U.S. ARMY

BUILDING A CULTURE OF PERFORMANCE

FISCAL YEAR

2020

UNITED STATES ARMY
ANNUAL FINANCIAL REPORT

FY 2020 CONTENTS

BUILDING A CULTURE OF PERFORMANCE

This year, the United States Army had more troops engaged around the world than it did at the height of the fighting during Operation Iraqi Freedom (OIF) in 2008. While the Army continued to fill increased Combatant Command requests across the globe, it simultaneously supported the American people through the domestic challenges faced in 2020 such as COVID-19, civil unrest response, and hurricane floods. Despite increased demand for Soldiers, the Army's budget has been flat, forcing the Army to make difficult decisions within its priorities: People, Readiness and Modernization. Accurate financial annual statements help stakeholders make informed decisions.

The United States Army represented over 60% of Combatant Commander Requirements worldwide in 2020, with over 190,000 Soldiers engaged in more than 140 countries worldwide. The Army invested over $1.7B to improve power projection infrastructure and another $1B to maintain prepositioned stocks, reducing the time it takes to employ forces. In addition, our 5th Security Forces Advisory Brigade helped strengthen partnerships with allies in the Indo-Pacific.

At home, the Army activated over 40,000 National Guard Soldiers to support states in the fight against COVID-19 by manning testing sites and alternate care facilities. Thousands of National Guard Soldiers were also activated to support southwest border operations, to assist local authorities with managing demonstrators, and to help towns hit by hurricanes. The Army Corps of Engineers built over 38 alternate care facilities, adding over 16,000 medical beds to the hardest hit cities. The Army's Medical Research and Materiel Command is working around the clock to finalize a vaccine and antivirals in the fight against COVID-19.

People are the bedrock of our organization, which is why taking care of Soldiers and the families is our number one priority. For our Soldiers, we improved talent management, increased opportunities for education, and revamped the way we evaluate our leaders. To help improve quality of life of our Soldiers and families, we have five key initiatives: housing and barracks, healthcare, childcare, spouse employment, and permanent change of station (PCS) moves. We have increased resources and modified policies to support these initiatives.

Investments in Readiness over the last three years have increased readiness to their highest levels in 5 years. Despite the challenges with COVID, the Army trained over 60,000 new Soldiers, conducted training at home bases, completed 19 Combined Training Center Rotations, and conducted multinational exercises with strategic partners in Poland and the Indo-Pacific.

This year, we completed Project Convergence to demonstrate how the Army is modernizing to be able to see, understand, decide, and act first, to win on the battlefield in the Nation's future fight. This is the result of the last three years of our commitment to our priorities, a ruthless prioritization of our budget in which we divested hundreds of programs and pieces of legacy equipment, and a laser-focus on readiness. Our 31 signature systems are coming online and Soldier-centered designs are landing within reach of our formations.

It will take a collective resolve and a clear understanding of our financial position to accurately prioritize our resources, divest legacy items, and invest in the future.

