to an increase in usage and subsequent repair requirements.

TABLE 15. ANNUAL PRODUCTION THROUGHPUT¹

	Pre-War	FY 2015	FY 2016	FY 2017
Aircraft	4	69	43	41
Helicopter Engines	<200	534	329	326
Bradleys	144	102	40	25
HMMWVs	<100	1,108	2,650	1,331
Firefinder Radars	<1	18	4	4
Track Shoes	120,000	40,524	86,600	63,449

Note 1: Throughput is the number of weapon systems completed for any given year.

Army Working Capital Fund Balance Sheet

The Army Working Capital Fund Balance Sheet shows assets of \$21.6 billion, primarily in Inventory, PP&E and Fund Balance with Treasury. Liabilities consist of Accounts Payable and Other Liabilities, which include payroll, benefits, accrued annual leave, and workers' compensation.

FIGURE 5. ARMY WORKING CAPITAL FUND FY 2017 ASSETS AND LIABILITIES

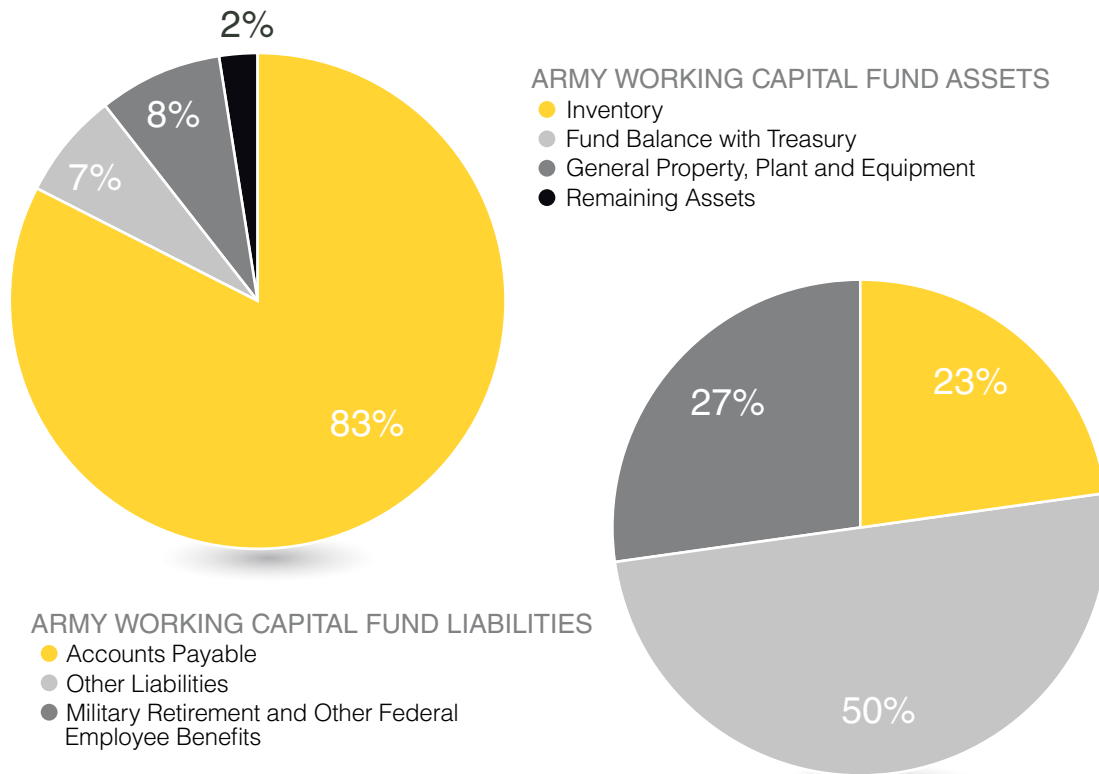


TABLE 16. ARMY WORKING CAPITAL FUND ASSETS AND LIABILITIES

(Amounts in millions)

Asset Type	FY 2016	FY 2017	Change	Percentage of FY 2017 Assets
Inventory	\$17,948.4	\$17,850.7	(\$97.7)	82.5%
Fund Balance with Treasury	1,321.2	1,520.9	199.7	7.0%
General Property, Plant and Equipment	1,715.1	1,766.8	51.7	8.2%
Remaining Assets	436.1	491.0	54.9	2.3%
Total Assets	\$21,420.8	\$21,629.4	\$208.6	100%
Liability Type	FY 2016	FY 2017	Change	Percentage of FY 2017 Liabilities
Accounts Payable	\$219.2	\$209.6	(\$9.6)	22.9%
Other Liabilities	435.0	456.3	21.3	50.0%
Military Retirement and Other Federal Employee Benefits	256.7	247.6	(9.1)	27.1%
Total Liabilities	\$910.9	\$913.5	\$2.6	100%

Amounts may not sum due to rounding.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND REQUIRED SUPPLEMENTARY INFORMATION

Stewardship information relates to expenditures involving a substantial investment by the Army for the benefit of the nation. When made, these expenditures are treated as expenses in the financial statements. Since these expenses are intended to provide long-term benefits to the public, they are reported as supplemental information in the financial statements.¹ There are four reported areas for stewardship information: (1) nonfederal physical property; (2) investments in research and development (R&D); (3) deferred maintenance; and (4) heritage assets and stewardship land.

Investment in nonfederal physical property is an expense incurred by the Army for the purchase, construction, or major renovation of physical property owned by state and local governments. An example of this type of investment is funding provided to the ARNG for assistance in the construction of an ARNG facility on state land. Since the facility is constructed on state land, it is the property of the state; therefore, the Army cannot report it as an asset. However, since the funds were used to acquire a mission-related state facility, the outlay is tracked as an investment in nonfederal physical property.

Investments in R&D are based on R&D outlays (expenditures). Outlays are used because current Army accounting systems are unable to capture and summarize costs in accordance with federal accounting standards. The R&D programs are classified as basic research, applied research, and development.

Stewardship information is also comprised of real property and military equipment deferred

maintenance. Real property deferred maintenance relates to maintenance needed on Army facilities that has not been funded. At the end of FY 2017, the Army reported approximately \$57.4 billion in deferred real property maintenance on facilities with a replacement value of approximately \$363.7 billion. Real property deferred maintenance totals approximately 16 percent of estimated replacement value of the facilities requiring maintenance. The 10 major categories of military equipment deferred maintenance totaled approximately \$859.2 million at the end of FY 2017. Automotive Equipment represented the largest identifiable category of deferred equipment maintenance at approximately \$325.6 million.

Heritage assets are comprised of PP&E of historical, natural, cultural, educational, or artistic significance. Stewardship land is land other than that acquired for, or in connection with, general PP&E. The Army's heritage assets are comprised of buildings and structures, archeological sites, museums, and museum collection items.

Detailed information concerning most stewardship information may be found in the Required Supplementary Stewardship Information (RSSI) and the Required Supplementary Information (RSI) sections of this report. Heritage assets and stewardship land are no longer reported in the RSI; they are now required to be reported in a note to the statements.² Additional information on heritage assets and stewardship land may be found in Note 10 of the Army General Fund statements.

¹ Federal Accounting Standards Advisory Board. Statement of Federal Financial Accounting Concepts and Standards (June 30, 2010). Statement of Federal Financial Accounting Standards 8: Supplementary Stewardship Reporting, page 762. See http://www.fasab.gov/pdffiles/codification_report2010.pdf

² *ibid.* Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land, pages 9 and 13 and Technical Release 9: Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land, page 4. SFFAS 29 found at http://www.fasab.gov/pdffiles/sffas_29.pdf on October 23, 2011. Technical Release 9 can be found at http://www.fasab.gov/pdffiles/handbook_tr_9.pdf



LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

Department of Defense
DEPARTMENT OF THE ARMY

CONSOLIDATED BALANCE SHEET

As of September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Consolidated	2016 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 108,094,630	\$ 106,100,483
Investments (Note 4)	2,178	2,257
Accounts Receivable (Note 5)	393,580	497,337
Other Assets (Note 6)	354,050	391,690
Total Intragovernmental Assets	<u>\$ 108,844,438</u>	<u>\$ 106,991,767</u>
Cash and Other Monetary Assets (Note 7)	793,772	908,582
Accounts Receivable, Net (Note 5)	655,958	484,464
Inventory and Related Property, Net (Note 9)	28,091,819	29,711,383
General Property, Plant and Equipment, Net (Note 10)	151,335,665	150,240,322
Other Assets (Note 6)	1,995,125	2,611,907
TOTAL ASSETS	<u>\$ 291,716,777</u>	<u>\$ 290,948,425</u>
STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,239,722	\$ 1,619,144
Other Liabilities (Note 15 and Note 16)	1,514,953	2,202,341
Total Intragovernmental Liabilities	<u>\$ 3,754,675</u>	<u>\$ 3,821,485</u>
Accounts Payable (Note 12)	1,020,078	1,309,432
Military Retirement and Other Federal Employment Benefits (Note 17)	1,286,118	1,238,941
Environmental and Disposal Liabilities (Note 14)	29,446,158	26,224,781
Other Liabilities (Note 15 and Note 16)	8,195,353	8,160,871
TOTAL LIABILITIES	<u>\$ 43,702,382</u>	<u>\$ 40,755,510</u>
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	\$ 100,009,015	\$ 99,761,180
Cumulative Results of Operations - Dedicated Collections	68,351	67,093
Cumulative Results of Operations - Other Funds	147,937,029	150,364,642
TOTAL NET POSITION	<u>\$ 248,014,395</u>	<u>\$ 250,192,915</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 291,716,777</u>	<u>\$ 290,948,425</u>

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

Department of Defense
DEPARTMENT OF THE ARMY

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Consolidated	2016 Consolidated
Program Costs		
Gross Costs	\$ 142,417,820	\$ 157,066,507
Military Personnel	57,472,249	57,556,338
Operations, Readiness & Support	62,985,890	62,310,466
Procurement	758,385	17,474,069
Research, Development, Test & Evaluation	12,927,827	11,442,581
Family Housing & Military Construction	8,273,469	8,283,053
(Less: Earned Revenue)	\$ (6,589,506)	\$ (7,828,542)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 135,828,314	\$ 149,237,965
Net Program Costs Including Assumption Changes	\$ 135,828,314	\$ 149,237,965
Net Cost of Operations	<u>\$ 135,828,314</u>	<u>\$ 149,237,965</u>

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

Department of Defense
DEPARTMENT OF THE ARMY

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Dedicated Collections	2017 All Other Funds	2017 Consolidated
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 67,094	\$ 150,364,642	\$ 150,431,736
Budgetary Financing Sources:			
Other adjustments (rescissions)	-	329,846	329,846
Appropriations used	-	148,753,436	148,753,436
Nonexchange revenue	2,063	(3,620)	(1,557)
Donations and forfeitures of cash and cash equivalents	13,180	118,173	131,353
Transfers-in/out without reimbursement	-	336,000	336,000
Other budgetary financing sources	-	(3,927,492)	(3,927,492)
Other Financing Sources:			
Donations and forfeitures of property	-	1,310	1,310
Transfers-in/out without reimbursement (+/-)	-	2,233,107	2,233,107
Imputed financing from costs absorbed by others	-	726,481	726,481
Other (+/-)	(420)	(15,180,106)	(15,180,526)
Total Financing Sources	<u>\$ 14,823</u>	<u>\$ 133,387,135</u>	<u>\$ 133,401,958</u>
Net Cost of Operations (+/-)	<u>13,566</u>	<u>135,814,748</u>	<u>135,828,314</u>
Net Change	<u>\$ 1,257</u>	<u>\$ (2,427,613)</u>	<u>\$ (2,426,356)</u>
Cumulative Results of Operations	<u>\$ 68,351</u>	<u>\$ 147,937,029</u>	<u>\$ 148,005,380</u>
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ -	\$ 99,761,179	\$ 99,761,179
Budgetary Financing Sources:			
Appropriations received	-	157,158,291	157,158,291
Appropriations transferred-in/out	-	175,302	175,302
Other adjustments (rescissions, etc)	-	(8,332,321)	(8,332,321)
Appropriations used	-	(148,753,436)	(148,753,436)
Total Budgetary Financing Sources	<u>\$ -</u>	<u>\$ 247,836</u>	<u>\$ 247,836</u>
Unexpended Appropriations	<u>-</u>	<u>100,009,015</u>	<u>100,009,015</u>
Net Position	<u>\$ 68,351</u>	<u>\$ 247,946,044</u>	<u>\$ 248,014,395</u>

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

Department of Defense
DEPARTMENT OF THE ARMY

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2016 Dedicated Collections	2016 All Other Funds	2016 Consolidated
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 55,779	\$ 133,956,300	\$ 134,012,079
Budgetary Financing Sources:			
Other adjustments (rescissions)			
Appropriations used	-	146,471,967	146,471,967
Nonexchange revenue	2,782	(754)	2,028
Donations and forfeitures of cash and cash equivalents	28,721	165,172	193,893
Transfers-in/out without reimbursement	-	2,255,435	2,255,435
Other budgetary financing sources	-	(5,670,751)	(5,670,751)
Other Financing Sources:			
Donations and forfeitures of property	-		
Transfers-in/out without reimbursement (+/-)	-	2,138,368	2,138,368
Imputed financing from costs absorbed by others	-	940,948	940,948
Other (+/-)	(10,023)	19,335,755	19,325,732
Total Financing Sources	\$ 21,480	\$ 165,636,140	\$ 165,657,620
Net Cost of Operations (+/-)	10,166	149,227,799	149,237,965
Net Change	\$ 11,314	\$ 16,408,341	\$ 16,419,655
Cumulative Results of Operations	\$ 67,093	\$ 150,364,642	\$ 150,431,735
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ -	\$ 105,905,462	\$ 105,905,462
Budgetary Financing Sources:			
Appropriations received	-	147,860,194	147,860,194
Appropriations transferred-in/out	-	1,170,696	1,170,696
Other adjustments (rescissions, etc)	-	(8,703,205)	(8,703,205)
Appropriations used	-	(146,471,967)	(146,471,967)
Total Budgetary Financing Sources	\$ -	\$ 6,144,282	\$ 6,144,282
Unexpended Appropriations	-	99,761,180	99,761,180
Net Position	\$ 67,093	\$ 250,125,822	\$ 250,192,915

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

Department of Defense
DEPARTMENT OF THE ARMY

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Combined	2016 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	\$ 33,724,152	\$ 35,230,814
Recoveries of prior year unpaid obligations	14,948,118	19,531,882
Other changes in unobligated balance (+ or -)	<u>(7,782,779)</u>	<u>(4,822,374)</u>
Unobligated balance from prior year budget authority, net	\$ 40,889,491	\$ 49,940,322
Appropriations (discretionary and mandatory)	157,498,907	147,453,294
Spending Authority from offsetting collections (discretionary and mandatory)	<u>20,252,333</u>	<u>21,342,475</u>
Total Budgetary Resources	\$ <u>218,640,731</u>	\$ <u>218,736,091</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 185,752,871	\$ 185,011,939
Unobligated balance, end of year		
Apportioned, unexpired accounts	18,466,001	16,279,348
Exempt from apportionment, unexpired accounts	31,344	33,498
Unapportion, unexpired accounts	125,242	159,103
Unexpired unobligated balance, end of year	18,622,587	16,471,949
Expired unobligated balance, end of year	<u>14,265,273</u>	<u>17,252,203</u>
Total unobligated balance, end of year	\$ <u>32,887,860</u>	\$ <u>33,724,152</u>
Total Budgetary Resources	\$ <u>218,640,731</u>	\$ <u>218,736,091</u>
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	\$ 95,584,718	\$ 99,818,300
Obligations incurred	185,752,871	185,011,939
Outlays (gross) (-)	(167,616,299)	(169,713,639)
Recoveries of prior year unpaid obligations (-)	<u>(14,948,118)</u>	<u>(19,531,882)</u>
Unpaid obligations, end of year	98,773,172	95,584,718
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(24,361,661)	(22,926,443)
Change in uncollected pymts, Fed sources (+ or -)	(323,328)	(1,435,218)
Uncollected pymts, Fed sources, end of year (-)	<u>(24,684,989)</u>	<u>(24,361,661)</u>
Obligated balance, start of year (+ or -)	\$ <u>71,223,057</u>	\$ <u>76,891,857</u>
Obligated balance, end of year (+ or -)	\$ <u>74,088,183</u>	\$ <u>71,223,057</u>
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	\$ 177,751,240	\$ 168,795,769
Actual offsetting collections (discretionary and mandatory) (-)	(19,962,567)	(19,933,236)
Change in uncollected customer payments from Federal		
Sources (discretionary and mandatory) (+ or -)	(323,328)	(1,435,218)
Recoveries of prior year paid obligations (discretionary and mandatory)	<u>33,561</u>	<u>24,420</u>
Budget Authority, net (discretionary and mandatory)	\$ <u>157,498,906</u>	\$ <u>147,451,735</u>
Outlays, gross (discretionary and mandatory)	167,616,299	169,713,639
Actual offsetting collections (discretionary and mandatory) (-)	(19,962,567)	(19,933,236)
Outlays, net (discretionary and mandatory)	147,653,732	149,780,403
Distributed offsetting receipts (-)	<u>142,653</u>	<u>(362,062)</u>
Agency Outlays, net (discretionary and mandatory)	\$ <u>147,796,385</u>	\$ <u>149,418,341</u>

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the United States (U.S.) Department of the Army (Army) General Fund, as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other appropriate legislation. The financial statements have been prepared from the books and records of the Army General Fund in accordance with, and to the extent possible, U.S. generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*; and the Department of Defense (DoD) *Financial Management Regulation*. The accompanying financial statements account for all resources for which the Army General Fund is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The Army General Fund is unable to fully implement all elements of U.S. GAAP and the OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The Army General Fund derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with U.S. GAAP.

The Army General Fund has implemented process and system improvements addressing these limitations within its Enterprise Resource Planning (ERP) systems, which are improving financial performance, standardizing business processes, ensuring that capability exists to meet future financial management needs, and providing management with relevant, reliable, and timely financial information. The ERP systems allow the sharing of standardized and real-time financial, cost, and accounting data across the Army. The primary ERP systems, General Fund Enterprise Business System (GFEBS) and Global Combat Support System (GCSS) - Army, contain the following six major business process areas: funds management; financials; cost management; reimbursement management; spending chain; and property, plant, and equipment (PP&E).

The Army General Fund currently has 20 auditor-identified financial statement material weaknesses: (1) General Information Technology (IT) Systems Control; (2) Completeness; (3) Evidential Matter – Supporting Documentation; (4) Service Provider Oversight; (5) Accrual Estimation Methodology; (6) Financial Management Improvements; (7) Fund Balance with Treasury; (8) Inventory (Operating Materiel and Supplies); (9) General Property, Plant and Equipment; (10) Environmental Liabilities; (11) Intragovernmental Eliminations; (12) Manual General Ledger Adjustments / Accounting Adjustments; (13) Statement of Net Cost; (14) Financial Reporting / Abnormal Account Balances; (15) Accounts Receivable; (16) Accounts Payable; (17) Statement of Budgetary Resources; (18) Reconciliation of Net Cost of Operations to Budget; (19) Contingency Payment Audit Trails; and (20) Beginning Balances.

1.B. Mission of the Reporting Entity

The Army mission is to support the national security and defense strategies by providing well-trained, well-led, and well-equipped forces to the Combatant Commanders. This mission encompasses the intent of the Congress, as defined in *Title 10* and *Title 32* of the U.S.C., to preserve the peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 242-year life of the Army, but the environment and nature of conflict have undergone many changes over that time, especially with overseas contingency operations. These contingency operations have required that the Army simultaneously transform the way that it fights, trains, and equips its soldiers. This

transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the Nation's domestic and international security obligations today and into the future.

1.C. Appropriations and Funds

The Army General Fund receives appropriations and funds as general, trust, and special funds. The Army General Fund uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as funds from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues; required by statute to be used for designated activities, benefits or purposes; and remain available over time. The Army General Fund is required to account separately for and report on the receipt, use, and retention of revenues and other financing sources for funds from dedicated collections.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not funds of the Army General Fund and, as such, are not available for the Army General Fund's operations. The Army General Fund is acting as an agent or a custodian for funds awaiting distribution.

The Army General Fund is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Army General Fund receives allocation transfers from the Federal Highway Administration and the U.S. Forest Service. The Army General Fund receives allocation transfers for the Security Assistance programs that meet the OMB exception for EOP funds. The activities for these programs are reported separately from the DoD financial statements based on an agreement with OMB.

As a parent, the Army General Fund reports in these financial statements funds allocated to the Department of Agriculture and the Department of Transportation for the active Army and Army National Guard.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 43: *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Department has elected to display a combined presentation of the nonexchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections with all other funds. See Note 19 for additional discussion regarding dedicated collections.

1.D. Basis of Accounting

The Army General Fund financial management systems are unable to meet all full accrual accounting requirements. This is primarily because many of the Army General Fund's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with U.S. GAAP. The legacy systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The Army General Fund financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army General Fund sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Army General Fund level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. The Army has implemented ERP systems, which contain a chart of accounts based on the United States Standard General Ledger (USSGL). The Army has also created additional subsidiary accounts within the ERP systems to track its General Fund financial activities at a detailed level. However, until all of the Army General Fund's financial and nonfinancial feeder systems and processes are able to collect and report financial information as required by U.S. GAAP, there will be instances when the Army General Fund's financial data will be derived from budgetary transactions or data from nonfinancial feeder systems.

1.E. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

1.F. Entity and Nonentity Assets

Entity assets are assets the Army has the authority to use in its operations. The authority to use funds in an entity's operations indicates either that Army management has the authority to decide how funds are used or that management is legally obligated to use funds to meet entity obligations (e.g., salaries and benefits).

Nonentity assets are assets held by the Army but not available for use. An example of a nonentity asset is the portion of Fund Balance with Treasury that consists of special and deposit funds, permanent appropriations, and miscellaneous receipts. Nonentity assets are offset by corresponding liabilities.

1.G. Revenues and Other Financing Sources

The Army General Fund receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for the Army Working Capital Fund (WCF). These funds either expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Army General Fund recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and to the public. Full-cost pricing is the Army General Fund's standard policy for services provided as required by OMB Circular No. A-25, *User Charges*.

The Army General Fund recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued. The Army General Fund excludes nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in Note 21, *Reconciliation of Net Cost of Operations to Budget*. The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Army General Fund records accrued interest from U.S. Treasury securities and user fees transferred from custodial activities in trust and special funds as nonexchange revenue.