Ryan D. McCarthy

RYAN D. McCARTHY
Secretary of the Army

FISCAL YEAR

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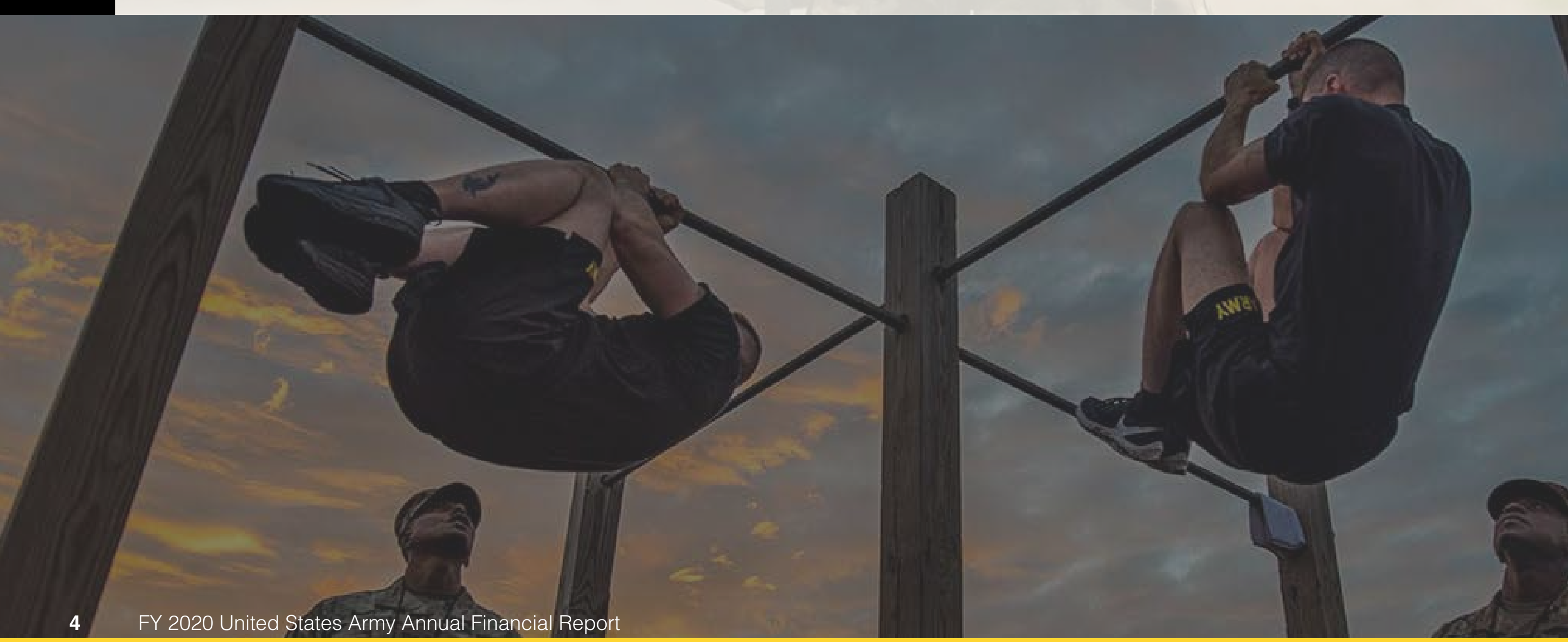


This past year we faced an unprecedented pandemic that shuttered the entire world. Americans throughout our great nation have had to accommodate new ways of navigating through work, life, and everything in between. The Army mission to deploy, fight, and win our nation's wars remains the same, with an added focus on protecting the force, posturing the force to maintain global operational readiness, and supporting the national effort to fight against COVID-19. The Army continually assesses how to best protect Soldiers, Civilians and their Families, maintain force readiness to meet global challenges, and provide support to the FEMA-led national COVID-19 response.

Throughout the current climate, the Assistant Secretary of the Army for Financial Management and Comptroller [ASA (FM&C)] has focused on building a culture of performance by prioritizing 5 pillars for accelerating transformation, laid out in the Army Finance Strategy 2026 (AFS26). The 5 pillars - Develop the Workforce, Assess & Align Culture, Build the Bench, Inspire Innovation, and Enhance Communication - continue to set the strategic foundation of our efforts. Each of these pillars will allow our organization to become a more cohesive and effective team that can accomplish anything.

In an effort to enhance financial management practices, ASA FM&C's continued transformation is dependent upon meeting the demands of the information age. The Army's current modernization campaign is our largest business transformation to date. Traditionally, the focus of the top Army finance position has been on stewardship and financial operations. Military finance tends to focus on outcomes that are simply the measure of success for how well we manage our repeatable business practices. For example, auditability is the byproduct of accountability. It is not an end state. When we hold ourselves accountable to results that inspire greater efficiencies, it will ultimately lead to an increase in purchasing power. This provides the Army with the required resources to fight and win the nation's wars, and it provides the best return on investment to the American taxpayer.

Improving repeatable business processes is just one piece of the puzzle—it must be done in concert with technology transformation and talent management strategies. The Army's enterprise resource planning platforms as we know them today have fallen far behind what we see in the private sector. ASA FM&C is driving a major effort to revamp how the Army does business by 2027. Our office, in partnership with the Army Materiel Command and Office of Business Transformation, is leading an Enterprise Business System Multi-Functional Capabilities Team, comprising representatives from the Business Mission Area Domains of finance, logistics, acquisition and human resources. Our mission is to forge a way ahead that will benefit Soldiers and Civilians at every level.