1.H. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Now that GFEBS has been deployed, it will be the source for the Army General Fund to derive a substantial portion of its reported data. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of operating materiel and supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expense. Under the consumption method, OM&S would be expensed when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expense. The Army General Fund continues to implement process and system improvements to ERP systems to address these limitations. However, Army continues to rely partially on some current financial and nonfinancial feeder systems that were not designed to collect and record financial information on the full accrual accounting basis.

1.I. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army General Fund cannot accurately identify intragovernmental transactions by customer because the Army General Fund's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual, Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. While the Army General Fund is unable to fully reconcile intragovernmental transactions with all federal agencies, the Army General Fund is able to reconcile balances pertaining to investments in federal securities, Federal Employees' Compensation Act (FECA) transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The DoD's proportionate share of public debt and related expenses of the federal government is not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD financial statements do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

Imputed financing represents the cost paid on behalf of the Army General Fund by another Federal entity. The Army General Fund recognizes imputed costs for: (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under the Federal Employees' Compensation Act; (3) losses in litigation proceedings; and (4) military payroll for service members assigned to the Army General Fund.

1.J. Transactions with Foreign Governments and International Organizations

Each year, the Army General Fund sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of the *Act*, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the federal government. Payment in U.S. dollars is required in advance.

1.K. Funds with the U.S. Treasury

The Army General Fund maintains its monetary resources in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), Military Departments, and U.S. Army Corps of Engineers (USACE) and the financial service centers of the Department of State process the majority of the worldwide cash collections, disbursements, and adjustments of the Army General Fund. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, the Army General Fund FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

1.L. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of DoD including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

The majority of cash and all foreign currency is classified as “nonentity” and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Army General Fund conducts a significant portion of operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operation and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Army General Fund does not separately identify currency fluctuation transactions.

1.M. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Generally, allowances for uncollectible accounts due from the public are based upon analysis of collection experience by age category. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies, as receivables from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the *Treasury Financial Manual*.

1.N. Inventories and Related Property

The Army General Fund manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management and includes items such as tanks, self-propelled weapons, aircraft and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in Army General Fund materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Army General Fund holds materiel based on military need and support for contingencies.

Related property includes OM&S and stockpile materiel. The OM&S, including ammunition not held for sale, are valued at standard purchase price. The Army General Fund uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot

fully support the consumption method, the Army General Fund uses the purchase method. Under this method, materiel and supplies are expensed when purchased. The Army General Fund expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD; long-term system corrections are in process. Once the proper systems are in place, ammunition will be accounted for under the consumption method of accounting. All remaining OM&S items will be accounted for under the purchase method because management has deemed these items are in the hands of the end-users.

Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than general equipment. The Army General Fund determined the recurring high-dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

The Army General Fund recognizes excess, obsolete, and unserviceable OM&S at a net realizable value of zero pending development of an effective means of valuing such materiel.

1.O. Investments in U.S. Treasury Securities

The Army General Fund reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method obtaining similar results. The intent of the Army General Fund is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Army General Fund invests in nonmarketable market-based U.S. Treasury securities, issued to federal agencies by the U.S. Treasury Bureau of Fiscal Service. These securities are not traded on any financial exchange but are priced consistently with publicly traded U.S. Treasury securities.

1.P. General Property, Plant and Equipment

In some instances, the Army General Fund uses the estimated historical cost for valuing equipment. To establish a baseline, the DoD accumulated information relating to program funding and associated equipment, equipment useful life, program acquisitions, and disposals. The equipment baseline is updated using expenditure, acquisition, and disposal information.

The Army's General PP&E capitalization threshold is \$250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100 thousand for equipment and \$20 thousand for real property) and are carried at their remaining net book value.

General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DoD capitalization threshold. The DoD capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

When it is in the best interest of the government, the Army General Fund provides government property to contractors to complete contract work. The Army General Fund either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on the Army General Fund Balance Sheet.

The DoD developed a policy and a reporting process for contractors with government-furnished equipment, which provide appropriate General PP&E information for financial statement reporting. The DoD requires Army General Fund to maintain,

in its property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The Army General Fund has not fully implemented this policy primarily due to system limitations.

1.Q. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that generally are not included in general PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely. These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in general PP&E on the Balance Sheet.

1.R. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the DoD policy is to record advances and prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD policy is to expense and/or properly classify assets when the related goods and services are received. The Army General Fund has not fully implemented the policy for advances identified in contract feeder systems primarily due to system limitations.

1.S. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. Capital leases are leases that transfer substantially all the benefits and risks of ownership to the Army General Fund. If, at its inception, a lease meets one or more of the following four criteria, the Army General Fund should classify that lease as a capital lease: (a) The lease transfers ownership of the property to the Army General Fund by the end of the lease term; (b) The lease contains an option to purchase the leased property at a bargain price; (c) The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property; or (d) The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. Multi-year service contracts and multi-year purchase contracts for expendable commodities are not capital leases. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. If a lease does not meet at least one of the above criteria it should be classified as an operating lease. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by the Army General Fund are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future-year projections use the Consumer Price Index.

1.T. Other Assets

Other assets include those amounts, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Army General Fund's Balance Sheet.

The Army General Fund conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army General Fund may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32 - *Contract Financing*, as authorized disbursements to a contractor before acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The Army General Fund has not fully implemented this policy primarily due to system limitations.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or a stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments, based on a percentage or stage of completion, are reported as Construction-in-Progress.

1.U. Contingencies and Other Liabilities

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Army General Fund recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The risk of loss and resultant contingent liabilities for the Army General Fund arises from pending or threatened litigation or claims and assessments due to events such as aircraft, vessel, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities also arise as a result of anticipated disposal costs for Army General Fund assets. Consistent with SFFAS No. 6, *Accounting for Property, Plant and Equipment*, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD policy, which is consistent with SFFAS No. 5, nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, DoD recognizes nonenvironmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

1.V. Accrued Leave

The Army General Fund reports liabilities for military leave and accrued compensatory and annual leave for Civilians. Sick leave for Civilians is expensed as taken. The liabilities are based on current pay rates.

1.W. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.X. Treaties for Use of Foreign Bases

The DoD has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Army General Fund purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Army General Fund continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.Y. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the Army General Fund accounts payable and receivable trial balances before validating the underlying transactions.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable and accounts receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

1.Z. Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenue, provided to the government by nonfederal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenue and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Federal Government's general revenue. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statement of Changes in Net Position and the Balance Sheet.

1.AA. Fiduciary Activities

Fiduciary activities are Federal Government activities that relate to the collection or receipt and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which nonfederal individuals or entities have an ownership. Federal accounting standards require the Army to distinguish the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized on the accompanying financial statements. Fiduciary activities are reported on the financial statement note schedules.

1.BB. Military Retirement and Other Federal Employment Benefits

The Army General Fund reported no gains and losses in retirement benefits during this fiscal year.

1.CC. Significant Events

The Army General Fund incurred no significant events during the fiscal year.

NOTE 2. NONENTITY ASSETS

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 873,971	\$ 391,979
B. Total Intragovernmental Assets	\$ 873,971	\$ 391,979
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 793,772	\$ 908,582
B. Accounts Receivable	8,439	12,025
C. Total Nonfederal Assets	\$ 802,211	\$ 920,607
3. Total Nonentity Assets	\$ 1,676,182	\$ 1,312,586
4. Total Entity Assets	\$ 290,040,595	\$ 289,635,839
5. Total Assets	\$ 291,716,777	\$ 290,948,425

Information Related to Nonentity Assets

Nonentity assets are assets for which the Army General Fund maintains stewardship accountability and reporting responsibility. These assets are not available for the Army General Fund's normal operations.

Nonentity Fund Balance with Treasury consists of deposit funds for humanitarian relief and reconstruction, seized Iraqi cash, and Development Fund Iraq (DFI). Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Humanitarian relief and reconstruction deposit funds are funds held for expenditures on behalf of the Iraqi people. Seized Iraqi cash are former Iraqi regime monies confiscated by coalition forces. The DFI consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds. The deposit funds for seized Iraqi cash and DFI consist only of residual amounts.

Nonentity Cash and Other Monetary Assets consist of cash held by disbursing officers to carry out their paying and collecting missions. These amounts also include foreign currency accommodation exchange primarily consisting of the burden-sharing for the Republic of Korea. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

Nonentity Nonfederal accounts receivable are primarily from canceled year appropriations and interest receivables. These receivables will be returned to the U.S. Treasury as miscellaneous receipts once collected.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Fund Balances		
A. Appropriated Funds	\$ 107,157,011	\$ 105,646,030
B. Trust Funds	36,622	35,307
C. Special Funds	27,026	27,167
D. Other Fund Types	873,971	391,979
E. Total Fund Balances	\$ 108,094,630	\$ 106,100,483
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 108,094,999	\$ 106,133,745
B. Fund Balance per Army	108,094,630	106,100,483
3. Reconciling Amount	\$ 369	\$ 33,262

Information Related to Fund Balance with Treasury

Other Fund Types

Other Fund Types consist of deposit funds, clearing accounts, unavailable receipt accounts and seized Iraqi cash. Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Clearing accounts are used as a temporary suspense account until later paid by or refunded into another account or when the government acts as a banker or agent for others. Unavailable receipt accounts are credited with all collections not earmarked by law for a specific purpose. These collections include taxes, customs duties, and miscellaneous receipts. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces.

Reconciling Amount

The U.S. Treasury reported \$0.4 million more in Fund Balance with Treasury (FBWT) than reported by the Army General Fund. This difference includes \$5.5 million in fiduciary activity and \$(5.1) million in net differences because of the U.S. Treasury treatment of allocation transfers. The fiduciary activity (contributions less distributions to and on behalf of beneficiaries) amount is provided by the U.S. Treasury. The reconciling difference due to allocation transfers results from instances in which Army allocates to, or is allocated funds from, various governmental entities. In cases in which Army is allocated funds, the allocated amount is excluded from the Fund Balance per Army, but included in the Fund Balance per Treasury.

Undistributed Adjustments

Undistributed adjustments made in an attempt to reconcile the general ledger amount to the Treasury amount totaled \$59,788.0 million. This amount includes \$73.9 million in undistributed unsupported collections, \$10,941.2 million in undistributed supported collections, \$48,772.9 million in undistributed unsupported disbursements and no undistributed supported disbursements.

Status of Fund Balance with Treasury

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Unobligated Balance		
A. Available	\$ 18,493,296	\$ 16,312,845
B. Unavailable	14,391,723	17,412,640
2. Obligated Balance not yet Disbursed	\$ 98,773,172	\$ 95,584,718
3. Nonbudgetary FBWT	\$ 1,119,537	\$ 1,154,183
4. NonFBWT Budgetary Accounts	\$ (24,683,098)	\$ (24,363,903)
5. Total	<u>\$ 108,094,630</u>	<u>\$ 106,100,483</u>

Status of Fund Balance with Treasury Definitions

The Status of FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current and future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds temporarily precluded from obligation by law which are invested in U.S. Treasury securities. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds.

Obligated Balance Not Yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, nonentity FBWT and Iraqi custodial accounts.

NonFBWT Budgetary Accounts reduce the Status of FBWT. Examples include borrowing authority, investment accounts, and accounts receivable as well as unfilled orders without advance from customers.

NOTE 4. INVESTMENTS AND RELATED INTEREST

As of September 30 <i>(Amounts in thousands)</i>	2017			
	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
1. Other Funds	\$ 2,171	\$ -	\$ 2,171	\$ 2,162
2. Total Nonmarketable, Market-Based	2,171	-	2,171	2,162
B. Accrued Interest	7	-	7	7
C. Total Intragovernmental Securities	\$ 2,178	\$ -	\$ 2,178	\$ 2,169
As of September 30 <i>(Amounts in thousands)</i>				
	2016			
	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
1. Other Funds	\$ 2,271	\$ (20)	\$ 2,251	\$ 2,241
2. Total Nonmarketable, Market-Based	2,271	(20)	2,251	2,241
B. Accrued Interest	6	-	6	6
C. Total Intragovernmental Securities	\$ 2,277	\$ (20)	\$ 2,257	\$ 2,247

Information Related to Investments and Related Interest

Other Funds are comprised of the Army Gift Fund. The amortization method used is the effective interest rate. The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army General Fund along with interest received from the investment of such donations. The related earnings are allocated to the appropriate Army General Fund activities to be used in accordance with the directions of the donor. These funds are recorded as Nonmarketable Market-Based U.S. Treasury Securities, which are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

The U.S. Treasury securities are issued to the Army Gift Fund as evidence of its receipts and are an asset to the Army General Fund and a liability to the U.S. Treasury. The federal government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash generated from the Army Gift Fund is deposited in the U.S. Treasury, which uses the cash for general government purposes. Since the Army General Fund and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. governmentwide financial statements.

The U.S. Treasury securities provide the Army General Fund with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Army General Fund requires redemption of these securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all other expenditures.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30 <i>(Amounts in thousands)</i>	2017		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 393,580	N/A	\$ 393,580
2. Nonfederal Receivables (From the Public)	\$ 819,824	\$ (163,866)	\$ 655,958
3. Total Accounts Receivable	\$ 1,213,404	\$ (163,866)	\$ 1,049,538

As of September 30 <i>(Amounts in thousands)</i>	2016		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 497,337	N/A	\$ 497,337
2. Nonfederal Receivables (From the Public)	\$ 656,876	\$ (172,412)	\$ 484,464
3. Total Accounts Receivable	\$ 1,154,213	\$ (172,412)	\$ 981,801

Information Related to Accounts Receivable

Accounts receivable represent the Army General Fund's claim for payment from other entities. The Army General Fund only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

NOTE 6. OTHER ASSETS

As of September 30 <i>(Amounts in thousands)</i>	2017	2016
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 354,050	\$ 391,690
B. Total Intragovernmental Other Assets	\$ 354,050	\$ 391,690
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 924,337	\$ 1,579,955
B. Advances and Prepayments	1,070,788	1,031,952
C. Total Nonfederal Other Assets	\$ 1,995,125	\$ 2,611,907
3. Total Other Assets	\$ 2,349,175	\$ 3,003,597

Information Related to Other Assets

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Army General Fund that protect the contract work from state or local taxation, liens or attachment by the contractors' creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Army General Fund. The Army General Fund does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army General Fund is not obligated to make payment to the contractor until delivery and acceptance.

In May 2015 the Office of the Under Secretary of Defense (OUSD) limited recognition of contract financing payments as defined under Federal Acquisition Regulation 32.4—*Advance Payments for Non-Commercial Items* to advances for non-commercial items. Other authorized disbursements made to contractors prior to acceptance are to be recorded as an asset or expense, as performance based payments, commercial advance or interim payments, or progress payments based on cost or percentage of completion.

Outstanding Contract Financing Payments

The balance of Outstanding Contract Financing Payments includes \$266.5 million in contract financing payments and an additional \$657.8 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. Refer to Note 15, *Other Liabilities*, for additional information.

NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Cash	\$ 191,231	\$ 193,222
2. Foreign Currency	602,541	715,360
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 793,772	\$ 908,582

Information Related to Cash

Cash consists primarily of cash held by disbursing officers to carry out their paying and collecting mission. Foreign currency consists primarily of burden-sharing funds from the Republic of Korea.

Foreign currency is valued using the U.S. Treasury prevailing rate of exchange. This rate is the most favorable rate that would legally be available to the Federal Government for foreign currency exchange transactions. The Army General Fund cash and foreign currency are nonentity and are restricted.

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

The Army General Fund operates no direct loan or loan guarantee programs.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Operating Materiel & Supplies, Net	\$ 28,091,819	\$ 29,711,383
2. Total	\$ 28,091,819	\$ 29,711,383

Operating Materiel and Supplies, Net

As of September 30	2017			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
<i>(Amounts in thousands)</i>				
1. OM&S Categories				
A. Held for Use	\$ 25,518,701	\$ -	\$ 25,518,701	Standard Price
B. Held for Repair	2,573,118	-	2,573,118	Standard Price
C. Excess, Obsolete, and Unserviceable	1,344,104	(1,344,104)	-	Standard Price
D. Total	\$ 29,435,923	\$ (1,344,104)	\$ 28,091,819	
As of September 30	2016			
<i>(Amounts in thousands)</i>				
1. OM&S Categories				
A. Held for Use	\$ 27,166,108	\$ -	\$ 27,166,108	Standard Price
B. Held for Repair	2,545,275	-	2,545,275	Standard Price
C. Excess, Obsolete, and Unserviceable	1,021,412	(1,021,412)	-	Standard Price
D. Total	\$ 30,732,795	\$ (1,021,412)	\$ 29,711,383	

Information Related to Operating Materiel and Supplies, Net

OM&S include ammunition, tactical missiles, and their related spare and repair parts. The *Held for Use* category, which includes all materiel available to be issued, consists of \$23.7 billion in *Operating Materiel and Supplies Held for Use* and \$1.8 billion in *Operating Materiel and Supplies Held in Reserve for Future Use*.

Managers determine which items are more costly to repair than to replace. The value of these items is offset by an allowance for excess, obsolete, and unserviceable OM&S which results in a net value of zero. The Army General Fund established this allowance at 100 percent of the carrying account in accordance with DoD policy. These items, which include ammunition and missiles, are reported as Excess, Obsolete, and Unserviceable.

The values of the Army's government-furnished materiel and contractor-acquired materiel in the hands of the contractors are normally not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to collect and report required information annually without duplicating information in other existing logistics systems.

Currently, there are no restrictions on OM&S.

NOTE 10. GENERAL PP&E, NET

As of September 30 <i>(Amounts in thousands)</i>	2017				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 559,659	N/A	\$ 559,659
B. Buildings, Structures, and Facilities	S/L	20 or 40	94,004,216	\$ (38,826,199)	55,178,017
C. Leasehold Improvements	S/L	lease term	24,634	(16,394)	8,240
D. Software	S/L	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	S/L	Various	211,480,342	(123,389,619)	88,090,723
F. Construction-in- Progress	N/A	N/A	7,203,378	N/A	7,203,378
G. Other			179	(12)	167
H. Total General PP&E			\$ 313,774,126	\$ (162,438,461)	\$ 151,335,665

As of September 30 <i>(Amounts in thousands)</i>	2016				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 558,560	N/A	\$ 558,560
B. Buildings, Structures, and Facilities	S/L	20 or 40	94,367,014	\$ (40,261,674)	54,105,340
C. Leasehold Improvements	S/L	lease term	24,634	(16,392)	8,242
D. Software	S/L	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	S/L	Various	191,951,146	(106,150,374)	85,800,772
F. Construction-in- Progress	N/A	N/A	9,471,775	N/A	9,471,775
G. Other			152	-	152
H. Total General PP&E			\$ 296,874,999	\$ (146,634,677)	\$ 150,240,322

Legend for Valuation Methods: S/L = Straight Line N/A = Not Applicable

Information Related to General PP&E

The Army General Fund is not aware of any restrictions on the use or convertibility of General PP&E.

Significant accounting adjustments have been made to the Army General Fund's mission critical assets as a result of the Army's ongoing audit readiness efforts. These accounting adjustments were recognized in current year gain or loss accounts when auditable data were not available to support restatement of prior-period financial statements.

Other includes General PP&E not otherwise classified above.

Heritage Assets and Stewardship Land Information

The mission of the Army is to provide the military forces needed to deter war and protect the security of the United States by organizing, training, supplying, equipping, and mobilizing forces for assignment in support of that mission. Executing this mission requires efficient and effective use of resources in a manner that ensures operational and environmental sustainability, while respecting the history and heritage that reflect and support the military mission. The Army has stewardship responsibilities for heritage assets that date not only from the military history of the land, but also from prior historic occupations. The Army relies upon heritage assets, such as historic buildings and stewardship land, for daily use in administering, housing, and training soldiers. Heritage assets not currently employed as multi-use, such as archeological collections or museum collections, are items that embody the multi-faceted history of the land, the military, the local communities, and the Nation. In that mission, the Army General Fund, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets (capitalized and depreciated).

SFFAS No. 29, *Heritage Assets and Stewardship Land*, issued by the Federal Accounting Standards Advisory Board, requires note disclosures for these types of assets. The Army General Fund's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

The Army General Fund is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2017 due to limitations of the Department of the Army's financial and nonfinancial management processes and systems.

Heritage assets within the Army General Fund consist of buildings and structures, archeological sites, and museum collections. The Army General Fund defines these assets as follows:

Buildings and Structures

Buildings and structures which are listed on, or eligible for listing on, the National Register of Historic Places, including multi-use heritage assets.

Archaeological Sites

Sites that have been identified, evaluated, and determined to be eligible for, or are listed on, the National Historical Places in accordance with Section 110, *National Historical Preservation Act*.

Museum Collection Items

Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics. The heritage assets for the Army General Fund are listed below:

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	36,245	72	367	35,950
Archeological Sites	Each	10,246	578	688	10,136
Museum Collection Items (Objects, Not Including Fine Art)	Each	563,804	12,991	-	576,795
Museum Collection Items (Objects, Fine Art)	Each	36,999	630	-	37,629

Stewardship Land

Stewardship land is land and land rights owned by the Department of the Army, but not acquired as, or in connection with, items of General PP&E. All land provided to the Department from the public domain or at no cost, regardless of its use, is classified as Stewardship Land.

Stewardship land is presented in context of all categories of DoD lands and reported in acres based on the predominant use of the land. The three categories of Stewardship land held in public trust are as follows: State-Owned Land, Withdrawn Public Land, and Public Land. The Department of Army's stewardship land consists mainly of mission-essential land.

The following is a description of the methods of acquisition and withdrawal of stewardship land:

- Acquiring additional land through donation or withdrawals from public domain.
- Identifying missing land records.
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD agency.
- Identifying cemeteries and historical facilities.
- Disposing of BRAC property or excess installations.
- Privatizing residential community initiatives programs.

The Army General Fund holds the following acres of stewardship land:

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	4,981	-	-	4,981
9111	State Owned Land	5	-	-	5
9120	Withdrawn Public land	6,405	-	-	6,405
9130	Licensed and Permitted Land	187	-	-	187
9140	Public Land	11	-	-	11
9210	Land Easement	218	-	-	218
9220	In-leased Land	21	-	-	21
9230	Foreign Land	1	-	-	1
Grand Total					11,829
TOTAL - All Other Lands					5,408
TOTAL - Stewardship Lands					6,421

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Intragovernmental Liabilities		
A. Other	\$ 311,814	\$ 321,150
B. Total Intragovernmental Liabilities	\$ 311,814	\$ 321,150
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 970,250	\$ 646,175
B. Military Retirement and Other Federal Employment Benefits	1,286,118	1,238,941
C. Environmental and Disposal Liabilities	27,156,374	24,017,204
D. Other Liabilities	3,969,279	4,575,860
E. Total Nonfederal Liabilities	\$ 33,382,021	\$ 30,478,180
3. Total Liabilities Not Covered by Budgetary Resources	\$ 33,693,835	\$ 30,799,330
4. Total Liabilities Covered by Budgetary Resources	\$ 10,008,547	\$ 9,956,180
5. Total Liabilities	\$ 43,702,382	\$ 40,755,510

Information Related to Liabilities Not Covered by Budgetary Resources

Intragovernmental Liabilities, Other, consist of *Federal Employees' Compensation Act* (FECA) and other unfunded employment-related liabilities.

Nonfederal accounts payable not covered by budgetary resources represent amounts that are related to canceled appropriations. These amounts will require resources funded from future-year appropriations.

Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities consist primarily of the FECA benefits liability of \$1.3 billion. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Environmental Liabilities represent the Department's liability for existing and anticipated environmental cleanup and disposal (see Note 14).

Nonfederal Other Liabilities primarily consist of \$3.7 billion in unfunded annual leave and \$0.3 billion of contingent legal liabilities.

Liabilities such as *Environmental Liabilities and Military Retirement and Other Federal Employment Benefits* are not covered by budgetary resources because there are no current or immediate appropriations available for liquidation. These liabilities will require resources funded from future-year appropriations.

NOTE 12. ACCOUNTS PAYABLE

As of September 30 <i>(Amounts in thousands)</i>	2017		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 2,239,722	\$ N/A	\$ 2,239,722
2. Nonfederal Payables (to the Public)	996,153	23,925	1,020,078
3. Total	\$ 3,235,875	\$ 23,925	\$ 3,259,800

As of September 30 <i>(Amounts in thousands)</i>	2016		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 1,619,144	\$ N/A	\$ 1,619,144
2. Nonfederal Payables (to the Public)	1,285,623	23,809	1,309,432
3. Total	\$ 2,904,767	\$ 23,809	\$ 2,928,576

Accounts payable include amounts owed to federal and nonfederal entities for goods and services received by the Army General Fund. While the Army General Fund ERP systems track intragovernmental accounts payable transactions by customer, the Army General Fund legacy systems do not. Buyer-side accounts payable are adjusted to agree with intra-agency seller-side accounts receivable. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable and applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 13. DEBT

The Army General Fund has no intragovernmental loan or nonfederal debt.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Environmental Liabilities--Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 2,424,230	\$ 2,297,527
2. Active Installations—Military Munitions Response Program (MMRP)	898,947	946,678
3. Formerly Used Defense Sites—IRP and BD/DR	2,967,802	3,019,361
4. Formerly Used Defense Sites--MMRP	7,968,266	7,699,415
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	595,791	619,742
2. Environmental Closure Requirements	1,944,344	1,289,702
3. Environmental Response at Operational Ranges	76,013	62,367
4. Asbestos	2,369,742	1,125,311
5. Other	-	568,022
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	630,140	625,293
2. Military Munitions Response Program	579,578	631,932
3. Environmental Corrective Action / Closure Requirements	246,825	193,431
D. Chemical Weapons Disposal Program		
1. Chemical Demilitarization - Chemical Materials Agency (CMA)	2,671,375	2,657,991
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	6,073,105	4,488,009
2. Total Environmental Liabilities	\$ 29,446,158	\$ 26,224,781

Types of Environmental and Disposal Liabilities (E&DL) Identified

The Army's report for E&DL consists of both event-driven and asset-driven liabilities. Event-driven liabilities are caused by the release of contamination to the environment that will require future cleanup. Asset-driven liabilities are the environmental disposal costs incurred at the end of the asset's useful life. The Army's Note 14 E&DL are reported in five general categories:

- 1.A Accrued Environmental Restoration Liabilities (Active Installations and Formerly Used Defense Sites (FUDS));
- 1.B Other Accrued Environmental Liabilities (Non-BRAC);
- 1.C Base Realignment and Closure (BRAC) Installations; and
- 1.D Chemical Weapons Disposal Program.

The Army General Fund addresses event-driven liabilities for the Defense Environmental Restoration Program (DERP) requirements at Active Installations, BRAC, FUDS (Lines 1.A and 1.C) and environmental restoration or corrective action not covered by DERP (Line 1.B). *Other Accrued Environmental Liabilities* (Line 1.B) includes disposal liabilities for operational assets such as buildings (asbestos, lead based paint, other environmental issues), underground storage tanks (USTs), above ground storage tanks (ASTs), piping associated with storage tanks, Open Burning/Open Detonation (OB/OD) areas, landfills, low level radioactive waste (LLRW), and decommissioning of deactivated nuclear power plants, which will incur environmental costs at closure.

Army general equipment represents the future cleanup costs that will be incurred when equipment is considered obsolete and/or operations cease and slated for disposal. Equipment that uses or contains hazardous, biological, or radiological materials may incur significant costs associated with asset decommissioning and/or disposal that meet the accounting definition of "cleanup cost." The Army reports a \$0 balance for environmental disposal of general equipment because the determination of completeness for general equipment is in its initial stages.

Finally, the Army reports disposal liabilities for Chemical Weapons Disposal Programs (Line 1.D), which includes the destruction of the entire United States' stockpile of chemical agents and munitions and disposal of non-stockpile chemical

material. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations, and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance, and disposal. For each category, the E&DL reflects the future work required to address legal requirements. The Army also reports a \$0 balance for line items where another Department of Defense (DoD) Entity serves as the DoD Executive Agent. Executive agents are responsible for identifying funding requirements and disclosing financial information regarding the progress of these programs. The Army is the Lead Agent for FUDS Program, which is reported on Note 14 Lines 1.A.3 and 1.A.4. The Army is the Executive Agent for the Recovered Chemical Warfare Material, which is included on Note 14 Line 1.D.1. The Army provides a program management office for the Assembled Chemical Weapons Alternative (ACWA) Program, which reports directly to the Under Secretary of Defense for Acquisition, Technology, and Logistics. The ACWA program addresses chemical demilitarization activities at Blue Grass Army Depot, Kentucky and Pueblo Army Depot, Colorado and the associated E&DL are reported on Note 14 Line 1.D.2.

Applicable Laws and Regulations

The Army General Fund addresses cleanup of contamination resulting from past waste disposal practices, leaks, spills and other past activities. This cleanup requirement applies to releases of hazardous substances and wastes that created a public health or environmental risk and risk from exposure to unexploded ordnance, discarded military munitions, and munitions constituents at other than operational ranges. DERP was established by Section 211 of the *Superfund Amendments and Reauthorization Act of 1986* codified in 10 U.S.C. 2700 et. seq. The Army General Fund is also required to clean up contamination resulting from waste disposal practices, leaks, spills (not governed by DoD Instruction (DoDI) 4715.05, *Environmental Compliance at Installations Outside the United States*) and other activities at overseas locations in accordance with DoD policy as prescribed in DoD Instruction 4715.08, *Remediation of Environmental Contamination Outside the United States, under the Army Compliance Cleanup Program*. Cleanup Sites located overseas that qualify for cleanup cannot be part of an imminent installation/site handover to host nation governments where a residual value determination may occur as part of the turnover.

The Federal Accounting Standards Advisory Board (FASAB) published Technical Bulletin (TB) 2006-1 (FASAB TB 2006-1), *Recognition and Measurement of Asbestos-Related Cleanup Costs* and Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, which clarifies reporting of liabilities arising from asbestos-related cleanup.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 6, and FASAB Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment, June 2, 2010* provides clarification on determining and reporting disposal liabilities for general equipment. The guidance provides that cleanup costs that occur when equipment operations cease shall be estimated when the associated asset is placed in service and a portion of estimated total cleanup costs shall be recognized as expense during each period that the asset is in operation. The Army is in its initial stages of determining completeness for general equipment and defining a liability valuation method.

The Army General Fund includes requirements to destroy the chemical stockpile and nonstockpile as part of the Chemical Demilitarization Program. *The 1986 Defense Authorization Act* (Public Law 99-145, as amended by subsequent Acts), directed the DoD to destroy the unitary chemical stockpile while providing for maximum protection of the environment, public, and personnel involved in the destruction effort. *The 1993 Defense Authorization Act* (Public Law 102-484) required the establishment of the nonstockpile Chemical Material Project to safely dispose of all nonstockpile material. The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations.

Applicable laws and regulations addressing environmental restoration and closure include:

- Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- Superfund Amendments and Reauthorization Act (SARA)
- Clean Water Act (CWA)
- Safe Drinking Water Act (SDWA)

- Clean Air Act (CAA)
- Resource Conservation and Recovery Act (RCRA)
- Toxic Substances Control Act (TSCA)
- Medical Waste Tracking Act (MwTA)
- Atomic Energy Act
- Nuclear Waste Policy Act
- Low Level Radioactive Waste Act
- National Defense Authorization Acts (NDAA)
- DoDI 4715.08, Remediation of Environmental Contamination Outside the United States

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Army General Fund uses one or more of the following cost estimating approaches: parametric cost estimates using the Remedial Action Cost Engineering Requirements (RACER) software, site-specific cost estimate in a feasibility study (FS) or corrective measures study (CMS), cost estimate from a similar site (e.g., FS or CMS), engineering estimates, historical cost data, or recently awarded contract information where some contract options are awarded but not exercised. The RACER system is the Army's preferred model for DERP and non-DERP event-driven liabilities that are still in the study phase (i.e., preliminary assessment, site inspection, or remedial investigation). The Army General Fund relies upon the Air Force, which is the RACER executive agent, to validate the model in accordance with DoDI 5000.61, DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A). The Army generally uses FS or CMS cost estimates to estimate environmental cleanup project once the feasibility study phase is complete. The FS-level estimates include review by Federal or state regulatory agencies. For recurring actions, such as sites in a remedial operations or LTM phase, cost estimates will rely on historical cost data to generate the estimate. In some cases, engineering estimates are used to develop the cost estimate and these estimates must be supported by contracts, invoices, or actual costs on similar completed sites.

At Joint Base Cape Cod (JBCC), both the Army and Air Force have event-driven liabilities associated with future environmental cleanup requirements. As a National Priority List site, CERCLA requires the DoD (Air Force and Army) to enter into a Federal Facility Agreement. For sites covered by the FFA, the Air Force is the lead, so the Army has 10 Installation Restoration Program (IRP) sites where the Air Force reports E&DL. Each year, the Army transfers funding for the execution of these 10 IRP sites, so the Army reports the unliquidated obligations associated with the work for these sites, and the Air Force reports the future cost-to-complete estimates.

For asset-driven liabilities, the Army General Fund uses the real property inventory and cost factors derived using industry standards or historical costs to develop environmental closure liabilities. Examples of asset-driven liabilities include the environmental costs associated with a building, storage tanks, and operating landfills. Environmental closure liabilities for individual building demolition will vary significantly, so environmental building demolition liabilities are reported in aggregate (from various sites around CONUS) using cost factors updated annually and the total real property building square footage inventory. Asbestos disposal costs cannot be adequately estimated due to the ubiquitous nature of non-friable asbestos. However, the Army uses historical cost data from recent pre-demolition building to develop cost factors for asbestos survey and abatement. In 1990, the U.S. Environmental Protection Agency (USEPA) provided the final regulatory ban on the use of asbestos-containing materials in construction. Therefore, Environmental and Disposal Liability for asbestos abatement only includes facilities put into service before 1990. The liability is determined using the square footage of buildings put in service before 1990 and the asbestos abatement cost factor.

The Army also has some highly specialized facilities that require unique closure requirements which do not fit the model above. The decommissioning of the Army's deactivated nuclear power plants requires extensive closure requirements in accordance with Army Regulation 50-7. Although these facilities are not under the jurisdiction of the Nuclear Regulatory Commission (NRC), the Army adheres to the substantive requirements of NRC regulations. The estimation process requires a detailed engineering study and financial analysis prepared in advance of the detailed engineering that will be

required to carry out the decommissioning and disposal. The estimates are based on numerous industry standard and fundamental assumptions that consider current regulations, radioactive waste disposal options, site restoration practices, and project contingencies.

The Army uses independently validated models to estimate environmental disposal liabilities for storage tanks. The model is contained within the RACER. Storage Tanks, which typically contain petroleum, oil or lubricants, are assets that will incur environmental disposal costs at the end of the asset's useful life. Disposal costs for these assets include removal of the storage tank and associated piping, and back filling the excavation with fill material; however, the Army's experience with similar efforts, suggests petroleum releases are usually encountered when closing many storage tanks. As a result, closure costs include tank removal, over excavation of potentially contaminated soil, and back filling of excavated site. Cost estimates for storage tank closure were developed using three major categories (based on tank volume): Small - Category 1 (0-999 gallons), Medium - Category 2 (1,000 – 9,999 gallons), and Large - Category 3 (greater than 10,000 gallons). There are several sub categories for tanks with volume greater than 10,000 gallons and RACER cost estimates using local cost factors were used along with the inventory of tanks in each category to develop the reported Environmental Disposal Liability.

Permitted landfills closure liabilities are estimated using federal solid waste closure requirements. The future closure costs for operating landfills considers the type of landfill (e.g., hazardous waste or sanitary/municipal) and acreage. Reported Environmental Liability also includes post-closure requirements (i.e. 30 years of groundwater monitoring). The Army uses independently validated models to estimate environmental closure liabilities for landfills. The model is contained within the RACER. RACER estimates were developed using local cost factors, type, and size of each operating landfill in the Army's real property inventory.

Sunflower Army Ammunition Plant is a Non-BRAC Excess facility that has both DERP cleanup requirements and facility closure requirements to include explosives decontamination of existing structures. The explosives decontamination costs are based on contract costs and include removal of potentially explosive building foundation slabs, walls when present, and sumps; removal and decontamination of potentially explosive sewers and underground infrastructure. The environmental investigations and cleanup to address environmental contamination beneath the foundations and sewers is being executed under DERP is included on line 1.A.1 of the Army's Note 14 Financial Statement, and the explosives decontamination work associated with facility closure is reported on Line 1.B.2.

Open Burning Open Detonation (OB/OD) consist of environmentally permitted disposal facilities and another of the Army's highly specialized facilities that require unique closure requirements. The Army utilizes the RACER modeling software to capture closure requirements and determine the environmental liabilities. OB/OD areas/facilities are used as a common disposal method for munitions stockpiles. These activities are necessary to destroy unserviceable, unstable, or unusable munitions and explosives. Unique RACER estimates are generated for each of the Army's OB/OD facilities focusing on the high probability of explosives and heavy metal contamination cleanup in the soil.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General PP&E

For General PP&E placed in service on or after October 1, 1997, the table below presents the unrecognized portion of the total cleanup, closure, or disposal costs. The recognized amounts are included in the Environmental Closure Requirements on Note 14 (Line 1.B.2) over the useful life of the asset.

As of September 30, 2017	
<i>(Amounts in thousands)</i>	
The unrecognized portion of the estimated total cleanup, closure or disposal costs associated with general property, plant, and equipment (environmental related facility closures and storage tanks)	\$253,897

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Army General Fund estimates are updated annually to reflect changes in previously unknown information, better site characterization, reestimation based on different assumptions, price growth (inflation), increase in labor rates and materials, and lessons learned. Environmental Liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. Environmental Liabilities may also change due to updated criteria and new ways of determining current categories on the financial statement.

The Army General Fund currently reports the future environmental liabilities associated with the ACWA and CMA programs even though the budgetary transactions appropriated for these activities are recorded on OSD's Consolidated Financial Statements as Other 97 Funds Provided to the Army by OSD. Army is currently working with OSD to implement the recommendation to align the ACWA and CMA environmental liability balances on Defense-wide financial statements moving forward. The basis for this recommendation is the following:

- 50 U.S.C. 1521 which establishes primary responsibility to be with OSD.
- Budget funding for the programs being directed to OSD initially, with all financial statement activity associated with that funding currently reported on the Other 97 Funds Provided to the Army by OSD.

Based on the 2017 Program Office Estimate (POE), the Program Executive Office (PEO), ACWA signed a Program Deviation Report (PDR) on April 27, 2017, which identified a significant cost deviation from the March 2012 Acquisition Program Baseline (APB). The Army is currently working with PEO ACWA to update the related liability based on the POE.

Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities

The *Environmental Liabilities* for the Army General Fund are based on accounting estimates, which require certain judgments and assumptions that are believed to be reasonable based upon information available to the Army at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Environmental Liabilities can be further impacted if investigation of environmental sites discloses contamination levels different than known at the time of the estimates. To reduce these and other impacts as per April 2017 FIAR guidance, the Army is implementing an Enterprise Resource Planning (ERP) system for the determination of environmental liabilities and the system capabilities include solutions for resolving audit impediments. The system, Headquarters Army Environmental System (HQAES), incorporates the functionality of 17 Army legacy systems.

The Army General Fund has reported asbestos survey costs but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, per FASAB TB 2006-1, presents too much uncertainty to recognize on the balance sheet. Friable asbestos mitigation estimates are based on historical costs of asbestos abatement during facility demolition. A cost factor is generated per square foot of building demolished. The cost factor is used as a multiplier with the total square footage of Army facilities put into service prior to 1990.

The Army General Fund is also uncertain regarding the costs for cleanup associated with general and military equipment. The Army is unable to determine general equipment disposal liabilities because the determination for completeness for general equipment and defining valuation method are still ongoing. The Army General Fund is also currently unable to provide a reasonable estimate due to fact that a large portion of Army's general equipment is disposed of as a routine part of current operations, while other general equipment is recycled. Other general equipment does not present a liability for the Army since they are disposed of through various governmental sales program (e.g. foreign military sales, Defense Logistics Agency equipment sales).

The Army reported environmental liabilities for low-level radioactive waste (LLRW) in the FY 2016 Note 14 (Line 1.B.5 - *Other*). However, the Army will not report an environmental liability for FY 2017 because the LLRW process for the

Advances from Others

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Deposit Fund and Suspense Accounts

Deposit funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash

Disbursing Officers Cash represents liabilities for currency on hand, cash on deposit at designated depositories, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, etc.

Custodial Liabilities

Custodial Liabilities represent liabilities for collections reported as non-exchange revenues for which the Army is acting on behalf of another Federal entity. The noncurrent portion of the overall liability reported as of September 30, 2017 is abnormal. Further research is required to determine what portion should have been reported as current versus noncurrent.

Intragovernmental Other Liabilities Composition

Intragovernmental Other Liabilities consist of the unemployment compensation liability and other unfunded employment benefits.

Estimated Future Contract Financing Payments

Contingent liabilities include \$657.8 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vest with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. It is DoD policy that these rights should not be misconstrued as rights of ownership. The Army General Fund is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. The Army General Fund has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance for the following reasons: (1) the contractors will probably complete their efforts and deliver satisfactory products, and (2) the amount of contractor costs incurred but not yet paid are estimable.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Information Related to Commitments and Contingencies

The Army General Fund is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

The Army General Fund has accrued contingent liabilities for legal actions when the Office of General Counsel (OGC) considers an adverse decision is probable and the amount of loss is measurable. In the event of an adverse judgment against the Federal Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Army General Fund reports contingent liabilities in Note 15, *Other Liabilities*.

Nature of Contingency

The Army General Fund has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army General Fund's financial statements. As of September 30, 2017 the Army General Fund had \$0.6 billion in claims considered reasonably possible. Estimates for litigations, claims, and assessments are required to be fully supported.

The Management's Schedule of Information derived from the FY 2017 Army Legal Representation Letter outlines claims against the Army General Fund totaling approximately \$12.1 billion for which the Army OGC is unable to express an opinion. The historical payout percentage for these cases is less than 1 percent. To determine the historical payout, the Army OGC divides the total amount reported as a payout in the fiscal year by the total amount claimed in the Army Legal Representation Letter.

Other Information Pertaining to Commitments

The Army General Fund is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently the Army General Fund automated system processes have limited capability to capture these potential liabilities; therefore, the amounts reported may not fairly present the Army General Fund's commitments and contingencies.

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30 (Amounts in thousands)	2017	
	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	\$ 1,286,118	\$ 1,286,118
B. Total Other Benefits	\$ 1,286,118	\$ 1,286,118
2. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,286,118	\$ 1,286,118
As of September 30 (Amounts in thousands)	2016	
	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	\$ 1,238,941	\$ 1,238,941
B. Total Other Benefits	\$ 1,238,941	\$ 1,238,941
2. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,238,941	\$ 1,238,941

Information Related to Military Retirement and Other Federal Employment Benefits

Federal Employees' Compensation Act (FECA)

The Army's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The actuarial liability for the FECA increased \$47.2 million between FY 2016 and FY 2017.

Actuarial Cost Method

The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments.

Assumptions

The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost-of-living adjustments (COLA) and medical inflation factors (CPIM) provided by the Department of Labor are also applied to the calculation of projected future benefits. The estimated actuarial liability is updated only at the end of each fiscal year.

Interest rate assumptions utilized for discounting were as follows:

Discount Rates

For wage benefits:

2.683 percent in Year 1 and years thereafter.

For medical benefits:

2.218 percent in Year 1 and years thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPIMs were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2017 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBYs were as follows:

CBY	COLA	CPIM
2017	N/A	N/A
2018	1.22%	3.20%
2019	1.35%	3.52%
2020	1.59%	3.80%
2021	1.99%	3.99%
2022	2.26%	3.91%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2017 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2017 projection to the average pattern for the projections of the most recent three years.

Other Disclosures

Actuarial liabilities are computed for employee compensation benefits as mandated by FECA. The Office of Personnel Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year. The Army General Fund computes its portion of the total Army actuarial liability based on the percentage of its FECA expense to the total Army FECA expense.