Transforming the Army benefits Soldiers and Civilians, and by fully realizing the potential that comes with adapting Army's processes to the information age today, we will be in a better position to meet the challenges of tomorrow's battlefield.

JONATHAN D. MOAK
Principal Deputy Assistant Secretary of the Army,
Financial Management and Comptroller

U.S. Army Airborne School students carry their primary and reserve parachutes back to the pack shed. (U.S. Army photo by Patrick A. Albright)

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS

ARMY GENERAL FUND OVERVIEW

Today the United States Department of the Army (Army) consistently provides trained and ready forces for combat operations to a standard of excellence. A sustainable Army is an innovative Army that can adapt rapidly to challenges of the future. To maintain our land power dominance, we continue concentrating our efforts on these strategic priorities—Readiness, Modernization, Reform, and People—to ensure America's Army is always ready, now and in the future. Strategic efforts in those areas are coupled with our enduring priorities to take care of our Soldiers, Civilians, and their Families; to re-commit to the Army values and warrior ethos that guide us; and to strengthen relationships with allies and partners.

The many demands on the Nation's resources will put downward pressure on defense budgets in the future, forcing a continuous assessment by the Army on how it spends its dollars to meet national objectives. To continue to improve readiness, modernize the force, implement effective reforms, and protect our people, the Army requires predictable resources. 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. The Army aims to achieve the objectives in the defense planning guidance, which is critical to the Army accomplishing assigned missions to a standard expected by the American people.

For fiscal year (FY) 2020, Army General Fund (Army GF) received $183 billion in appropriated funds. An increase of $1.3 billion was driven by the Army GF's receipt of budgetary resources to offset the impact of and efforts related to the COVID-19 global pandemic. The Army's primary uses for Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) funding included:

- Purchase of medical supplies and equipment
- Purchase of non-medical personal protective equipment (PPE)
- Enhancements of information technology (IT) equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training
- Increased cost of conducting initial entry and advanced individual training with appropriate distancing measures
- Increased cleaning and sanitizing contracts
- Cost of isolation measures to include stocking Meals, Ready to Eat (MREs), to be served to Soldiers, in lieu of dining facility operations to maintain social distancing.

The Army continues to support other federal agencies participating in Operation Warp Speed through Army contracting support, facilitating the procurement of supplies that will be needed to distribute and administer approved COVID-19 vaccines.

The Army is a performance-based organization and as such is committed to working towards specific measurable goals derived from a defined mission to continually improve operations. The following discussion provides evaluation of the FY 2019 Army General Fund (GF) performance aligned with the Army's four principal strategic goals: readiness, modernization, reform, and people.