NOTE 18. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Intragovernmental Costs and Exchange Revenue

For the Years Ended September 30	2017	2016
<i>(Amounts in thousands)</i>		
Military Personnel		
1. Gross Cost		
A. Intragovernmental Cost	\$ 13,702,249	\$ 29,793,689
B. Nonfederal Cost	43,770,000	27,762,649
C. Total Cost	\$ 57,472,249	\$ 57,556,338
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (328,122)	\$ (370,082)
B. Nonfederal Revenue	(3)	(1,716)
C. Total Revenue	\$ (328,125)	\$ (371,798)
Total Net Cost	\$ 57,144,124	\$ 57,184,540
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	\$ 24,484,769	\$ 7,748,564
B. Nonfederal Cost	38,501,121	54,561,902
C. Total Cost	\$ 62,985,890	\$ 62,310,466
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 5,452,935	\$ 3,735,286
B. Nonfederal Revenue	(629,699)	(598,896)
C. Total Revenue	\$ 4,823,236	\$ 3,136,390
Total Net Cost	\$ 67,809,126	\$ 65,446,856
Procurement		
1. Gross Cost		
A. Intragovernmental Cost	\$ 630,027	\$ 838,386
B. Nonfederal Cost	128,358	16,635,682
C. Total Cost	\$ 758,385	\$ 17,474,068
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (1,817,321)	\$ (1,339,406)
B. Nonfederal Revenue	19,751	(114,763)
C. Total Revenue	\$ (1,797,570)	\$ (1,454,169)
Total Net Cost	\$ (1,039,185)	\$ 16,019,899
Research, Development, Test & Evaluation		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,076,981	\$ 1,081,758
B. Nonfederal Cost	11,850,846	10,360,823
C. Total Cost	\$ 12,927,827	\$ 11,442,581
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (4,784,904)	\$ (4,153,233)
B. Nonfederal Revenue	(86,825)	(88,612)
C. Total Revenue	\$ (4,871,729)	\$ (4,241,845)
Total Net Cost	\$ 8,056,098	\$ 7,200,736
Family Housing & Military Construction		
1. Gross Cost		
A. Intragovernmental Cost	\$ 356,866	\$ 466,264
B. Nonfederal Cost	7,916,603	7,816,790
C. Total Cost	\$ 8,273,469	\$ 8,283,054
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (4,448,756)	\$ (4,380,342)
B. Nonfederal Revenue	33,438	(516,779)
C. Total Revenue	\$ (4,415,318)	\$ (4,897,121)
Total Net Cost	\$ 3,858,151	\$ 3,385,933

Intragovernmental Costs and Exchange Revenue

For the Years Ended September 30	2017	2016
<i>(Amounts in thousands)</i>		
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	\$ 40,250,892	\$ 39,928,661
B. Nonfederal Cost	102,166,928	117,137,846
C. Total Cost	\$ 142,417,820	\$ 157,066,507
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (5,926,168)	\$ (6,507,777)
B. Nonfederal Revenue	(663,338)	(1,320,765)
C. Total Revenue	\$ (6,589,506)	\$ (7,828,542)
Total Net Cost	\$ 135,828,314	\$ 149,237,965

Information Related to the Statement of Net Cost

Definitions

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government.

Public costs and revenue are exchange transactions made between the reporting entity and a nonfederal entity.

Other Information Regarding Costs

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS No. 30, *Inter-Entity Cost Implementation*.

The amounts presented in the Consolidated SNC are based on funding, obligation, accrual, and disbursing transactions, which are not always recorded using accrual accounting. The Army General Fund systems do not always record the transactions on an accrual basis as required by the generally accepted accounting principles. The information presented also includes data from nonfinancial feeder systems to ensure that all cost and financing sources are captured for the Army General Fund.

Additional Disclosures

The Army General Fund systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses. Intradepartmental revenues and expenses are then eliminated.

The Army General Fund accounting systems do not capture information relative to heritage assets separately and distinctly from normal operations. The Army General Fund is not able to separately identify the costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets. The Army Financial Improvement Plan outlines tasks to identify and report costs associated with heritage assets separately by 4th Quarter, FY 2018.

The abnormal revenue balance impacting the *Operations, Readiness & Support* program is attributable to the current business practice which includes elimination reporting for the Army General Fund as a whole in this program group.

The abnormal balance impacting Procurement and Family Housing & Military Construction revenue includes gains and losses that resulted from adjustments necessary to balance the Army General Fund's feeder systems with DoD's financial reporting system and to correct inherent limitation of the current financial systems.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Information Related to the Statement of Changes in Net Position

Other Financing Sources, Other

Other Financing Sources, Other primarily consist of gains and losses that resulted from adjustments necessary to balance the Army General Fund's feeder systems with DoD's financial reporting system and to correct inherent limitations of the current financial systems.

Appropriations Received

The Appropriations Received line item on the Statement of Changes in Net Position (SCNP) does not agree with the Appropriations line item on the Statement of Budgetary Resources (SBR). The (\$340.6) million difference is due to additional resources included in the Appropriation line item on the SCNP.

Eliminations

In the SCNP, all offsetting balances (i.e., transfers-in and transfers-out, revenues and expenses) for intra-entity activity between Earmarked Funds and All Other Funds are reported on the same lines. The Eliminations column contains all appropriate elimination entries, which net to zero within each respective line, except for intra-entity imputed financing costs.

Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position	Total
For the Years Ended September 30, 2017 <i>(Amounts in millions)</i>	
Appropriations, Statement of Budgetary Resources	\$ 157,498.9
Appropriations Received, Statement of Changes in Net Position	\$ 157,158.2
Total Reconciling Amount	\$ (340.7)
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources	
Permanent Reductions	\$ (380.5)
Temporary Reductions	\$ (1.2)
Items Reported as Additions to Appropriations, Statement of Budgetary Resources	
Transfers	\$ 707.1
Items Not Reported as Appropriations Received on the Statement of Changes in Net Position	
Dedicated appropriations and earmarked receipts	\$ 15.3
Total Reconciling Items	\$ (340.7)

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30	2017	2016
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 93,219,863	\$ 91,734,644

Information Related to the Statement of Budgetary Resources

Undelivered Orders

Undelivered Orders presented in the Statement of Budgetary Resources (SBR) include Undelivered Orders-Unpaid for both direct and reimbursable funds.

Reporting of Appropriations Received

The Appropriations line on the SBR does not agree with the Appropriations Received line on the SCNP because of differences between proprietary and budgetary accounting concepts and reporting requirements. Refer to Note 19, *Disclosures Related to the Statement of Changes in Net Position*, for further information.

Presentation of Statement of Budgetary Resources

The SBR includes intraentity transactions because the statements are presented as combined.

Breakdown of Apportionment Categories

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment is as follows, for the year ended September 30, 2017:

Type	Budgetary	
	Direct (\$ in thousands)	Reimbursable (\$ in thousands)
Category A	\$126,136,643	\$4,305,103
Category B	\$38,474,031	\$16,828,390
Exempt from Apportionment	\$8,931	\$72
Total	\$164,619,605	\$21,133,565

The above disclosure agrees (1) with the aggregate of the related information as reported on the SF 133, *Report on Budget Execution*, and (2) with *Obligations Incurred* as reported on the SBR.

Reconciliation of Combined SBR to President's Budget

As of September 30	Fiscal Year 2017 Actual			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Agency Outlays, Net
(Amounts in billions)				
Combined SBR	\$ 218.6	\$ 185.8	\$ 0.1	\$ 147.8
Differences:				
Adjustments to SBR				
Other			(0.1)	(0.1)
Budget of the U.S. Government	\$ 218.6	\$ 185.8	\$ -	\$ 147.7

The differences reported in Other are due to the Distributed Offsetting Receipts reported by Army in its FY 2017 SBR, but not by Treasury in its reported outlays.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the Years Ended September 30	2017	2016
<i>(Amounts in thousands)</i>		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 185,752,871	\$ 185,011,939
2. Less: Spending authority from offsetting collections and recoveries (-)	(35,229,964)	(40,900,336)
3. Obligations net of offsetting collections and recoveries	\$ 150,522,907	\$ 144,111,603
4. Less: Offsetting receipts (-)	142,653	(362,062)
5. Net obligations	\$ 150,665,560	\$ 143,749,541
Other Resources:		
6. Donations and forfeitures of property	1,310	-
7. Transfers in/out without reimbursement (+/-)	2,233,107	2,138,368
8. Imputed financing from costs absorbed by others	726,481	940,948
9. Other (+/-)	(15,180,527)	19,325,732
10. Net other resources used to finance activities	\$ (12,219,629)	\$ 22,405,048
11. Total resources used to finance activities	\$ 138,445,931	\$ 166,154,589
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ (1,485,219)	\$ 2,138,500
12b. Unfilled Customer Orders	(421,555)	1,392,488
13. Resources that fund expenses recognized in prior Periods (-)	(76,600)	(1,299,158)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	(501,399)	31,569
15. Resources that finance the acquisition of assets (-)	(36,216,990)	(12,245,725)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Other (+/-)	13,304,857	(21,133,608)
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (25,396,906)	\$ (31,115,934)
18. Total resources used to finance the Net Cost of Operations	\$ 113,049,025	\$ 135,038,655
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 37,405	\$ 6,844
20. Increase in exchange revenue receivable from the public (-)	(769)	4,709
21. Other (+/-)	3,015,909	578,003
22. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 3,052,545	\$ 589,556
Components not Requiring or Generating Resources:		
23. Depreciation and amortization	\$ 20,364,986	\$ 14,937,472
24. Revaluation of assets or liabilities (+/-)	(1,276)	-
25. Other (+/-)		
25a. Operating Material and Supplies Used	4	8,060
25b. Other	(636,970)	(1,335,778)
26. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 19,726,744	\$ 13,609,754
27. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 22,779,289	\$ 14,199,310
28. Net Cost of Operations	\$ 135,828,314	\$ 149,237,965

Information Related to the Reconciliation of Net Cost of Operations to Budget

Required Disclosures

Due to the limitations of the Army General Fund financial systems, budgetary data do not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency.

The amount of the adjustment to the note schedule to bring it into balance with the *Statement of Net Cost* totaled \$119.6 million and was reported in the category of *Other Components Not Requiring or Generating Resources*.

The *Reconciliation of Net Cost of Operations to Budget* is intended to explain and define the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. The following *Reconciliation of Net Cost of Operations to Budget* lines are presented as combined instead of consolidated, as intra-agency budgetary transactions are not eliminated:

- Obligations Incurred
- Less: Spending authority from offsetting collections and recoveries
- Obligations net of offsetting collections and recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Budgetary Resources Obligated, Other include (1) other gains and losses and (2) gains and losses on disposition of assets which resulted from adjustments necessary to balance the Army General Fund's feeder systems with DoD's financial reporting system and to correct inherent limitations of the current financial systems.

Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations, Other include financing sources transferred in and out without reimbursement, other gains and losses, and gains and losses on disposition of assets.

Components Requiring or Generating Resources in Future Period, Other represent increases in future-funded expenses for conventional disposal costs and contingent liabilities for contract appeals and tort claims.

Components not Requiring or Generating Resources, Other are comprised of other expenses not requiring budgetary resources for the Iraqi Relief and Reconstruction Fund--a transfer fund in which the Army General Fund executes the funding on behalf of the Executive Office of the President. The U.S. Treasury requires that the execution for this type of transfer is presented on the Army General Fund financial statements. This line also includes the current year change in Construction-in-Progress balances.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The Army General Fund does not collect incidental custodial revenues.

NOTE 23. FUNDS FROM DEDICATED COLLECTIONS

	2017	2016
As of September 30 <i>(Amounts in thousands)</i>	Total Funds from Dedicated Collections	
BALANCE SHEET		
ASSETS		
Fund balance with Treasury	\$ 63,649	\$ 62,474
Investments	2,178	2,257
Other Assets	(3)	152
Total Assets	\$ 65,824	\$ 64,883
LIABILITIES and NET POSITION		
Accounts Payable and Other Liabilities	(2,527)	\$ (2,210)
Total Liabilities	\$ (2,527)	(2,210)
Cumulative Results of Operations	68,351	67,093
Total Liabilities and Net Position	\$ 65,824	\$ 64,883
For the Years Ended September 30		
STATEMENT OF NET COST		
Program Costs	\$ 14,842	\$ 10,166
Less Earned Revenue	(1,276)	-
Net Program Costs	\$ 13,566	\$ 10,166
Less Earned Revenues		
Net Cost of Operations	\$ 13,566	\$ 10,166
STATEMENT OF CHANGES IN NET POSITION		
Total Net Position Beginning of the Period	\$ 67,093	\$ 55,779
Net Cost of Operations	13,566	10,166
Budgetary Financing Sources	15,243	31,502
Other Financing Sources	(419)	(10,022)
Change in Net Position	\$ 1,258	\$ 11,314
Net Position End of Period	\$ 68,351	\$ 67,093

Information Related to Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues, required by statute to be used for designated activities or purposes, and remain available over time. The Army General Fund has identified the following such funds and their related statutory citations:

Sale of Hunting and Fishing Permits. Fees are received from individuals for the issuance of special hunting and fishing permits. The funds for this account are used for wildlife, fish, and game conservation and rehabilitation on military reservations. 10 U.S.C. 670b gives the authority to collect and distribute funds for the intended purposes.

Restoration of Rocky Mountain Arsenal. Funds are received from private industry for the cleanup of contaminated areas of Rocky Mountain Arsenal. Public Law 99-661, Section 1367, provides the authority for this explicit use.

Royalties for Use of DoD-Military Insignia and Trademarks. Funds are received from the sale of commemorative memorabilia, trademarks, and licensing activities. The funds are used to replenish inventory stock for such items and other related commemorative program expenses. The authority to create expenditures originates from PL 102-484, Section 378.

Forest and Wildlife Conservation, Military Reservations. Funds are received from the sales of forest products harvested from forests on military installations and distributed to the respective states involved in the sales. Each state is entitled to 40 percent of the sales of products from its forest after reimbursement of DoD appropriations for the costs of production. 10 U.S.C. 2665 provides authority for this fund and for payments to the states.

National Science Center. Funds received from the collection of fees are used for the operation and maintenance of the National Science Center as authorized under PL 99-145, *Defense Authorization Act, 1986*, Section 1459.

Bequest of Major General Fred C. Ainsworth to Walter Reed Army Medical Center. Funds received from interest on investments are used for purchasing supplies and equipment for the library at the Walter Reed Army Medical Center. The Army cannot currently identify the statutory citation that provides authority for the use of this fund. The appropriation for this fund is 21X8063.

Department of the Army General Gift Fund. Funds are received from private parties and estates are used for various purposes. 10 U.S.C. 2601 establishes the authority governing the use of this fund.

NOTE 24. FIDUCIARY ACTIVITIES

Schedule of Fiduciary Activity

For the Years Ended September 30 (Amounts in thousands)	2017	2016
1. Fiduciary net assets, beginning of year	\$ (10,387)	\$ 5,281
2. Contributions	(218)	(526)
3. Distributions to and on behalf of beneficiaries	16,141	(15,142)
4. Increase/(Decrease) in fiduciary net assets	\$ 15,923	\$ (15,668)
5. Fiduciary net assets, end of period	\$ 5,536	\$ (10,387)

Schedule of Fiduciary Net Assets

For the Years Ended September 30 (Amounts in thousands)	2017	2016
FIDUCIARY ASSETS		
1. Cash and cash equivalents	\$ 5,536	\$ (10,387)
2. TOTAL FIDUCIARY NET ASSETS	\$ 5,536	\$ (10,387)

Fiduciary activities are those Federal Government activities that relate to the collection or receipt of cash or other assets in which nonfederal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary activities also include managing, protecting, accounting for, investing, and disposing of such cash or other assets. The DoD has a fiduciary duty to the Savings Deposit Program in which the Army General Fund participates. Public Law 89-538 authorizes DoD, through the Savings Deposit Program, to collect a voluntary allotment from the current pay of members of the armed forces deployed outside the United States or its possessions in designated areas. The Army General Fund collects the savings and allotments of soldiers, and the collections and accrued earned interest are transferred to the Navy General Fund, the program's executive agent. These fiduciary assets are not assets of the Army General Fund and are not recognized on its Balance Sheet. Detail on contributions and distributions on behalf of beneficiaries are provided by the U.S. Treasury.

The fiduciary activity (contributions less distributions to and on behalf of beneficiaries) amount is provided by the U.S. Treasury. In FY 2016 Army noted that the true balance should not have been abnormal. In FY 2017, the Treasury took actions to correct the FY 2016 abnormal balance reporting issue.

NOTE 25. OTHER DISCLOSURES

The Army General Fund has no other required disclosures.

NOTE 26. RESTATEMENTS

The Army General Fund has no prior period restatements.



FISCAL YEAR 2017 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The following summarizes nonfederal physical property. Investments in nonfederal physical property refer to those expenses incurred by the Army for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase of improvement to other physical assets. A schedule of estimated investment values of state and local government-owned properties that are used by the federal government is shown below.

Nonfederal Physical Property: Yearly Investments in State and Local Governments for Fiscal Years 2013 through 2017

<i>(Amounts in millions)</i>					
Categories	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
Transferred Assets:					
1. National Defense Mission-Related	\$21.4	\$21.3	\$21.2	\$21.2	\$20.8
Funded Assets:					
2. National Defense Mission-Related	0	0	0	0	0
Totals	\$21.4	\$21.3	\$21.2	\$21.2	\$20.8

The Army General Fund incurs investments in nonfederal physical property for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other nonfederal assets. In addition, nonfederal physical property investments include federally-owned physical property transferred to state and local governments.

Investment values included in this report are based on nonfederal physical property outlays (expenditures). Outlays are used because current DoD accounting systems are unable to capture and summarize costs in accordance with federal accounting standards.

The following table summarizes basic research, applied research, and development investments and provides examples of each.

Yearly Investments in Research and Development for Fiscal Years 2013 through 2017

<i>(Amounts in millions)</i>					
Categories	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
Basic Research	\$462.9	\$453.0	\$444.3	\$437.6	\$354.3
Applied Research	578.1	1,045.7	935.2	858.5	876.7
Development					
Advanced Technology Development	1,182.4	1,175.6	1,128.0	1,104.9	1,016.3
Advanced Component Development and Prototypes	465.1	460.4	421.3	511.1	491.7
Systems Development and Demonstration	2,112.8	1,870.0	1,924.1	2,550.4	2,962.0
Research, Development, Test and Evaluation Management Support	1,246.9	1,196.0	1,268.4	1,277.6	1,275.3
Operational Systems Development	866.9	1,283.2	1,270.9	1,261.8	1,150.3
Total	\$6,915.1	\$7,483.9	\$7,392.2	\$8,001.9	\$8,126.6

Narrative Statement

Research, Development, Test, and Evaluation (RDT&E) programs are classified in the following seven Budget Activities (BAs): Basic Research (BA1), Applied Research (BA2), Advanced Technology Development (BA3), Advanced Component Development and Prototypes (BA4), Systems Development and Validation (BA5), RDT&E Management Support (BA6), and Operational Systems Development (BA7). The definition of each type of RDT&E Budget Activity and representative examples of the research being conducted in each BA is explained below.

Basic Research (BA1) is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and observable facts without specific applications, processes, or products in mind. Basic research includes all scientific study and experimentation directed toward increasing fundamental knowledge and understanding in those

fields of the physical, engineering, environmental, and life sciences related to long-term national security needs. It is farsighted, high payoff research that provides the basis for technological progress. Major outputs are scientific studies and research papers.

The following are two representative program examples for this BA:

Defense Research Sciences (PE 0601102A): This PE builds fundamental scientific knowledge contributing to the sustainment of U.S. Army scientific and technological superiority in land warfighting capability and solving military problems related to long-term national security needs, investigates new concepts and technologies for the Army's future force, and provides the means to exploit scientific breakthroughs and avoid technological surprises. This PE fosters innovation in Army niche areas (e.g., lightweight armor, energetic materials, and night vision capability) and areas where there is no commercial investment due to limited markets (e.g., vaccines for tropical diseases). It also focuses university single investigator research on areas of high interest to the Army (e.g., high-density compact power and novel sensor phenomenologies). The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to transition knowledge and technology into appropriate developmental activities. The extramural program leverages the research efforts of other government agencies, academia, and industry.

University and Industry Research Centers (PE 0601104A): This PE fosters university- and industry-based research to provide a scientific foundation for enabling technologies for future force capabilities. Broadly, the work in this PE falls into three categories: Collaborative Technology Alliances/Collaborative Research Alliances (CTAs/CRAs), University Centers of Excellence (COE), and University Affiliated Research Centers (UARCs). The Army formed CTAs to leverage large investments by the commercial sector in basic research areas that are of great interest to the Army. CTAs are industry-led partnerships between industry, academia, and the Army Research Laboratory (ARL) to incorporate the practicality of industry, the expansion of the boundaries of knowledge from universities, and Army scientists to shape, mature, and transition technology relevant to the Army mission. CTAs have been competitively established in the areas of Micro Autonomous Systems Technology (MAST), Network Sciences, Robotics, and Cognition and Neuroergonomics. CRAs are academia-led partnerships, which leverage the cutting-edge innovation found in the academic environment. CRAs have been established in the areas of Multi-Scale Materials Modeling (electronic materials and materials in extreme environments) and in cyber security. The COEs focus on expanding the frontiers of knowledge in research areas where the Army has enduring needs, and couples state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in automotive and rotary wing technology.

Also included in PE 0601104A are Army Educational Outreach Program (AEOP) and activities to stimulate interest in science, math, and technology among middle and high school students. This PE includes support for basic research at three Army UARCs, which have been created to exploit opportunities to advance new capabilities through a sustained long-term multidisciplinary effort. The Institute for Soldier Nanotechnologies focuses on Soldier protection by emphasizing revolutionary materials research for advanced Soldier protection and survivability. The Institute for Collaborative Biotechnologies focuses on enabling network centric-technologies, and broadening the Army's use of biotechnology for the development of bio-inspired materials, sensors, and information processing. The Institute for Creative Technologies is a partnership with academia and the entertainment and gaming industries to leverage innovative research and concepts for training and simulation. Examples of specific research of mutual interest to the entertainment industry and the Army are technologies for realistic immersion in synthetic environments, networked simulation, standards for interoperability, and tools for creating simulated environments. This PE also includes the Historically Black Colleges and Universities and Minority Institution (HBCU/MI) Centers of Excellence that address critical research areas for Army Transformation.

Applied Research (BA2) is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include non-system specific development efforts.

The following are two representative program examples for this BA:

Combat Vehicle and Automotive Technology (PE 0602601A): This PE researches, designs, and evaluates combat and tactical vehicle automotive technologies that enable the Army to have a lighter, more survivable, more mobile, and more deployable force. Project C05 investigates, researches, and evaluates advanced ground vehicle design and occupant protection technologies in such areas as armor concepts, ballistic defeat mechanisms, blast mitigation, survivability modeling and simulation (M&S), hit avoidance, kill avoidance, safety, sensors, counter-measures, instrumentation, and survivability packaging concepts to achieve superior survivability/protection for Soldiers and military ground vehicles. Survivability technologies will be designed for integration into the Modular Active Protection System (MAPS). Project H77 funds the National Automotive Center (NAC), which was chartered by the Secretary of the Army to conduct shared government and industry, or “dual use,” technology programs to leverage commercial investments in automotive technology research and development for Army ground combat and tactical vehicle applications. Project H91 designs, matures, and evaluates a variety of innovative and enabling technologies in the areas of electrical power, thermal management, propulsion, mobility, power for advanced survivability, vehicle diagnostics, fuels, lubricants, water purification, intelligent systems, autonomy-enabled systems, and other component technologies to enhance the mobility, power and energy and reduce the logistic chain of combat and tactical vehicles. This PE executes the Army’s Combat Vehicle Prototyping (CVP) program to mature, integrate, and demonstrate ground vehicle leap-ahead technologies in support of future combat vehicles.

Ballistics Technology (PE 0602618A): This PE investigates and evaluates materials and technologies, and designs and develops methodologies and models required to enable enhanced lethality and survivability. Project H80 focuses on applied research of lightweight armors and protective structures for the Soldier and vehicles; kinetic energy active protection; crew and components protection from ballistic shock and mine-blast; insensitive propellants/munitions formulations; novel multi-function warhead concepts; affordable precision munitions design; and techniques, methodologies, and models to analyze combat effectiveness, and identify vulnerabilities of current and emerging technologies; and developing a demonstrator with associated methods and tools for injury prediction of vehicle occupants during under-body blast events.

Advanced Technology Development (BA3) is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operations and producibility rather than the development of hardware for service use. It employs demonstration activities intended to prove or test a technology or method and projects within this Budget Activity have a direct relevance to identified military needs.

The following are two representative examples for this BA:

Advanced Tactical Computer Science and Sensor Technology (PE 0603772A): This PE matures and demonstrates technologies that allow the Warfighter to effectively collect, analyze, transfer, and display situational awareness information in a network-centric battlefield environment. It matures and demonstrates architectures, hardware, software and techniques that enable Synchronized mission command (MC) during rapid, mobile, dispersed, and Joint operations. Project 101 matures software, algorithms, services, and devices to more effectively integrate MC across all echelons and enable more effective utilization of Warfighter resources including intelligent power management and distribution through accelerated information to decisions and rapid MC on the move. Project 243 matures and demonstrates signal processing and information/intelligence fusion software, algorithms, services, and systems for Army sensors; radio frequency (RF) systems to track and identify enemy forces and personnel; and multi-sensor control and correlation software and algorithms to improve reconnaissance, surveillance, tracking, and target acquisition.

Medical Advanced Technology (PE 0603002A): This PE matures and demonstrates advanced medical technologies including drugs, vaccines, medical diagnostic devices, measures for identification and vector control, and developing medical practices and procedures to effectively protect and improve the survivability of United States Forces across the entire spectrum of military operations. Tri-Service coordination and cooperative efforts are focused in four principal medical areas: Combat Casualty Care, Military Operational Medicine, Militarily Relevant Infectious Diseases, and Clinical and Rehabilitative Medicine. Promising medical technologies are refined and validated through extensive testing, which

is closely monitored by the U.S. Food and Drug Administration (FDA) and Environmental Protection Agency (EPA), as part of their processes for licensing and/or approving new medical products. The FDA requires medical products to undergo extensive preclinical testing in animals and/or other models to obtain preliminary effectiveness and safety information before they can be tested in human clinical trials. Clinical trials are conducted in three phases to prove the safety of a drug, vaccine, or device for the targeted disease or medical condition, starting in Phase 1 with a small number of healthy volunteers. Following Phase 1, Phase 2 clinical trials will provide expanded safety data and evaluate the effectiveness of a drug, vaccine, or medical device in a larger population of patients having the targeted disease or medical condition. Each successive phase includes larger numbers of human subjects and requires FDA cognizance prior to proceeding. Work conducted in this PE primarily focuses on late stages of technology maturation activities required to conduct Phases 1 and 2 clinical trials. Some high-risk technologies may require additional maturation with FDA guidance prior to initiating these clinical trials. Such things as proof of product stability and purity are necessary to meet FDA standards before entering later stages of testing and prior to transitioning into a formal acquisition program where large Phase 3 pivotal trials will be conducted for licensure. Activities in this PE may include completion of preclinical animal studies and Phase 1 and 2 clinical studies involving human subjects according to FDA and EPA requirements. Promising medical technologies that are not regulated by the FDA are modeled, prototyped, and tested in relevant environments.

Advanced Component Development and Prototypes (ACD&P, BA4) evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of ACD&P are hardware and software components, or complete weapon systems ready for operational and developmental testing and field use.

The following is a representative example for this BA:

Aviation - Advanced Development (PE 0603801A): This program provides advanced development aviation support of tactical programs associated with air mobility, advanced maintenance concepts and equipment, and Aircrew Integrated Systems. This program demonstrates the feasibility and maturity of new technology and gains understanding in order to evaluate utility of this technology to expedite delivery of new capabilities for the Army aviation rotary-wing assets. Additionally, the aviation ground support equipment assets enhance the functionality of current and future aircraft by (1) improving the effectiveness of maintenance and servicing operations through validating new maintenance concepts to improve man and machine interfaces; (2) improving aircraft maintenance processes; (3) reducing operation and support costs; and (4) inserting diagnostic technologies to replace obsolete and unsupportable equipment.

System Development and Demonstration (BA5) involves programs that have passed Milestone B approval and are conducting engineering and manufacturing development tasks aimed at meeting validated requirements prior to full-rate production. It consists primarily of pre-production efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

The following is a representative example for this BA:

Patriot/Medium Extended Air Defense System Combined Aggregate Program (CAP) (PE 0604869A): The Medium Extended Air Defense System (MEADS) program is a tri-national, co-development program among the United States, Germany, and Italy to replace the U.S. Patriot air defense systems, Patriot and Hawk systems in Germany, and Nike Hercules systems in Italy. The North Atlantic Treaty Organization (NATO) MEADS Management Agency (NAMEADSMA) is the NATO contracting authority that manages the system acquisition, and the MEADS program, itself, on behalf of participating nations. Within the Patriot/MEADS CAP, there are two synergistic efforts: (1) an international MEADS development effort managed by NAMEADSMA; and (2) a U.S. effort to inject U.S.-specific capability requirements into the MEADS major end items. The MEADS will provide joint and coalition forces with critical asset and defended area protection against multiple and simultaneous attacks by short- to medium-range ballistic missiles, cruise missiles, unmanned aerial vehicles and tactical air-to-surface missiles. The Missile Segment Enhancement (MSE) missile has been accepted as the baseline missile for MEADS. It is being developed for the Patriot system to meet U.S. operational requirements. The MSE will provide a more agile and lethal interceptor that increases the engagement envelope/defended area of the Patriot and the MEADS systems. The PAC-3 MSE improves upon the current PAC-3 missile capability by providing a higher performance solid

rocket motor, modified lethality enhancer, more responsive control surfaces, upgraded guidance software, and insensitive munitions improvements.

RDT&E Management Support (BA6) is support for installations and operations for general R&D use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

The following is a representative example for this BA:

Army Test Ranges and Facilities (0605601A): This program funds the indirect test costs associated with rapidly-testing field systems and equipment needed in support of the War on Terror, such as individual Soldier protection equipment and countermeasures for improvised explosive devices (IEDs) and up-armoring the Army's wheeled vehicle fleet. This project sustains the developmental test and evaluation capability required to support the Army as well as joint service or other service systems' hardware and technologies. Unclassified systems scheduled for developmental testing encompass the entire spectrum of weapons systems. Capabilities are also required to support system-of-systems and network-centric systems to include future combat system testing.

This project provides the institutional funding required to operate the developmental test activities required by DoD program executive officers; program and product managers; and research, development, and engineering centers. This project resources four DoD major range and test facility bases: White Sands Missile Range, New Mexico; Aberdeen Test Center, Maryland; Electronic Proving Ground, Arizona; and Yuma Proving Ground, Arizona, and includes management of natural environmental testing at Cold Regions Test Center, Fort Greely and Fort Wainwright, Alaska, and the Tropic Regions Test Center at various locations. This project also funds the Army's developmental test capability at Aviation Technical Test Center and Redstone Technical Test Center, Alabama. Test planning and safety verification at Headquarters, U.S. Army Developmental Test Command, Maryland, is also supported by this program.

Operational Systems Development (BA7) includes development efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal year. All items are major line item projects that appear as RDT&E Costs of Weapon System Elements in other programs.

The following is a representative example for this BA:

Information Systems Security Program (0303140A): The Communications Security Equipment Program develops information systems security (ISS) equipment and techniques required to combat threat signal intelligence capabilities and to ensure the integrity of data networks. The Army's RDT&E ISS program objective is to implement National Security Agency-developed security technology in Army information systems. Communications security equipment technology ensures total signal and data security for all Army information systems to include any operational enhancement and specialized configurations.

FISCAL YEAR 2017 REQUIRED SUPPLEMENTARY INFORMATION

Real Property Deferred Maintenance and Repairs

For Fiscal Years Ended September 30, 2017 and 2016

(Amounts in millions)	Current Fiscal Year (CFY) 2017			Prior Fiscal Year (PFY) 2016		
	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/Plant Replacement Value)
Property Type						
Category 1	\$302,210	\$44,850	15%	\$351,173	\$53,842	15%
Category 2	\$46,584	\$8,162	18%	\$6,272	\$1,890	30%
Category 3	\$14,885	\$4,384	29%	\$16,719	\$4,683	28%

Narrative Statement

Per DoD *Financial Management Regulation* 7000.14-R (December 2016), Volume 6B, Chapter 12; Para 120303E, the DoD component that reports the real property in its financial statements is primarily responsible for preparing, compiling and reporting the Required Supplementary Information (RSI) for deferred maintenance and repairs on that real property. The Army's deferred maintenance estimates for FY 2017 include all facilities in which DoD has ownership interest under the control of the Army and are not funded for Sustainment by another service, Non-Appropriated Funds, commissary surcharges or non DoD sources. Assets that have been fully disposed, damaged beyond repair, are obsolete or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings reported in the Installation Status Report (ISR) 4th Quarter 2017 and 2016 or Q-ratings obtained by application of business rules described below. For FY 2017 and 2016, the Q-rating values range from 0 to 100. Deferred maintenance and repair is calculated as follows:

$$\text{Deferred Maintenance and Repair} = (100 - \text{Q-rating}) \times 0.01 \times \text{plant replacement value (PRV)}.$$

Q-ratings are determined by the ISR for the majority of facilities, and by business rule for the remaining facilities. During ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: 95 if the facility is no more than 5 years old; 85 if the facility is permanent or semi-permanent construction and between 5 and 15 years old; 70 if the facility is permanent or semi-permanent construction and more than 15 years old; 40 if the facility is temporary construction and more than 5 years old; 95 if the asset is a lease. For assets with a Non-Functional operational status, assigned Q-ratings are 95 if the reason code is RENO, 70 if the reason code is ENVR, and 40 if the reason code is DAMG. Acceptable operating condition represents facilities with no deferred maintenance.

Facilities with an ownership interest of "FEE" and "ONFG" are included in the data set; relocatable buildings are excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of "Active" or "Semi-Active" are included, less those that meet the following criteria:
 1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year;
 2. The asset is designated as a Heritage Asset;
 3. Disposal Completion Date is associated with the asset; and
 4. A Disposition Reason Code is associated with the asset.

- Category 2: Buildings, Structures, and Utilities that are Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of “Active” or “Semi-Active” and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:
 1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year;
 2. A Disposal Completion Date is associated with the asset; and
 3. A Disposition Reason Code is associated with the asset.
- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets. Facilities with an Operational Status of “Caretaker,” “Excess,” “Non-Functional,” “Outgrant,” “Surplus” or “Closed” plus “Active” and “Semi-active” with a Disposal Reason Code plus “Active” and “Semi-active” with a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

Equipment Deferred Maintenance and Repair (DM&R)

For Fiscal Year Ended September 30, 2017				
<i>(Amounts in thousands)</i>				
Major Categories	PFY 2016 DM&R	CFY OP-30/PB-45/ PB-61 Amounts	Adjustments	CFY 2017 Totals
Aircraft	\$151	\$2,798	-	\$2,798
Automotive Equipment	344,215	325,628	-	325,628
Combat Vehicles	186,947	243,693	-	243,693
Construction Equipment	18,022	5,650	-	5,650
Electronics and Communications Systems	26,015	23,763	-	23,763
General Purpose Equipment	239,140	221,001	-	221,001
Missiles	30,236	26,290	-	26,290
Ordnance Weapons and Munitions	7,380	2,954	-	2,954
Other	65,382	7,051	-	7,051
Ships	341	342	-	342
Grand Total	\$917,829	\$859,170	-	\$859,170

The OP-30 from the FY 2017 president’s budget was used to compile the deferred depot level maintenance. Depot Maintenance Operations and Planning System is the automated system for capturing depot-level deferred maintenance data. The data is for subactivity group 123, all active components.

Funding provided to support the Program Objective Memorandum (POM) 12-16 for depot maintenance adequately supported the Army’s most critical modernization and equipping strategies. The program ensured that Soldiers have the equipment needed to execute their assigned mission as they progress through the Army Force Generation (ARFORGEN) cycle. The bottom-line is that depot maintenance requirements continue to grow while the Army continues to get fewer resources with reduced budgets.

The funding also provided the resources necessary for Land Forces Depot Maintenance to meet the requirements of an Army transitioning from operations in theater to home station training – an expeditionary Army engaged in full spectrum operation (FSO) training and poised for future contingency response. In recent years, the Army has leveraged Overseas Contingency Operation (OCO) dollars to offset depot maintenance through equipment reset for redeploying units. Redeployed units will demand greater equipment to support FSO training and future contingencies. To meet the exigencies of war, the Army has generated a digitally dependent force. The digitally integrated Army of today is far different from the analog Army that went to war at the beginning of the decade. These technologies must now be sustained.

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2017

The conditions of archeological sites across the Army remain varied from poor to excellent based on a number of factors including the environmental setting and natural disasters, the type of the site, and impacts from the Army activities. If an Army activity has the potential to adversely impact an archeological site eligible for the National Register, the Garrison's Installation Cultural Resources Management Plan (ICRMP) contains provisions for how the installation might proceed to avoid, minimize, or mitigate those impacts. The ICRMPs provide installations the information and tools necessary to manage their cultural resources, including archeological sites, in compliance with federal requirements. These plans provide for site protection, site condition monitoring, and mitigation procedures for adverse impacts to sites. Overall, the conditions of sites on the Army installations are fair, based on the Army's cultural resource management procedures.



Department of Defense
DEPARTMENT OF THE ARMY

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction
Budgetary Resources:				
Unobligated balance brought forward, Oct 1	\$ 3,499,678	\$ 8,852,622	\$ 1,272,060	\$ 5,545,813
Recoveries of prior year unpaid obligations	736,660	2,080,516	4,154,413	344,493
Other changes in unobligated balance (+ or -)	(314,156)	(584,241)	(1,025,820)	(452,260)
Unobligated balance from prior year budget authority, net	\$ 3,922,182	\$ 10,348,897	\$ 4,400,653	\$ 5,438,046
Appropriations (discretionary and mandatory)	8,814,372	21,025,732	57,660,239	1,160,589
Spending Authority from offsetting collections (discretionary and mandatory)	4,900,887	1,962,487	362,337	4,319,835
Total Budgetary Resources	\$ 17,637,441	\$ 33,337,116	\$ 62,423,229	\$ 10,918,470
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	\$ 13,355,515	\$ 23,019,093	\$ 61,315,351	\$ 6,243,227
Unobligated balance, end of year				
Apportioned, unexpired accounts	3,274,940	9,115,620	48,504	3,645,765
Exempt from apportionment, unexpired accounts	-	-	-	-
Unapportioned, unexpired accounts	-	-	-	92,140
Unexpired unobligated balance, end of year	3,274,940	9,115,620	48,504	3,737,905
Expired unobligated balance, end of year	1,006,986	1,202,403	1,059,374	937,338
Total unobligated balance, end of year	\$ 4,281,926	\$ 10,318,023	\$ 1,107,878	\$ 4,675,243
Total Budgetary Resources	\$ 17,637,441	\$ 33,337,116	\$ 62,423,229	\$ 10,918,470
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, Oct 1	\$ 7,709,585	\$ 26,352,902	\$ 4,847,636	\$ 9,152,516
New obligations and upward adjustments	13,355,515	23,019,093	61,315,352	6,243,227
Outlays (gross) (-)	(12,361,245)	(18,476,863)	(57,557,532)	(5,881,497)
Recoveries of prior year unpaid obligations (-)	(736,660)	(2,080,516)	(4,154,413)	(344,493)
Unpaid obligations, end of year	7,967,195	28,814,616	4,451,043	9,169,753
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(3,725,244)	(3,258,357)	(31,741)	(7,750,585)
Change in uncollected pymts, Fed sources (+ or -)	(172,573)	(40,201)	(17,377)	(212,148)
Uncollected pymts, Fed sources, end of year (-)	(3,897,817)	(3,298,558)	(49,118)	(7,962,733)
Obligated balance, start of year (+ or -)	\$ 3,984,341	\$ 23,094,545	\$ 4,815,895	\$ 1,401,931
Obligated balance, end of year (+ or -)	\$ 4,069,378	\$ 25,516,058	\$ 4,401,925	\$ 1,207,020
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	\$ 13,715,259	\$ 22,988,219	\$ 58,022,576	\$ 5,480,424
Actual offsetting collections (discretionary and mandatory) (-)	(4,731,027)	(1,922,289)	(346,119)	(4,107,687)
Change in uncollected customer payments from Federal	(172,573)	(40,201)	(17,377)	(212,148)
Recoveries of prior year paid obligations (discretionary and mandatory)	2,713	2	1,160	-
Budget Authority, net (discretionary and mandatory)	\$ 8,814,372	\$ 21,025,731	\$ 57,660,240	\$ 1,160,589
Outlays, gross (discretionary and mandatory)	12,361,245	18,476,863	57,557,532	5,881,497
Actual offsetting collections (discretionary and mandatory) (-)	(4,731,027)	(1,922,289)	(346,119)	(4,107,687)
Outlays, net (discretionary and mandatory)	7,630,218	16,554,574	57,211,413	1,773,810
Distributed offsetting receipts (-)	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	\$ 7,630,218	\$ 16,554,574	\$ 57,211,413	\$ 1,773,810

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

Department of Defense
DEPARTMENT OF THE ARMY

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	Operations, Readiness & Support	2017 Combined	2016 Combined
Budgetary Resources:			
Unobligated balance brought forward, Oct 1	\$ 14,553,979	\$ 33,724,152	\$ 35,230,814
Recoveries of prior year unpaid obligations	7,632,036	14,948,118	19,531,882
Other changes in unobligated balance (+ or -)	(5,406,302)	(7,782,779)	(4,822,374)
Unobligated balance from prior year budget authority, net	\$ 16,779,713	\$ 40,889,491	\$ 49,940,322
Appropriations (discretionary and mandatory)	68,837,975	157,498,907	147,453,294
Spending Authority from offsetting collections (discretionary and mandatory)	8,706,787	20,252,333	21,342,475
Total Budgetary Resources	\$ 94,324,475	\$ 218,640,731	\$ 218,736,091
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	\$ 81,819,685	\$ 185,752,871	\$ 185,011,939
Unobligated balance, end of year			
Apportioned, unexpired accounts	2,381,172	18,466,001	16,279,348
Exempt from apportionment, unexpired accounts	31,344	31,344	33,498
Unapportioned, unexpired accounts	33,102	125,242	159,103
Unexpired unobligated balance, end of year	2,445,618	18,622,587	16,471,949
Expired unobligated balance, end of year	10,059,172	14,265,273	17,252,203
Total unobligated balance, end of year	\$ 12,504,790	\$ 32,887,860	\$ 33,724,152
Total Budgetary Resources	\$ 94,324,475	\$ 218,640,731	\$ 218,736,091
Change in Obligated Balance:			
Unpaid obligations:			
Unpaid obligations, brought forward, Oct 1	\$ 47,522,079	\$ 95,584,718	\$ 99,818,300
New obligations and upward adjustments	81,819,684	185,752,871	185,011,939
Outlays (gross) (-)	(73,339,162)	(167,616,299)	(169,713,639)
Recoveries of prior year unpaid obligations (-)	(7,632,036)	(14,948,118)	(19,531,882)
Unpaid obligations, end of year	48,370,565	98,773,172	95,584,718
Uncollected payments:			
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(9,595,734)	(24,361,661)	(22,926,443)
Change in uncollected pymts, Fed sources (+ or -)	118,971	(323,328)	(1,435,218)
Uncollected pymts, Fed sources, end of year (-)	\$ (9,476,763)	\$ (24,684,989)	\$ (24,361,661)
Obligated balance, start of year (+ or -)	\$ 37,926,345	\$ 71,223,057	\$ 76,891,857
Obligated balance, end of year (+ or -)	\$ 38,893,802	\$ 74,088,183	\$ 71,223,057
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	\$ 77,544,762	177,751,240	168,795,769
Actual offsetting collections (discretionary and mandatory) (-)	(8,855,445)	(19,962,567)	(19,933,236)
Change in uncollected customer payments from Federal	118,971	(323,328)	(1,435,218)
Recoveries of prior year paid obligations (discretionary and mandatory)	29,686	33,561	24,420
Budget Authority, net (discretionary and mandatory)	\$ 68,837,974	\$ 157,498,906	\$ 147,451,735
Outlays, gross (discretionary and mandatory)	73,339,162	167,616,299	169,713,639
Actual offsetting collections (discretionary and mandatory) (-)	(8,855,445)	(19,962,567)	(19,933,236)
Outlays, net (discretionary and mandatory)	64,483,717	147,653,732	149,780,403
Distributed offsetting receipts (-)	142,653	142,653	(362,062)
Agency Outlays, net (discretionary and mandatory)	\$ 64,626,370	\$ 147,796,385	\$ 149,418,341

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



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 7, 2017

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Army General Fund FY 2017 and
FY 2016 Basic Financial Statements (Project No. D2017-D000FI-0131.000,
Report No. DODIG-2018-013)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying Army General Fund consolidated balance sheet as of September 30, 2017, and September 30, 2016, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

Army management is responsible for the annual financial statements. Management is responsible for: (1) preparing financial statements that conform with accounting principles generally accepted in the United States of America (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the Army General Fund's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements," September 29, 2017. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by GAGAS that are consistent with the representations made by management. Army management asserted to us that the Army General Fund FY 2017 and FY 2016 Basic Financial Statements would not substantially conform to GAAP and that Army General Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2017. We considered the scope limitation in forming our conclusions on the basic financial statements. Accordingly, we did not perform all the auditing procedures required by GAGAS and OMB Bulletin No. 17-03 to determine whether material amounts on the basic financial statements were presented fairly.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Army General Fund FY 2017 and FY 2016 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Army management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements.

Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), “Financial Reporting Requirements,” August 15, 2017, and DoD Regulation 7000.14-R, “Financial Management Regulation,” volume 6b, “Form and Content of the Department of Defense Audited Financial Statements.”

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements and compliance with OMB regulations and audit requirements for financial reporting. Army management represented that instances of noncompliance identified in prior audits continue to exist; therefore, we did not determine whether the Army General Fund complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. It was not our objective to provide an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements and, accordingly, we do not express such an opinion.

See Attachment 1 for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Deputy Assistant Secretary of the Army (Financial Operations), who provided technical comments we have incorporated as appropriate. The Deputy Assistant Secretary of the Army (Financial Operations) expressed continuing commitment to address the problems this report outlines. See Attachment 2 for the full text of the management comments.

This report will be made publicly available under section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Army management; and the DoD Office of Inspector General. This report is not intended for, nor should it be used by, any other audience.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.



Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Attachments: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Army General Fund's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances and for expressing our opinion on the basic financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal controls to include providing reasonable assurance that Army personnel recorded, processed, and summarized accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal controls over financial reporting, and we do not do so. However, the following material weaknesses and significant deficiency continue to exist and could adversely affect the Army General Fund's financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Army General Fund's financial statements will not be prevented, or detected and corrected, on a timely basis. The following material weaknesses continue to exist.

Financial Management Systems. The Army has not implemented sufficient effective information technology controls to protect the Enterprise Resource Planning and related feeder systems financial data. Specifically, the Army did not consistently:

- implement application, operating system, and database access controls around the authorization, provisioning, monitoring, and de-activation of end users, super users, and system administrative support users;

- establish a comprehensive process to identify, define, evaluate, restrict, document, and implement user privileges;
- implement a comprehensive application, operating system, and database configuration change management process to prevent direct changes from being made in the production environment;
- design and implement formal vulnerability management and assessment programs for the operating systems, databases, and applications; and
- design and document effective operating system, database, and application backup procedures and maintain evidence of operating system, database, and application backups when performed for certain financial systems.

Fund Balance With Treasury. The DoD, including the Army, has had long-standing problems in reconciling transaction activity in its Fund Balance with Treasury accounts. Appropriation balances recorded in the accounting records do not agree with balances held at Treasury. Collections and disbursements at the detailed transaction level do not reconcile with the records of the Department of the Treasury.

The Fund Balance with Treasury reconciliation is a key control for supporting the existence, completeness, and accuracy of the budgetary authority and outlays reported on the statement of budgetary resources. The monthly reconciliation was not properly designed as follows.

- The Army did not perform a reconciliation at the detailed appropriation level, which compares its proprietary cash to budgetary cash to determine that certain budgetary balances exist, are complete, and are accurate.
- The Army's service provider did not record adjustments at the transactional level to enable the service provider to support the adjustments to account for variances between Treasury and Army records.
- At yearend, a variance existed between the recorded Treasury cash balance and the recorded Army cash balance due to timing differences and adjustments recorded in the general ledger. The Army was unable to provide documents to demonstrate that these differences were resolved.

Accounts Receivable. The Army has not complied with policies and procedures regarding referrals to the Debt Management Office of the Department of the Treasury and for write-offs of 2-year-old debt. The Army also has a lack of controls to ensure all entitlement system receivables (vendor pay, civilian pay, and interest) are recorded in the accounting systems and accounts receivable balances are supportable at the transaction level. The weakness applies to both public and intragovernmental receivables at the Army General Fund-level.

Inventory and Related Property (Operating Materials and Supplies). Army systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." Instead, inventories are valued and reported at approximate historical cost using latest acquisition cost adjusted for holding gains and losses. Army systems are also unable to produce financial transactions using the U.S. Government Standard General Ledger.

General Property, Plant, and Equipment. The Army acknowledged that it has not recorded real property and general equipment at acquisition or historical cost and did not include all the costs needed to bring these assets to a form and location suitable for their intended use. The Army also does not have an accountability system for all its Military Table of Equipment unit property books that complies with FFMIA.

Accounts Payable. Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," requires intragovernmental transactions to be reported separately from amounts owed to the public. The Army General Fund is unable to account for and report accounts payable properly. Due to the material weakness in accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to Federal or non-Federal accounts payable and accounts receivable at the time accounting reports are prepared. Accordingly, DoD policy is to allocate supported undistributed disbursements and collections between Federal and non-Federal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and accounts receivable accordingly. In addition, Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales. Therefore, the Army has acknowledged that it was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payables.

Environmental Liabilities. For example, the processes used to report Environmental Liabilities for the Defense Environmental Restoration Program, Base Realignment and Closure, and the non-Defense Environmental Restoration Program on the financial statements were not adequate to establish or maintain sufficient documentation and audit trails.

Statement of Net Cost. The financial information contained in the statement of net cost is not presented by programs that align with major goals and outputs described in the DoD strategic and performance plans required by the Government Performance and Results Act of 1993. Because financial processes and systems do not correlate costs with performance measures, revenues and expenses are reported by appropriation categories. The amounts presented in the statement of net cost are based on funding, obligation, and disbursing transactions, which are not always recorded using accrual accounting. The Army systems do not always record the transactions on an accrual basis as required by GAAP. To capture all cost and financing sources for the Army, the information presented also includes data from non-financial feeder systems. In addition, the Army General Fund budgetary and proprietary information does not correlate.

Statement of Budgetary Resources. Army accounting systems did not provide or capture the data needed for obligations incurred or prior year obligations recovered in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget Requirements," July 2017. Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined.

In addition, the information presented in the Army General Fund statement of budgetary resources does not completely agree with the information submitted in the yearend "Reports on Budget Execution and Budgetary Resources."

Intragovernmental Eliminations. The Army General Fund is unable to collect, exchange, and reconcile buyer and seller Intragovernmental transactions, resulting in adjustments that were not verifiable. This is primarily because of systems' limitations, as the majority of the systems currently used within the DoD do not allow the capture of buyer-side information for use in reconciliations and eliminations. Both DoD and Army

to facilitate required trading partner eliminations, and DoD guidance did not require adequate support for eliminations. In addition, DoD procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations.

Accounting Adjustments (Journal Vouchers). Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army General Fund basic financial statements. For FY 2017 yearend, Defense Finance and Accounting Service personnel identified that they did not adequately support \$45.8 billion in journal voucher adjustments used to prepare the Army General Fund basic financial statements. In addition, the Army had internal control deficiencies over journal entries and other adjustments to the general ledger. Improvements are needed in management's process to provide complete and timely populations of journal vouchers and provide appropriate supporting documentation for manual adjustments.

Abnormal Account Balances. Defense Finance and Accounting Service personnel did not detect, report, or take action to eliminate abnormal balances included in the Army General Fund accounting records. Abnormal balances not only distort the Army General Fund financial statements, but can also indicate internal control and operational deficiencies and may conceal instances of fraud.

Contingency Payment Audit Trails. The Army acknowledged that the maintenance of substantiating documents by certifying and entitlement activities creates significant challenges in tracing audit trails for support of financial statements. Payments that are not properly supported do not provide the necessary assurance that funds were used as intended.

Reconciliation of Net Cost of Operations to Budget. Statement of Federal Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of proprietary information to assist users in understanding the relationship of the data. Due to the limitations of the Army General Fund financial systems, budgetary data do not agree with proprietary expenses and capitalized assets. The Army could not reconcile the information reported in Note 21 with the Army General Fund statement of net cost without preparing \$3.7 billion in unsupported adjustments.

Completeness. Army management has deficiencies in the ability to provide complete and reconciled transaction populations.

- **Reconciling Information Included in Different Systems.** The Army did not design and implement controls to validate that information is transferred completely and accurately between feeder systems, from feeder systems to the general ledger systems/legacy financial accounting systems, and to the main financial accounting system of record and the financial reporting system.
- **Internal Control Gaps.** The Army did not consistently develop and implement internal controls to reconcile information from source documents to systems to mitigate risk of misstatement.
- **Completeness of Control Populations and Other Control Deficiencies.** The Army had deficiencies in providing complete populations and in the operating effectiveness of controls related to the completeness of balances in the general ledger.
- **Incomplete Balances Due to Ineffective Cut-off and Suspense Transactions.** The Army did not design and implement controls to ensure that the Army has proper cut-off of financial transactions between accounting periods and to resolve suspense and collection error report balances at yearend.

Evidential Matter – Supporting Documentation. The Army did not consistently have sufficient evidential matter readily available to demonstrate that contractual services, military payroll, civilian payroll, reimbursable authority, disbursement, and collection transactions were properly reported in the statement of budgetary resources. Specifically, evidential matter:

- was not readily available and provided for review by the agreed upon due date;
- was provided for review, but the amount on the evidential matter did not agree with the general ledger detail used to prepare the statement;
- was insufficient or could not be linked to the transaction recorded in the general ledger used to prepare the statement; and
- was inappropriately reviewed or approved.

Service Provider Oversight. The Army did not have policies and procedures to assess service providers that host or manage financial systems that support amounts reported on the Army General Fund statement of budgetary resources. Specifically, the Army did not consistently perform and document an understanding of the services provided and the related service organization control reports to determine whether the scope of the service organization report met the Army's needs for obtaining assurance regarding service provider controls. Furthermore, the Army did not identify relevant risks of misstatement associated with the Army's internal control over financial reporting, which are, in part or exclusively, mitigated by controls performed by service providers. The Army needed to evaluate the complementary user entity controls in the service organization control reports and subservice organizations used by the service provider and evaluate test results included in the reports.

Accrual Estimation Methodology. The Army did not develop and implement accrual estimation methodologies to help verify that the balances in the statement of budgetary resources reflected accrual transactions. Specifically, the Army did not develop and implement a process to estimate and record reimbursable authority received as of yearend, and record certain non-payroll obligations incurred and decreases to undelivered orders for goods or services contracted or received as of yearend. The Army also did not establish a process to perform a look-back analysis to determine whether its major procurement system non-payroll accrual methodology was reasonable or provide sufficient evidence to support and identify the civilian payroll and military payroll obligations incurred but not paid as of yearend.

Financial Management Improvements. The Army did not establish an effective control environment over financial management. The Army did not consistently develop and implement effective oversight of financial management and consistently establish effective financial management reporting structure and responsibilities. The Army did not fully train and consistently hold accountable those involved in initiating, processing, and recording financial transactions. As a result, the Army was unable to respond consistently to requests to demonstrate that financial transactions were properly processed and recorded. The Army also did not identify or have sufficient subject matter experts that understand Army financial operations. The Army could not explain and provide documentation to demonstrate that controls were properly designed and implemented and that Army transactions were properly recorded in accordance with accounting standards.

Material Weakness Identified During the Fiscal Year

One new material weakness was identified during the audit of the Army's FY 2016 schedule of budgetary activity and was included in the FY 2017 Army Annual Statement of Assurance.

Beginning Year Balances. Army management did not identify and correct misstatements that may have existed in the FY 2016 closing general ledger balances that form the basis for the beginning of the FY 2017 general ledger balances. The Army also did not have controls in place to identify differences that existed between the FY 2016 ending balances and the FY 2017 opening balances. These deficiencies were not fully remediated due to limited resources and the size and complexity of Army operations. Additionally, journal entries made for the FY 2016 statement of budgetary resources were not appropriately captured in the FY 2017 opening balances due to incomplete transmission of information between financial reporting systems.

Previously Identified Significant Deficiencies

A previously identified significant deficiency continued to exist for the Army General Fund. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. The following significant deficiency continues to exist.

Contingent Legal Liabilities. Although the Army Office of General Counsel provided information in the response to the legal representation request, Army management did not report an estimated range of loss for all cases categorized as Unable to Determine. According to the Government Accountability Office Financial Audit Manual, section 1002.31, when legal counsel does not indicate whether the unfavorable outcome is probable or remote, management and the auditor should conclude that the outcome is reasonably possible, and management should determine the disclosure.

information. As a result, Army's management decisions based in whole or in part on this information may be adversely affected. Financial information reported by the Army may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. We did not identify material weaknesses that were not reported in the Army General Fund's FMFIA report.

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

GAGAS and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we limited our work to determining compliance with selected provisions of the applicable laws, regulations, contracts, and grant agreements. Other noncompliance may have occurred and not been detected, and the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. §1341 [1990]) limits the Army and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. §1517 (2004), the Army and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. §1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2017, the Army General Fund reported 12 ADA violations within 5 completed cases.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," establishes time-frames for identifying and reporting ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. Of the seven potential ADA violation investigations, five have been open for more than 15 months.

Compliance With FFMIA Requirements

The FFMIA requires the Army to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA.

For FY 2017, the Army General Fund did not substantially comply with the FFMIA. The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us that the Army General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2017. Therefore, based on the representation of the Deputy Assistant Secretary of the Army (Financial Operations), we did not substantiate whether the Army General Fund complied with the FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
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SAFM-FO

NOV 06 2017

MEMORANDUM FOR Deputy Inspector General for Auditing, Department of Defense

SUBJECT: Management Response to the Fiscal Year 2017 Army General Fund Financial Statement Audit Report

1. We appreciate the efforts and professionalism your staff exhibited during the audit of the fiscal year (FY) 2017 Army General Fund Financial Statements. We also appreciate the opportunity to comment on the draft report provided to us on November 3, 2017.
2. We concur with the findings identified in the draft Report on Internal Control and will ensure our corrective action plans address the findings identified. We will continue work with our stakeholders correcting issues related to our general ledger, journal voucher adjustments, enterprise resource system posting logic, and abnormal balances.
3. We will take time during FY 2018 documenting actions taken to correct material weaknesses, and address Statement of Budgetary Resources (SBR) findings.
4. The results of continued audit readiness efforts, including corrective actions arising from the ongoing SBR audits, will indicate progress toward resolving longstanding financial reporting material weaknesses and will in turn highlight outstanding issues that present risks to the FY 2018 financial statement audit.
5. The audit report again identifies a significant deficiency with the legal representation process. We stand by our position that the accounting classification of contingent liabilities differs from the legal classification of outcomes. To meet financial reporting requirements, for FY 2017, we reported cases categorized as "Unable to Determine" as "Reasonably Possible", but did not disclose a range of loss. To identify the likelihood of loss before cases are heard or judgments rendered could adversely jeopardize the Army's position with the cases. For FY 2018 reporting, we will work with our general counsel to provide an estimate for cases for which we make the financial reporting change to "Reasonably Possible".



Wesley C. Miller
Deputy Assistant Secretary Army
(Financial Operations)



LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

Department of Defense
ARMY WORKING CAPITAL FUND

CONSOLIDATED BALANCE SHEET

As of September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Consolidated	2016 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 1,520,905	\$ 1,321,157
Accounts Receivable (Note 5)	374,262	338,341
Other Assets (Note 6)	38,565	-
Total Intragovernmental Assets	<u>\$ 1,933,732</u>	<u>\$ 1,659,498</u>
Cash and Other Monetary Assets (Note 7)	\$ 2,440	\$ 4,960
Accounts Receivable, Net (Note 5)	30,416	30,518
Inventory and Related Property, Net (Note 9)	17,850,653	17,948,351
General Property, Plant and Equipment, Net (Note 10)	1,766,816	1,715,087
Other Assets (Note 6)	45,312	62,396
TOTAL ASSETS	<u>\$ 21,629,369</u>	<u>\$ 21,420,810</u>
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 183,858	\$ 135,044
Other Liabilities (Note 15 and Note 16)	87,101	97,091
Total Intragovernmental Liabilities	<u>\$ 270,959</u>	<u>\$ 232,135</u>
Accounts Payable (Note 12)	\$ 25,653	\$ 84,216
Military Retirement and Other Federal Employment Benefits (Note 17)	247,607	256,749
Other Liabilities (Note 15 and Note 16)	369,310	337,801
TOTAL LIABILITIES	<u>\$ 913,529</u>	<u>\$ 910,901</u>
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	\$ 165,085	\$ 122,870
Cumulative Results of Operations - Other Funds	20,550,755	20,387,039
TOTAL NET POSITION	<u>\$ 20,715,840</u>	<u>\$ 20,509,909</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 21,629,369</u>	<u>\$ 21,420,810</u>

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

Department of Defense
ARMY WORKING CAPITAL FUND

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Consolidated	2016 Consolidated
Program Costs		
Gross Costs	\$ 26,312,300	\$ 20,466,537
Operations, Readiness & Support	26,312,300	20,466,537
(Less: Earned Revenue)	\$ (26,428,044)	\$ (18,924,538)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ (115,744)	\$ 1,541,999
Net Program Costs Including Assumption Changes	\$ (115,744)	\$ 1,541,999
Net Cost of Operations	<u>\$ (115,744)</u>	<u>\$ 1,541,999</u>

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

Department of Defense
ARMY WORKING CAPITAL FUND

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Consolidated	2016 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 20,387,039	\$ 22,363,669
Prior Period Adjustments:		
Beginning balances, as adjusted	\$ 20,387,039	\$ 22,363,669
Budgetary Financing Sources:		
Other adjustments (rescissions, etc.)	-	3
Appropriations used	202,768	179,820
Nonexchange revenue	(128)	77
Transfers-in/out without reimbursement	(336,000)	(888,000)
Other budgetary financing sources	-	(3)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(29,991)	(4,891)
Imputed financing from costs absorbed by others	109,230	133,945
Other (+/-)	102,093	144,418
Total Financing Sources	\$ 47,972	\$ (434,631)
Net Cost of Operations (+/-)	(115,744)	1,541,999
Net Change	\$ 163,716	\$ (1,976,630)
Cumulative Results of Operations	\$ 20,550,755	\$ 20,387,039
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 122,870	\$ 107,258
Beginning balances, as adjusted	\$ 122,870	\$ 107,258
Budgetary Financing Sources:		
Appropriations transferred-in/out (+/-)	\$ 244,983	\$ 195,432
Appropriations used	(202,768)	(179,820)
Total Budgetary Financing Sources	\$ 42,215	\$ 15,612
Unexpended Appropriations	165,085	122,870
Net Position	\$ 20,715,840	\$ 20,509,909

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

Department of Defense
ARMY WORKING CAPITAL FUND

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2017 and 2016

<i>(Amounts in thousands)</i>	2017 Combined	2016 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	\$ 4,033,635	\$ 2,523,448
Adjustment to unobligated balance, brought forward, Oct 1 (+ or -)	0	2,083,886
Unobligated balance brought forward, Oct 1, as adjusted,	\$ 4,033,635	\$ 4,607,334
Recoveries of prior year unpaid obligations	1,293,175	971,226
Other changes in unobligated balance (+ or -)	(866,469)	(1,372,823)
Unobligated balance from prior year budget authority, net	\$ 4,460,341	\$ 4,205,737
Appropriations (discretionary and mandatory)	244,983	195,432
Contract Authority (discretionary and mandatory)	6,752,427	5,548,089
Spending Authority from offsetting collections (discretionary and mandatory)	4,309,645	4,672,241
Total Budgetary Resources	\$ 15,767,396	\$ 14,621,499
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 12,093,047	\$ 10,587,864
Unobligated balance, end of year		
Apportioned, unexpired accounts	3,674,349	1,949,749
Unapportioned, unexpired accounts	-	2,083,886
Unexpired unobligated balance, end of year	3,674,349	4,033,635
Unobligated balance, end of year	\$ 3,674,349	\$ 4,033,635
Total Budgetary Resources	\$ 15,767,396	\$ 14,621,499
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	\$ 5,413,367	\$ 9,011,140
New obligations and upward adjustments	12,093,047	10,587,864
Outlays	(10,081,875)	(13,214,411)
Recoveries of prior year unpaid obligations (-)	(1,293,175)	(971,226)
Unpaid obligations, end of year	6,131,364	5,413,367
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(5,905,760)	(8,670,641)
Change in uncollected pymts, Fed sources (+ or -)	197,745	2,764,881
Uncollected pymts, Fed sources, end of year (-)	(5,708,015)	(5,905,760)
Memorandum Entries		
Obligated balance, start of year (+ or -)	\$ (492,393)	\$ 340,499
Obligated balance, end of year (+ or -)	\$ 423,349	\$ (492,393)
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	\$ 11,307,055	\$ 10,415,762
Actual offsetting collections (discretionary and mandatory) (-)	(10,372,640)	(13,417,750)
Change in uncollected customer payments from Federal	197,745	2,764,881
Budget Authority, net (discretionary and mandatory)	\$ 1,132,160	\$ (237,107)
Outlays, gross (discretionary and mandatory)	\$ 10,081,875	\$ 13,214,411
Actual offsetting collections (discretionary and mandatory) (-)	(10,372,640)	(13,417,750)
Outlays, net (discretionary and mandatory)	(290,765)	(203,339)
Agency Outlays, net (discretionary and mandatory)	\$ (290,765)	\$ (203,339)

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army Working Capital Fund (WCF), as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other appropriate legislation. The financial statements have been prepared from the books and records of the Army WCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*; and the Department of Defense (DoD) Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the Army WCF is responsible unless otherwise noted.

The Army WCF is unable to fully implement all elements of USGAAP and the OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. Although the Army WCF now derives reported values and information for major asset and liability categories from the Logistic Modernization Program (LMP) system, LMP contains certain system and posting deficiencies such as budgetary to proprietary imbalances, incomplete and incorrect trading partner data, recoveries of prior year funds, and incomplete accounting information for outgoing Military Interdepartmental Procurement Requests (MIPRs). In addition, LMP contains erroneous and incomplete account balances resulting from their migration from the legacy systems. The Army WCF financial statements and LMP are also compromised by reliance on data from off-line procurement systems, entitlement systems, property systems, debt management and claims systems, and off-line Treasury cash reconciliation processes. The Army WCF is in the process of determining correct migration balances, and continues to implement USGAAP principles, process and system improvements, and compensating controls addressing these limitations.

The Army WCF currently has eleven auditor identified financial statement material weaknesses: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Inventory; (4) General Property, Plant and Equipment; (5) Accounts Payable; (6) Abnormal Account Balances; (7) Statement of Net Cost; (8) Statement of Budgetary Resources; (9) Intragovernmental Eliminations; (10) Other Accounting Entries; (11) Reconciliation of Net Cost of Operations to Budget.

1.B. Mission of the Reporting Entity

The Army mission is to support the national security and defense strategies by providing well-trained, well-led, and well-equipped forces to the Combatant Commanders. This mission encompasses the intent of the Congress, as defined in Title 10 of the U.S.C., to preserve the peace and security and provide for the defense of the U.S., its territories, commonwealths, and possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

The Army WCF is part of the Defense Working Capital Fund, and is divided into two separate business areas: Supply Management and Industrial Operations. These business areas ensure delivery of critical items, such as petroleum products, repair parts, consumable supplies, depot maintenance services, munitions, and weapons to support the deployment and projection of lethal force as required by the nation.