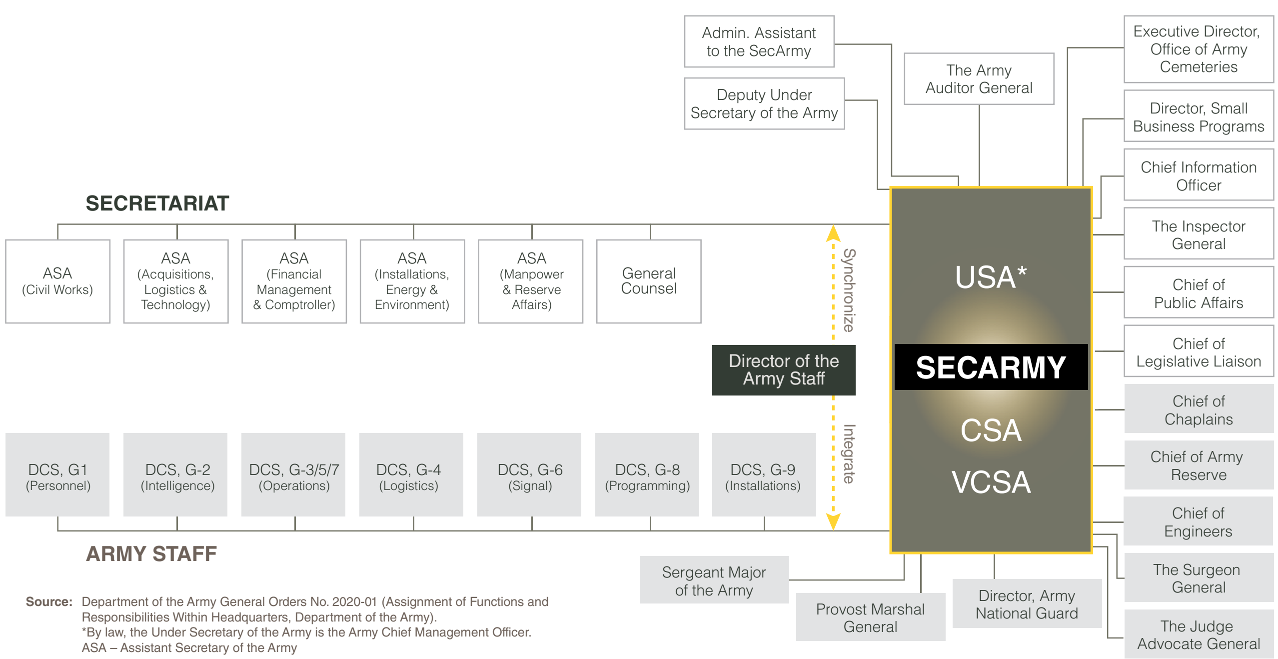
MISSION AND ORGANIZATION OF THE ARMY

The Army mission remains constant: To deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. The Army mission is vital to the Nation because we are a service capable of defeating enemy ground forces and indefinitely seizing and controlling those things an adversary prizes most – its land, resources, and population. The Army uses the GF to accomplish most of its mission. The GF consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Federal Government.

The Army's organization supports and sustains 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 (SECARMY), 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.

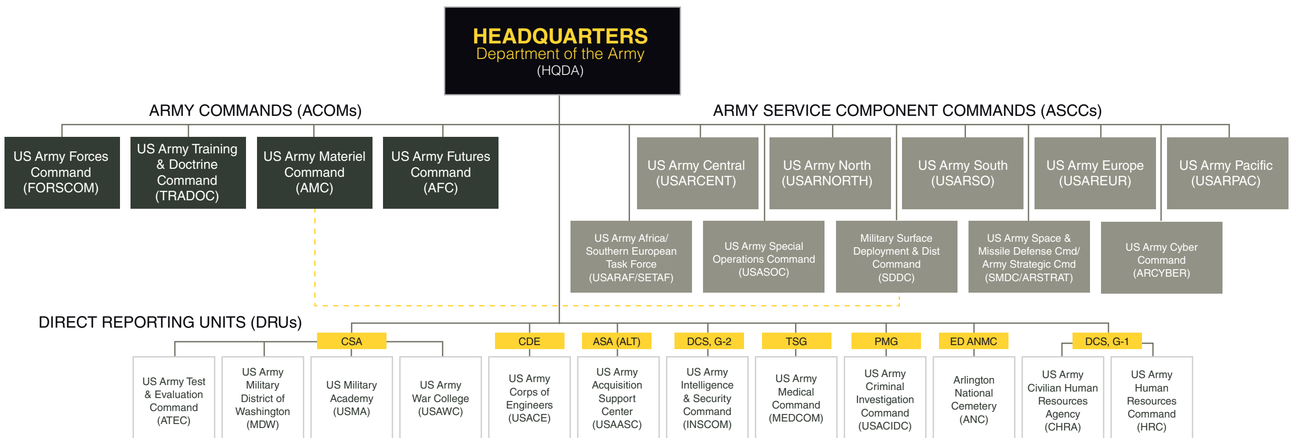
FIGURE 1. Headquarters, Department of the Army (HQDA)



Source: Department of the Army General Orders No. 2020-01 (Assignment of Functions and Responsibilities Within Headquarters, Department of the Army).
*By law, the Under Secretary of the Army is the Army Chief Management Officer.
ASA – Assistant Secretary of the Army

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



(As of 24 October 2019)

Designates the Principal Official for reporting purposes.
Designates a major subordinate command.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – GENERAL FUND

Maintaining credible strategic land-power requires the Army continually assess and refine its readiness, modernization, reformation, and people; how it operates, manages its human capital, and increases its capabilities. The Army continually builds globally responsive and regionally engaged strategic land forces with a versatile mix of capabilities, formations, and equipment that are mission tailored, scalable, and cost effective. The following sections discuss the Army GF's performance objectives and results as they relate to the Army mission.