1.C. Appropriations and Funds

The Army WCF receives appropriations and funds as defense working capital (revolving) funds and uses the appropriation and funds to execute its mission and subsequently report on resource usage.

Army WCF received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. Each Army WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action.

At various times, Congress provides additional appropriations to supplement the Army WCF, as an infusion of cash, when revenues are inadequate to cover costs within the corpus.

1.D. Basis of Accounting

The Army WCF's financial management systems are unable to meet all full accrual accounting requirements. This is primarily because many of the Army Working Capital Fund financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP.

The Army WCF's financial statements and supporting trial balances are compiled from the underlying proprietary and budgetary financial data and trial balances of the Army WCF sub-entities. Reportable data is also derived from payroll systems, entitlement systems, property systems, debt management and claims systems, off-line Treasury cash reconciliation processes, and additional interfacing accruals such as procurement accounts payable and Federal Employees' Compensation Act (FECA) liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Army WCF level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until all of the Army WCF's financial and nonfinancial feeder systems and processes are able to collect and report financial information as required by USGAAP, there will be instances when the Army WCF's financial data will be derived from nonfinancial feeder systems.

1.E. Revenues and Other Financing Sources

The Army WCF is divided into two separate business areas: Industrial Operations and Supply Management. Industrial Operations activities recognize revenue according to the percentage-of-completion method, while the Supply Management activities recognize revenue from the sale of inventory items.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. The Army WCF now derives the majority of its reported data from LMP which is designed to collect and record financial information for accruals. However, estimates are made for some major items such as payroll expenses, entitlement systems accruals, unbilled revenue, transportation expenses and work performed by performing activities on outgoing MIPRs. The Army WCF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. However, the Army WCF cannot accurately identify intragovernmental transactions by customer because: (1) the Army Enterprise Systems Integration Program (AESIP) vendor master does not capture the correct buyer and seller data at the transaction level; and, (2) the standard line of accounting (SLOA) has not been implemented by reciprocal trading partners. In addition, the Army WCF cannot determine the correct reciprocal trading partner dollar amounts and necessary eliminations due to numerous deficient business processes such as: (1) buyer and seller systems do not contain the same information, the same accounts, or the same dollar balances; (2) buyer and seller systems are not real time – and do not post transactions and balances at the same time; (3) trading partners are not subject to enforceable agreements for standardization of reciprocal transactions and accounts; (4) buyer and seller transactions do not reside in a standardized, centralized tracking system; and, (5) trading partner information is often not correct, or available, when performing activities solicit third parties to perform actual work (e.g., third party commercial contractors).

Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. LMP implemented a standard financial information structure (SFIS) in FY 2013 and 2015 which incorporated data elements and attributes to enable the Army WCF to more correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. While the Army WCF is unable to fully reconcile intragovernmental transactions with all federal agencies, Army WCF is able to reconcile balances pertaining to Federal Employees' Compensation Act transactions with the Department of Labor and benefit program transactions with the Office of Personnel Management.

Imputed financing represents the cost paid on behalf of the Army WCF by another Federal entity. The Army WCF recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; and (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act.

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, Army WCF sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of the *Act*, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

1.I. Funds with the U.S. Treasury

The Army WCF's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the Army WCF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS submits reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, Army WCF's FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

1.J. Cash and Other Monetary Assets

There are no restrictions on cash or the use or conversion of foreign currencies. Cash is the total of cash resources under the control of DoD including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon an analysis of collection experience grouped by age categories. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies as receivables from other federal agencies are considered to be inherently collectible. Claims for accounts receivables from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.L. Direct Loans and Loan Guarantees

The Army WCF operates no direct loan guarantee programs.

1.M. Inventories and Related Property

The Army WCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in Army WCF materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Army WCF holds materiel based on military need and support for contingencies.

The Army WCF values 100% of its resale inventory using the moving average cost method.

Army complies with SFFAS No. 3, *Interpretation 7, Items Held for Remanufacture*. SFFAS 3 and *Interpretation 7* require that inventory held for repair and resale reflect all capitalized rebuild costs to include the cost of the unserviceable carcasses. LMP capitalizes those costs in a Work in Process account. Fully repaired and rebuilt items are capitalized as *Inventory Held for Sale*. Unserviceable carcasses waiting for induction to repair programs will continue to be accounted for as *Inventory Held for Remanufacture*.

The Army WCF recognizes excess, obsolete, and unserviceable inventory at net zero realizable value pending development of an effective means of valuing such materiel.

Contractor acquired inventory may not be properly accounted for due to system limitation.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by Army WCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include (1) costs related to the production or servicing of items, including direct material, labor, applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

1.N. Investments in U.S. Treasury Securities

The Army WCF has no investments and related interest.

1.O. General Property, Plant and Equipment

The Army WCF's General Property, Plant & Equipment (PP&E) capitalization threshold is \$250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013.

PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100 thousand for equipment and \$20 thousand for real property) and are carried at the remaining net book value.

The Army WCF capitalizes all PP&E used in the performance of its mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

When it is in the best interest of the government, the Army WCF provides government property to contractors to complete contract work. The Army WCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on Army WCF's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government-furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires the Army WCF maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The Army WCF has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The Army WCF has implemented this policy for advances identified as military and civil service employee pay advances, travel advances, and advances in contract feeder systems.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, Army WCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Army WCF records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Army WCF, as the lessee, receives the use and possession of leased property; for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Vehicle leases with General Services Administration (GSA) entered into by the Army WCF are the largest component of operating leases and are based on costs gathered from existing leases, GSA bills, and interservice support agreements.

1.R. Other Assets

The Army WCF other assets include travel advances, credits due for returns and estimated future payments to contractors (future contract financing payments) upon delivery and government acceptance of satisfactory products.

The Army WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army WCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing

payments as Other Assets. The Army WCF has fully implemented this policy. Estimated future payments to contractors are offset by a contingent liability.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or stage-of-completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage-of-completion are reported as construction-in-progress.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by the SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Army WCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The Army WCF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

1.T. Accrued Leave

The Army WCF reports liabilities for accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The Army WCF has no treaties for use of foreign bases

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections have corroborating documentation for the summary level adjustments made to accounts payable and accounts receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the Army WCF accounts payable and accounts receivable trial balances prior to validating underlying transactions.

Due to noted material weakness in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable/receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and accounts receivable accordingly.

1.X. Fiduciary Activities

The Army WCF has no fiduciary activities.

1.Y. Military Retirement and Other Federal Employment Benefits

The Army Working Capital Fund reported no gains and losses in retirement benefits during this fiscal year.

1.Z. Significant Events

The Army WCF had no reportable significant events .

NOTE 2. NONENTITY ASSETS

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Nonfederal Assets		
A. Accounts Receivable	\$ 4	\$ 132
B. Total Nonfederal Assets	\$ 4	\$ 132
2. Total Nonentity Assets	\$ 4	\$ 132
3. Total Entity Assets	\$ 21,629,365	\$ 21,420,678
4. Total Assets	\$ 21,629,369	\$ 21,420,810

Assets are categorized as either entity or nonentity. Entity assets consist of resources that are available for use in the operations of the entity.

Non-entity assets are not available for the use in the Army WCF normal operations. The Army WCF has stewardship accountability and reporting responsibility for nonentity assets.

These nonentity assets are for interest, penalties and administrative fees to be collected for out-of-service debts into a receipt account and then forwarded to the U.S. Treasury.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Fund Balances		
A. Revolving Funds	\$ 1,520,905	\$ 1,321,157
B. Total Fund Balances	\$ 1,520,905	\$ 1,321,157
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 1,520,905	\$ 1,327,157
B. Fund Balance per ACWF	1,520,905	1,321,157
3. Reconciling Amount	\$ -	\$ -

Status of Fund Balance with Treasury

As of September 30	2017		2016	
<i>(Amounts in thousands)</i>				
1. Unobligated Balance				
A. Available	\$	3,674,349	\$	1,949,748
B. Unavailable		-		2,083,886
2. Obligated Balance not yet Disbursed	\$	6,131,364	\$	5,413,367
3. NonFBWT Budgetary Accounts	\$	(8,284,808)	\$	(8,125,844)
4. Total	\$	1,520,905	\$	1,321,157

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services but not paid. Non-FBWT Budgetary Accounts reduces the Status of FBWT. For the Army WCF these include unfilled orders without advances, reimbursements earned receivable, and contract authority.

Undistributed adjustments are made in an attempt to reconcile the general ledger to the U.S. Treasury. Currently, recorded undistributed amounts are supported. As of September 30, 2017, undistributed collections are (\$17.8 million); undistributed disbursements are \$15 million; and cash transfers are \$336 million.

NOTE 4. INVESTMENTS AND RELATED INTEREST

The Army WCF has no investments and related interest.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2017		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
<i>(Amounts in thousands)</i>			
1. Intragovernmental Receivables	\$ 374,262	N/A	\$ 374,262
2. Nonfederal Receivables (From the Public)	\$ 30,472	\$ (56)	\$ 30,416
3. Total Accounts Receivable	\$ 404,734	\$ (56)	\$ 404,678
As of September 30			
As of September 30	2016		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
<i>(Amounts in thousands)</i>			
1. Intragovernmental Receivables	\$ 338,341	N/A	\$ 338,341
2. Nonfederal Receivables (From the Public)	\$ 30,612	\$ (94)	\$ 30,518
3. Total Accounts Receivable	\$ 368,953	\$ (94)	\$ 368,859

Accounts receivable represent the Army WCF claim for payment from other entities. The Army WCF only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

NOTE 6. OTHER ASSETS

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Intragovernmental Other Assets		
A. Other Assets	\$ 38,565	\$ -
B. Total Intragovernmental Other Assets	\$ 38,565	\$ -
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 45,271	\$ 62,343
B. Advances and Prepayments	41	53
C. Total Nonfederal Other Assets	\$ 45,312	\$ 62,396
3. Total Other Assets	\$ 83,877	\$ 62,396

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Army WCF protecting the contract work from state or local taxation, liens or attachment by the contractors' creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Army WCF. The Army WCF does not have the right to take the work, except as provided in contract clauses related to termination or acceptance. The Army WCF is not obligated to make payment to the contractor until delivery and acceptance.

Outstanding Contract Financing Payments includes \$38.7 million in contract financing payments and an additional \$6.6 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. Refer to Note 15, *Other Liabilities*, for further information.

NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Cash	\$ 2,440	\$ 4,960
2. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 2,440	\$ 4,960

There are no restrictions on cash or the use or conversion of foreign currencies.

NOTE 8.

The Army WCF operates no direct loan guarantee programs.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Inventory, Net	\$ 17,850,653	\$ 17,948,351
2. Total	\$ 17,850,653	\$ 17,948,351

Inventory, Net

As of September 30 (Amounts in thousands)	2017			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	\$ 10,428,030	\$ -	\$ 10,428,030	MAC
B. Held for Repair	4,842,191	-	4,842,191	SC
C. Excess, Obsolete, and Unserviceable	102,012	(102,012)	-	NRV
D. Raw Materiel	1,083,368	-	1,083,368	MAC
E. Work in Process	1,497,064	-	1,497,064	AC, SC
F. Total	\$ 17,952,665	\$ (102,012)	\$ 17,850,653	

As of September 30 (Amounts in thousands)	2016			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	\$ 10,580,199	\$ -	\$ 10,580,199	MAC
B. Held for Repair	5,060,652	-	5,060,652	SC
C. Excess, Obsolete, and Unserviceable	142,003	(142,003)	-	NRV
D. Raw Materiel	1,188,212	-	1,188,212	MAC
E. Work in Process	1,119,288	-	1,119,288	AC, SC
F. Total	\$ 18,090,354	\$ (142,003)	\$ 17,948,351	

Legend for Valuation Methods:

SC = Standard Cost AC = Actual Cost NRV = Net Realizable Value MAC = Moving Average Cost

There are restrictions on the use, sale, and disposition of inventory classified as war reserve materiel valued at moving average cost of \$1.9 billion which includes petroleum products, subsistence items, spare parts, and medical materiel.

The categories listed comprise *Inventory, Net*. The Army WCF assigns inventory items to a category based upon the type and condition of the asset. Inventory Available and Purchased for Resale includes spare and repair parts, clothing and textiles and petroleum products. Inventory Held for Repair consists of damaged materiel held as inventory that is more economical to repair than to dispose. Excess, Obsolete, and Unserviceable Inventory consists of scrap materiel or items that cannot be economically repaired and are awaiting disposal. Raw Material consists of items consumed in the production of goods for sale or in the provision of services for a fee.

The value of Army WCF Government Furnished Materiel (GFM) and contractor-acquired materiel in the hands of the contractors are not included in the inventory values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment.

NOTE 10. GENERAL PP&E, NET

As of September 30 (Amounts in thousands)	2017				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ -	N/A	\$ -
B. Buildings, Structures, and Facilities	S/L	20, 40, or 45	2,456,196	\$ (1,736,414)	719,782
C. Software	S/L	2-5 Or 10	1,717,792	(1,243,430)	474,362
D. General Equipment	S/L	Various	1,803,902	(1,452,080)	351,822
E. Assets Under Capital Lease	S/L	Lease term	668	(305)	363
F. Construction-in- Progress	N/A	N/A	220,487	N/A	220,487
G. Other			(5)	5	-
H. Total General PP&E			\$ 6,199,040	\$ (4,432,224)	\$ 1,766,816

As of September 30 <i>(Amounts in thousands)</i>	2016				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 10,007	N/A	\$ 10,007
B. Buildings, Structures, and Facilities	S/L	20, 40, or 45	2,334,132	\$ 1,677,643	656,489
C. Software	S/L	2-5 Or 10	1,544,059	1,125,031	419,028
D. General Equipment	S/L	Various	1,841,448	1,439,884	401,564
E. Assets Under Capital Lease	S/L	Lease term	668	(195)	473
F. Construction-in- Progress	N/A	N/A	227,526	N/A	227,526
G. Other			-	-	-
H. Total General PP&E			\$ 5,957,840	\$ (4,242,753)	\$ 1,715,087

Legend for Valuation Methods:
S/L = Straight Line N/A = Not Applicable

Assets Under Capital Lease

As of September 30 <i>(Amounts in thousands)</i>	2017	2016
1. Entity as Leases, Assets Under Capital Lease		
A. Land and Buildings	\$ 668	\$ 668
B. Accumulated Amortization	(305)	(195)
C. Total Capital Leases	<u>\$ 363</u>	<u>\$ 473</u>

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30 <i>(Amounts in thousands)</i>	2017	2016
1. Intragovernmental Liabilities		
A. Other	\$ 42,951	\$ 47,629
B. Total Intragovernmental Liabilities	<u>\$ 42,951</u>	<u>\$ 47,629</u>
2. Nonfederal Liabilities		
A. Military Retirement and Other Federal Employment Benefits	247,607	256,749
B. Total Nonfederal Liabilities	<u>\$ 247,607</u>	<u>\$ 256,749</u>
3. Total Liabilities Not Covered by Budgetary Resources	<u>\$ 290,558</u>	<u>\$ 304,378</u>
4. Total Liabilities Covered by Budgetary Resources	<u>\$ 622,971</u>	<u>\$ 606,523</u>
5. Total Liabilities	<u>\$ 913,529</u>	<u>\$ 910,901</u>

Intragovernmental Other Liabilities represent future-funded Federal Employee's Compensation Act (FECA) liabilities billed to the Army WCF by the Department of Labor (DOL) for payment made by DOL to Army beneficiaries.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$247.6 million for FECA actuarial reserve. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

NOTE 12. ACCOUNTS PAYABLE

As of September 30 <i>(Amounts in thousands)</i>	2017		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 183,858	N/A	\$ 183,858
2. Nonfederal Payables (to the Public)	25,653	-	25,653
3. Total	\$ 209,511	\$ -	\$ 209,511

As of September 30 <i>(Amounts in thousands)</i>	2016		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 135,044	N/A	\$ 135,044
2. Nonfederal Payables (to the Public)	84,216	-	84,216
3. Total	\$ 219,260	\$ -	\$ 219,260

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by Army WCF. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable by reclassifying amounts between federal and nonfederal accounts payable and applying supported and unsupported undistributed disbursements at the reporting entity level.

The Army WCF cannot accurately identify intragovernmental transactions by customer because: (1) the Army Enterprise Systems Integration Program (AESIP) and the System for Award Management (SAM) (vendor master) do not capture the correct buyer and seller data at the transaction level; and, (2) the standard line of accounting (SLOA) has not been implemented by reciprocal trading partners.

NOTE 13. DEBT

The Army WCF has no intragovernmental loan or non-federal debt.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The Army WCF has no environmental or disposal liabilities.

NOTE 15. OTHER LIABILITIES

As of September 30 <i>(Amounts in thousands)</i>	2017		
	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	\$ 30,706	\$ -	\$ 30,706
B. FECA Reimbursement to the Department of Labor	19,709	23,242	42,951
C. Custodial Liabilities	4	-	4
D. Employer Contribution and Payroll Taxes Payable	13,440	-	13,440
E. Total Intragovernmental Other Liabilities	\$ 63,859	\$ 23,242	\$ 87,101
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 160,449	\$ -	\$ 160,449
B. Advances from Others	49,385	-	49,385
C. Deposit Funds and Suspense Accounts	2,440	-	2,440
D. Contract Holdbacks	43	-	43
E. Employer Contribution and Payroll Taxes Payable	5,878	-	5,878
F. Contingent Liabilities	-	6,527	6,527
G. Other Liabilities	144,588	-	144,588
H. Total Nonfederal Other Liabilities	\$ 362,783	\$ 6,527	\$ 369,310
3. Total Other Liabilities	\$ 426,642	\$ 29,769	\$ 456,411

As of September 30
(Amounts in thousands)

	2016		
	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	\$ 36,091	\$ -	\$ 36,091
B. FECA Reimbursement to the Department of Labor	21,371	26,259	47,630
C. Custodial Liabilities	132	-	132
D. Employer Contribution and Payroll Taxes Payable	13,238	-	13,238
E. Total Intragovernmental Other Liabilities	\$ 70,832	\$ 26,259	\$ 97,091
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 159,252	\$ -	\$ 159,252
B. Advances from Others	59,648	-	59,648
C. Deposit Funds and Suspense Accounts	4,960	-	4,960
D. Contract Holdbacks	58	-	58
E. Employer Contribution and Payroll Taxes Payable	5,820	-	5,820
F. Contingent Liabilities	-	8,046	8,046
G. Other Liabilities	100,017	-	100,017
H. Total Nonfederal Other Liabilities	\$ 329,755	\$ 8,046	\$ 337,801
3. Total Other Liabilities	\$ 400,587	\$ 34,305	\$ 434,892

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets. Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where Army WCF is acting on behalf of another Federal entity.

Nonfederal Other Liabilities of \$144.6 million is predominately for industrial operations service accruals.

Contingent liabilities include \$6.5 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to a contractor's work vests with the federal government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contractor nonperformance. These rights should not be misconstrued as rights of ownership. The Army WCF is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Army WCF has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on costs by the contractor-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

NOTE 16 COMMITMENTS AND CONTINGENCIES

The Army WCF may be a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The Army WCF is not aware of any contingent liabilities for legal actions.

Additionally, the Army WCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, Army WCF automated system processes have limited capability to capture these potential liabilities; therefore, the amounts reported may not fairly present Army WCF's commitments and contingencies. The Army WCF records contingent liabilities in Note 15, *Other Liabilities*.

NOTE 17 MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30 (Amounts in thousands)	2017	
	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	\$ 247,607	\$ 247,607
B. Total Other Benefits	\$ 247,607	\$ 247,607
2. Total Military Retirement and Other Federal Employment Benefits:	\$ 247,607	\$ 247,607
As of September 30 (Amounts in thousands)	2016	
	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	\$ 256,749	\$ 256,749
B. Total Other Benefits	\$ 256,749	\$ 256,749
2. Total Military Retirement and Other Federal Employment Benefits:	\$ 256,749	\$ 256,749

The Army WCF complies with SSFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*.

Federal Employees Compensation Act (FECA) Actuarial liabilities are computed for employee compensation benefits as mandated by the FECA. The Office of Personnel Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year. The Army WCF computes its portion of the total Army actuarial liability based on the percentage of Army WCF FECA expense to the total Army FECA expense.

The Army WCF actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and provided to Army WCF at the end of each fiscal year. The liability includes the estimated liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. In FY2015, the DOL refined the approach for selecting the Cost of Living Adjustment (COLA) factors, Consumer Price Index Medical (CPIM) factors, and discount rates by averaging the COLA rates, CPIM factors, and discount rate estimates to reflect historical trends; DOL has continued this approach in FY2017. The actuarial liability for FECA decreased \$9.1 million between FY2016 and FY2017.

DOL selected the COLA factors, CPIM factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years for FY2017 and FY2016, respectively. This approach for selecting the factors and discount rate was refined in FY2015, as using averaging renders estimates that reflect historical trends over five years. DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY2017 and FY2016, respectively. Interest rate assumptions utilized for FY2017 discounting were as follows:

Discount Rates

For wage benefits:

2.683% in Year 1 and years thereafter;

For medical benefits:

2.218% in Year 1 and years thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2017 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2017	N/A	N/A
2018	1.22%	3.20%
2019	1.35%	3.52%
2020	1.59%	3.80%
2021	1.99%	3.99%
2022	2.26%	3.91%

To test the reliability of the model, DOL made comparisons between projected payments in the last year to actual amounts by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. DOL determined the model has been stable, and has projected the actual payments by agency well.

NOTE 18 GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Intragovernmental Costs and Exchange Revenue

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,294,070	\$ 742,660
B. Nonfederal Cost	25,018,230	19,723,877
C. Total Cost	<u>\$ 26,312,300</u>	<u>\$ 20,466,537</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (8,959,396)	\$ (8,137,232)
B. Nonfederal Revenue	(17,468,648)	(10,787,306)
C. Total Revenue	<u>\$ (26,428,044)</u>	<u>\$ (18,924,538)</u>
Total Net Cost	<u>\$ (115,744)</u>	<u>\$ 1,541,999</u>
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,294,070	\$ 742,660
B. Nonfederal Cost	25,018,230	19,723,877
C. Total Cost	<u>\$ 26,312,300</u>	<u>\$ 20,466,537</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (8,959,396)	\$ (8,137,232)
B. Nonfederal Revenue	(17,468,648)	(10,787,306)
C. Total Revenue	<u>\$ (26,428,044)</u>	<u>\$ (18,924,538)</u>
Total Net Cost	<u>\$ (115,744)</u>	<u>\$ 1,541,999</u>

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is in the process of

reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS No. 30, *Inter-entity Cost Implementation*.

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

Nonfederal Cost and Nonfederal Revenue include losses and gains, respectively, on *Inventory and Related Property*, and *General Property, Plant and Equipment* transactions within LMP (as these are Nonfederal assets). *Nonfederal Cost* includes losses of \$17.4 billion and \$11.7 billion for fiscal years 2017 and 2016, respectively. *Nonfederal Revenue* includes gains of \$17.4 billion and \$10.7 billion for fiscal years 2017 and 2016, respectively.

The Army WCF systems do not track intragovernmental transactions by customer. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses were adjusted by reclassifying amounts between federal and nonfederal expenses. Intradepartmental revenues and expenses are then eliminated.

NOTE 19 DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Other Financing Sources, Other on the Statement Changes in Net Position consists of other gains and other losses from non-exchange activity primarily attributable to intragovernmental transfers-in/out for which trading partners could not be identified.

NOTE 20 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 5,443,314	\$ 4,771,736

Abnormal balances are found on the trial balance for the 48XX (*Undelivered Orders – Obligations Paid/Unpaid*) and 49XX (*Delivered Orders – Obligations Paid/Unpaid*) series accounts at the object class level. These accounts are normal at the summary level by USSGL account. In 4th Quarter, FY 2013, DDRS-AFS began capturing amounts by object class detail at the USSGL account level. Historical detail was not captured at this level in the source accounting system (LMP) resulting in amounts not properly flowing to the correct object class.

The Army WCF obligations represent reimbursable obligations of \$11.8 billion and direct obligations of \$262 million in apportionment category B, apportioned by project or activity.

The Army WCF Statement of Budgetary Resources includes intra-entity transactions because the statements are presented as combined.

There are no legal arrangements affecting the use of unobligated balances of budgetary authority.

The Army WCF received appropriations in FY 2017 in the amount of \$24.5 million to fund War Reserve materiel, \$32.0 million for Paladin Integrated Management Engines, \$46.8 million for Army Prepositioned Stock, \$1.7 million for Inventory Augmentation, and \$140.0 million for Arsenal Sustainment Initiative.

During the past 10 years, disbursements, collections and related obligations resulting from internal work between Army WCF Supply Management and Industrial Operations were not reported to Treasury - and not reported on the SBR. In order to correct Army WCF cash reporting, and to reflect correct budgetary authority and execution, these transactions were reported to Treasury in FY 2016. At the direction of the Office of Management and Budget (OMB), Army WCF was required to submit a "backdated package" to Treasury and OMB in order to ensure that these transactions were recorded as backdated and prior year events. Since both the unreported disbursements and unreported collections equaled \$4.8 billion, the overall net impact to the Army WCF Fund Balance with Treasury netted to a zero change. In addition, the FY 2017 Army WCF statements of budget authority and budget execution includes an increase to the unobligated brought forward amount of \$2.1 billion.

NOTE 21 RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30	2017	2016
<i>(Amounts in thousands)</i>		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 12,093,047	\$ 10,587,864
2. Less: Spending authority from offsetting collections and recoveries (-)	(11,468,069)	(11,624,095)
3. Obligations net of offsetting collections and recoveries	\$ 624,978	\$ (1,036,231)
4. Net obligations	\$ 624,978	\$ (1,036,231)
Other Resources:		
5. Transfers in/out without reimbursement (+/-)	(29,991)	(4,891)
6. Imputed financing from costs absorbed by others	109,230	133,945
7. Other (+/-)	102,093	144,418
8. Net other resources used to finance activities	\$ 181,332	\$ 273,472
9. Total resources used to finance activities	\$ 806,310	\$ (762,759)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
10. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
10a. Undelivered Orders (-)	\$ (671,578)	\$ 3,561,754
10b. Unfilled Customer Orders	(246,636)	(2,810,998)
11. Resources that fund expenses recognized in prior Periods (-)	(13,820)	(11,108)
12. Resources that finance the acquisition of assets (-)	(3,589,593)	(2,953,019)
13. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
13a. Other (+/-)	(72,103)	(139,528)
14. Total resources used to finance items not part of the Net Cost of Operations	\$ (4,593,730)	\$ (2,352,899)
15. Total resources used to finance the Net Cost of Operations	\$ (3,787,420)	\$ (3,115,658)
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
16. Increase in exchange revenue receivable from the public (-)	2,520	(810)
17. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 2,520	\$ (810)
Components not Requiring or Generating Resources:		
18. Depreciation and amortization	\$ 261,813	\$ 245,907
19. Revaluation of assets or liabilities (+/-)	39,986	2,742,426
20. Other (+/-)		
20a. Cost of Goods Sold	5,149,159	4,168,495
20b. Other	(1,781,802)	(2,498,361)
21. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 3,669,156	\$ 4,658,467
22. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 3,671,676	\$ 4,657,657
23. Net Cost of Operations	\$ (115,744)	\$ 1,541,999

Due to Army WCF's financial systems limitations, budgetary data do not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency.

Gains/Losses were adjusted by \$.06 billion and expenses were adjust by \$1.64 billion to bring the note schedule into agreement with the *Statement of Net Cost*.

Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated as intraagency budgetary transactions are not eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Other Resources, Other consists of other gains and other losses from non-exchange activity primarily attributable to intragovernmental transfers-in/out for which trading partners could not be identified.

Other Resources or adjustments to net obligated resources that do not affect Net Cost of operations, *Other* consists of other gains and losses from non-exchange activity primarily attributable to intragovernmental transfers-in/out for which trading partners could not be identified and the correction of prior period adjustments that did not meet the materiality thresholds.

Components Requiring or Generating Resources in Future Period, Other consists of FECA expense.

Components not *Requiring or Generating Resources Other*, *Other* consists of cost capitalization offsets. Agencies must first record all expenses to Operating Expenses/Program Costs. These expenses are then offset using the *Cost Capitalization Offset* account when the costs are capitalized to the appropriate "in-process type" account.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The Army WCF does not collect incidental custodial revenues.

NOTE 23 FUNDS FROM DEDICATED COLLECTIONS

The Army WCF has no funds from dedicated collections.

NOTE 24 FIDUCIARY ACTIVITIES

The Army WCF has no fiduciary activities.

NOTE 25. OTHER DISCLOSURES

As of September 30 Asset Category	2017			
	Land and Buildings	Equipment	Other	Total
<i>Amounts in thousands</i>				
1. Entity as Lessee-Operating Leases				
Future Payments Due				
Fiscal Year				
2018	\$7,208	\$2,718	\$12,709	\$22,635
2019	7,367	2,718	12,920	23,005
2020	7,530	2,718	13,020	23,268
2021	7,696	2,718	13,121	23,535
2022	7,868	2,718	12,970	23,556
After 5 years	8,148	639	28,949	37,736
Total Future Lease Payment Due	\$45,817	\$14,229	\$93,689	\$153,735

NOTE 26 RESTATEMENTS

The Army WCF has no prior period restatements.





INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 7, 2017

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund
FY 2017 and FY 2016 Basic Financial Statements
(Project No. D2017-D000FI-0130.000, Report No. DODIG-2018-011)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying Army Working Capital Fund consolidated balance sheet as of September 30, 2017, and September 30, 2016, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

***Management's Responsibility for the Annual
Financial Statements***

Army management is responsible for the annual financial statements. Management is responsible for: (1) preparing financial statements that conform with accounting principles generally accepted in the United States of America (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that Army Working Capital Fund's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements," September 29, 2017. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by GAGAS that are consistent with the representations made by management. Army management asserted to us that Army Working Capital Fund FY 2017 and FY 2016 Basic Financial Statements would not substantially conform to U.S. GAAP and that Army Working Capital Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2017. We considered the scope limitation in forming our conclusions on the basic financial statements. Accordingly, we did not perform all the auditing procedures required by GAGAS and OMB Bulletin No. 17-03 to determine whether material amounts on the basic financial statements were presented fairly.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Army Working Capital Fund FY 2017 and FY 2016 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Army management presented the Management's Discussion and Analysis, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the

audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), “Financial Reporting Requirements,” August 15, 2017, and DoD Regulation 7000.14-R, “Financial Management Regulation,” volume 6b, “Form and Content of the Department of Defense Audited Financial Statements.”

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements and compliance with OMB regulations and audit requirements for financial reporting. Army management represented that instances of noncompliance identified in prior audits continue to exist; therefore, we did not determine whether the Army Working Capital Fund complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. It was not our objective to provide an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements and, accordingly, we do not express such an opinion.

See Attachment 1 for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Deputy Assistant Secretary of the Army (Financial Operations), who provided technical comments that we have incorporated as appropriate. The Deputy Assistant Secretary of the Army (Financial Operations) expressed continuing commitment to address the problems this report outlines. See Attachment 2 for the full text of the management comments.

This report will be made publicly available under section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Army management; and the DoD Office of Inspector General. This report is not intended for, nor should it be used by, any other audience.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.

A handwritten signature in black ink that reads "Lorin T. Venable". The signature is written in a cursive style with a large initial 'L'.

Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachments: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Army Working Capital Fund's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances and for expressing our opinion on the basic financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal controls to include providing reasonable assurance that Army personnel recorded, processed, and summarized accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal controls over financial reporting, and we do not do so. However, the following material weaknesses continue to exist and could adversely affect the Army Working Capital Fund's financial operations.

Previously Identified Material Weaknesses

Army management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Army Working Capital Fund's financial statements will not be prevented, or detected and corrected, on a timely basis. The following material weaknesses continue to exist.

Financial Management Systems. The Army Working Capital Fund systems do not meet the requirements for full accrual accounting. The systems do not collect and record financial information as required by GAAP. The financial and nonfinancial feeder systems do not contain the required system integration to provide a transaction level audit trail for the amounts reported in the proprietary and budgetary general ledger accounts.

The Army derives reported values and information for major asset and liability categories from the Logistics Modernization Program system. However, the Logistics Modernization Program system contains certain system and posting deficiencies as well as erroneous and incomplete account balances. Army financial managers did not assess the DoD transaction codes to determine applicability to the Army Working Capital Fund business areas or to incorporate existing manual workarounds. In addition, the Army Working Capital Fund financial statements and the Logistics Modernization Program system continue to rely on data from non-financial feeder systems.

Fund Balance With Treasury. According to Statement of Federal Financial Accounting Standards No. 1, “Accounting for Selected Assets and Liabilities,” Fund Balance with Treasury is the aggregate amount of funds in the entity’s accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Army financial managers did not accomplish the reengineering needed to integrate the Treasury Reconciliation function into the Logistics Modernization Program system or provide the capability to receive cash management files directly from Treasury to reconcile them. In FY 2015, the Army, in coordination with the Defense Finance and Accounting Service, developed a reconciliation tool. However, the Army recognized that it does not have a complete and effective process in place to resolve discrepancies identified when reconciling the general ledger transactions in the Logistics Modernization Program system.

Inventory. The Army reported its entire resale inventory in the Logistics Modernization Program system, which is capable of recording inventory using moving average cost. However, the Army reported in its Annual Statement of Assurance for FY 2017 that current inventory balances in the financial statements are not reliable. The recorded cost does not accurately reflect the historical cost of inventory and control procedures do not effectively provide assurance that inventory recorded in the financial statements exists and is complete, as required by Statement of Federal Financial Accounting Standards No. 3, “Accounting for Inventory and Related Property.” DoD Inspector General Report No. DODIG-2017-114, “Documentation to Support Costs for Army Working Capital Fund Inventory Valuation,” August 24, 2017, states that the Assistant Secretary of the Army (Financial Management and Comptroller) could not support at least 291,408 Army Working Capital Fund inventory transactions, valued at \$690.8 million of the \$870.2 million in Army Working Capital Fund inventory items

acquired in the second quarter FY 2016. The Army did not develop and document the Army Working Capital Fund inventory business processes, identify the key personnel points of contact, and develop corrective action plans to remediate known documentation deficiencies.

In addition, DoD Inspector General Report No. DODIG-2016-108, "Army Needs Greater Emphasis on Inventory Valuation," July 12, 2016, states that U.S. Army Materiel Command did not establish controls to identify and correct improper moving average cost values, prevent improper data from updating within the Logistics Modernization Program system during end of day reconciliations, or properly establish data for Non Army Managed Items unit of measure elements in the system. The Army did not develop a comprehensive strategy for implementing moving average cost as the methodology for valuing its inventory in the Logistics Modernization Program system.

Army Audit Agency Report A-2017-0003-FMR, "Army Working Capital Fund Inventory at Contractor Locations U.S. Army Materiel Command," October 11, 2016, states that Army Working Capital Fund inventory held by contractors was not accurately accounted and reported on the financial statements, and parts and supply planning could be negatively impacted. Army's Life-Cycle Management Commands were using different methods to update contractor-managed inventory in the Logistics Modernization Program system. Specifically, there was weak oversight of manual update contracts, data entry errors on manual electronic submissions, and insufficient reconciliations between contractor and government data for these methods. In addition, the data that the Defense Logistics Agency provided the Army to estimate the dollar value of inventory held at Defense Logistics Agency storage sites were unreliable.

General Property, Plant, and Equipment. The reported values of the Army Working Capital Fund's General Property, Plant, and Equipment is unreliable because the Army lacks the documentation needed to support historical or acquisition costs of its assets. The real property in the General Funds Enterprise Business System and equipment assets in the Defense Property Accountability System do not reconcile to the Logistics Modernization Program system balance. In addition, the Army has not fully implemented DoD Instruction 5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," April 27, 2017, that requires an entity to maintain information in its property systems on all property furnished to contractors.

Army Audit Agency Report A-2016-0102-FMR, "General Equipment Financial Audit Readiness–U.S. Army Materiel Command," June 17, 2016, states that the Army did not post transactions in the Property Book Unit Supply-Enhanced system for disposal or acceptance and transfer of equipment turned into the Defense Logistics Agency within 7 days for 8 of the 34 tests. In addition, the Army did not establish criteria for managing government-furnished equipment in the possession of contractors for 12 of the 34 tests. This occurred because the Defense Logistics Agency did not provide the Army with signed receipt documents within the required timeframe. Contractors followed provisions of the contract, which conflicted with Army regulations for managing government-furnished equipment in the possession of contractors.

Accounts Payable. Statement of Federal Financial Accounting Standards No. 1 requires intragovernmental transactions to be reported separately from amounts owed to the public. The Army acknowledged that Army Working Capital Fund systems do not track intragovernmental transactions by customer at the transaction level. As a result, the Army Working Capital Fund relies on unsupported adjustments processed by Defense Finance and Accounting Service personnel to report accounts payable balances. Additionally, the Procure-to-Pay business processes developed for use within the Logistics Modernization Program system did not properly approve, verify, or reconcile transactions or record and document business events accurately, including accounts payable. The Army reported within its Annual Statement of Assurance for FY 2017 that the Logistics Modernization Program system cannot generate an accounts payable transaction upon acceptance of goods until the goods actually arrived at their final destination.

Statement of Net Cost. The financial information in the statement of net cost is not presented by programs that align with major goals and outputs described in the DoD strategic and performance plans required by the Government Performance and Results Act of 1993. This was not possible because Army Working Capital Fund financial management systems did not accurately account for intragovernmental transactions or capture actual costs. Some information in the statement of net cost was based on non-financial feeder systems. Additionally, a significant portion of the costs and revenues reported within this statement were recorded within general ledger accounts for gains and losses, which further complicates aligning the costs and revenues by major goals and outputs.

Statement of Budgetary Resources. OMB Circular No. A-136 (Revised) states that the entity should develop the statement of budgetary resources predominantly from the budgetary general ledger accounts, in accordance with budgetary accounting rules. In FY 2013, the Army began using Standard Financial Information Structure-compliant data from the Logistics Modernization Program budgetary general ledger accounts to populate the statement of budgetary resources. However, the Army reported in its FY 2017 Annual Statement of Assurance that additional corrective actions are still needed to identify and resolve the root cause of the remaining unsupported adjustments to the accounts impacting the statement of budgetary resources.

Additionally, the Logistics Modernization Program system did not contain the Budget-to-Report business process functionality to report the data needed to prepare the Army Working Capital Fund statement of budgetary resources. The system omitted this functionality because Army financial managers did not provide the correct system configuration to the Logistics Modernization Program Product Office.

Intragovernmental Eliminations. The Army Working Capital Fund was unable to collect, exchange, or reconcile buyer and seller intragovernmental transactions, resulting in adjustments that were not verifiable. The Logistics Modernization Program system did not capture the correct Standard Financial Information Structure trading partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. DoD procedures require that the Army adjust its buyer-side transaction data to agree with seller-side transaction data from other Government entities, without the entities performing proper reconciliations. As a result, Defense Finance and Accounting Service personnel made \$686.4 million in adjustments to Army Working Capital Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners.

Accounting Adjustments. Defense Finance and Accounting Service personnel made unsupported accounting adjustments, valued at \$746.3 million, to reclassify amounts based on problems with the posting logic. The unsupported accounting adjustments represent a material uncertainty regarding the line-item balances on the Army Working Capital Fund FY 2017 Basic Financial Statements.

Reconciliation of Net Cost of Operations to Budget. Statement of Federal Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of proprietary information to assist users in understanding the relationship of the data.

The Army could not reconcile the information reported in Note 21 of the Army Working Capital Fund FY 2017 Basic Financial Statements without preparing \$59.9 million in unsupported adjustments to gain and loss accounts to force costs to match obligation information. The Army reported in the FY 2017 Annual Statement of Assurance the need for an interim solution to perform the tie point analysis between the budgetary and proprietary accounts. The Army also, reported that additional work needs to be done to correct existing data before it makes system and process changes.

Abnormal Account Balances. In FY 2017, the Army Working Capital Fund Industrial Operations and Supply Management activities (limit-level) reported 32 limits with abnormal account balances, with an absolute value of \$31.4 billion, for assets and liabilities in the balance sheet. Army and Defense Finance and Accounting Service personnel used the abnormal balances to compute the amounts reported for such items as Fund Balance with Treasury; Accounts Receivable; Advance and Prepayments; General Property, Plant, and Equipment; Inventory; and Accounts Payable. In addition, the posting accounts used to develop the proprietary and budgetary trial balance in the Logistics Modernization Program system contained at least 1,014 abnormal account balances with an absolute value of \$257.1 billion. However, the roll-up of limit-level account balances to produce amounts on the financial statements hid abnormal account balances identified in the posting accounts.

Army Audit Agency Report No. A-2017-0043-FMR, "Army Working Capital Fund Abnormal Balances," March 8, 2017, states that the Army did not have sufficient controls to identify, account for, and properly report Army Working Capital Fund abnormal balances at the point account or limit-levels as required by DoD Financial Management Regulation. This occurred because Army had not researched and resolved abnormal balances from a legacy system migration and had not developed standardized procedures for periodic reviews at this level.

These financial management control deficiencies may cause inaccurate management information. As a result, Army's management decisions based in whole or in part on this information may be adversely affected. Financial information reported by the Army may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. We did not identify material weaknesses that were not reported in the Army Working Capital Fund's FMFIA report.

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

GAGAS and OMB guidance requires auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we limited our work to determining compliance with selected provisions of the applicable laws, regulations, contracts, and grant agreements. Other noncompliance may have occurred and not been detected, and the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. §1341 [1990]) limits the Army and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. §1517 (2004), the Army and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. §1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act, the head of the agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2017, the Army Working Capital Fund reported no Antideficiency Act violations.

Compliance With FFMIA Requirements

The FFMIA requires the Army to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA.

For FY 2017, the Army Working Capital Fund did not substantially comply with the FFMIA. The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us that Army Working Capital Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2017. Therefore, based on the representation of the Deputy Assistant Secretary of the Army (Financial Operations), we did not substantiate whether the Army Working Capital Fund complied with FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions, or because current audit projects will include appropriate recommendations.



DEPARTMENT OF THE ARMY
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NOV 06 2017

MEMORANDUM FOR Deputy Inspector General for Auditing, Department of Defense

SUBJECT: Management Response to the Fiscal Year 2017 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the efforts and professionalism your staff exhibited during the audit of the fiscal year 2017 Army Working Capital Fund Financial Statements. We also appreciate the opportunity to comment on the draft report provided to us on November 3, 2017.
2. We concur with the findings identified in the draft report on Internal Control. Our audit readiness corrective action plans will continue to address the findings identified. We will continue working with our stakeholders to correct issues related to our general ledger, journal vouchers, adjustments, posting logic, and abnormal balances. Our audit readiness support contractor will continue efforts to review field-level operational data, internal controls, and system controls necessary to ensure accuracy of the financial statements. Our service provider, the Defense Finance and Accounting Service, is continuing corrective actions for the Fund Balance with Treasury reconciliation. During fiscal year 2018, the Army will undergo a full financial statement audit performed by an Independent Public Accounting firm.
3. We continue improvements to Logistics Modernization Program and implementing other financial improvement initiatives. We will improve trading partner reporting and enable reconciliation of intragovernmental transactions between Federal agencies with these initiatives. The goal is for these actions to result in supportable quarterly reporting to Treasury and the Office of Management and Budget, and ultimately correct a long-standing material weakness.



Wesley C. Miller
Deputy Assistant Secretary Army
(Financial Operations)



[CD-ROM]

Fiscal Year 2017 United States Army Annual Financial Report

We are interested in your feedback regarding the content of this report. Please feel free to e-mail your comments to AAFS@hqda.army.mil or write to:

Department of the Army
Office of the Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)
Office of the Financial Reporting Directorate
Room 3A312, 109 Army Pentagon
Washington, DC 20310-0109

Additional copies of this report can be obtained by sending a written request to the e-mail or mailing address listed above.

You may also view this document at: <http://www.asafm.army.mil/fo/fod/cfo/cfo.asp>



THE SOLDIER'S CREED

I am an American Soldier.
I am a Warrior and a member of a team.
I serve the people of the United States and live the Army Values.

I will always place the mission first.
I will never accept defeat.
I will never quit.
I will never leave a fallen comrade.

I am disciplined, physically and mentally tough,
trained and proficient in my warrior tasks and drills.
I always maintain my arms, my equipment and myself.

I am an expert and I am a professional.

I stand ready to deploy, engage, and destroy the
enemies of the United States of America in close
combat.

I am a guardian of freedom and the American way
of life. *I am an American Soldier.*

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