Readiness

Strategic Goal 1: *Provide ready and trained forces ensuring the Army is ready to engage all enemies, foreign and domestic.*

Training must reinforce the Army's "people first, winning matters" theme. The training environment must provide realistic battlefield conditions, simulating operational environments (OE) with contested domains extending into the homeland and against near-peer hybrid threats.

Soldiers train to clear a town in order to conduct movements in a realistic, high-intensity environment to ensure readiness for combat. (U.S. Army National Guard photo by Staff Sgt. Noshoba Davis)

U.S. Army paratroopers participate in a combined arms live fire exercise. (U.S. Army photo by Sgt. Henry Villarama)

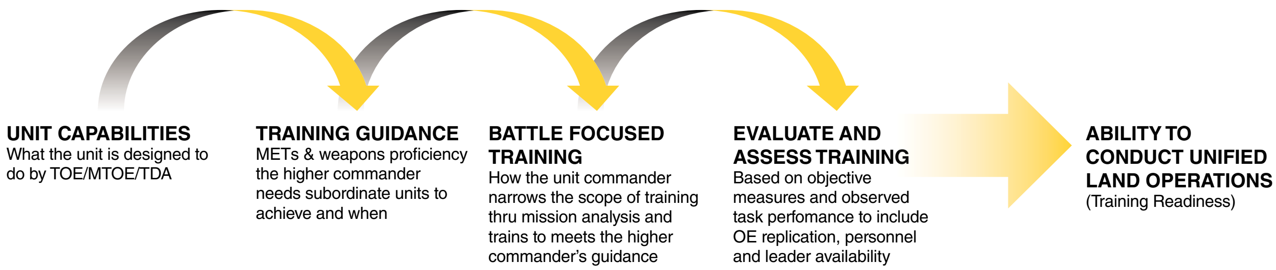
Threat capabilities should include weapons of mass destruction; advanced cyberspace, electronic warfare, space, and contested space capabilities; information operations/warfare; precision air and ground high-volume and long-range fires; advanced integrated anti-access/ area-denial and air defense systems; and complex terrain including subterranean and dense urban areas. The training environment needs to provide leaders as many training repetitions as possible to sustain proficiency in their core tasks. The complexities and speed of training conditions with command and control (C2) will develop leaders and units able to quickly adapt and exploit temporary windows of opportunity in the OE.

Training environments must provide the conditions for large scale combat operations and multi domain operations. Commanders should use the intelligence-informed regional decisive action training environments (DATE) for Europe, Pacific, Caucasus, and Africa to construct scenarios. Using DATE ensures training for land operations is dynamic and complex, while providing continuity of training conditions across all training domains, as well as within live, virtual, and constructive environments and the Synthetic Training Environment. Training conditions should promote leader development by emphasizing “how” and not “what” to think about the OE and threat conditions, while the opposing forces should be a freethinking sparring partner, well versed in potential adversaries’ future tactics and capabilities in all phases of conflict and operating in all domains. The training environment must create realistic actions/reactions/ counteractions so leaders can learn from the consequences of their decisions, and units can refine or validate their tactics, techniques, and procedures as part of the lessons learned process.

Army Training must continuously adjust its methods and processes to adapt to a wide variety of external forces such as an evolving geopolitical landscape, natural disasters, global pandemics, limited resources, and other unforeseen external/ environmental challenges.

Leaders practice disciplined initiative, training to execute mission essential tasks. They can create realistic training and leader development environments using the intelligence informed regional decisive action training environments (DATE) (Europe, Pacific, Caucasus, and Africa). The DATE makes training for land operations dynamic and complex, while providing continuity of training conditions across all training domains and within live, virtual, and constructive (LVC) environments and, in the future, the Synthetic Training Environment (STE). Leader development emphasizes “how” and not “what” to think about the operational environments (OE) and threat conditions. The Opposing Forces (OPFOR) remains a freethinking sparring partner well versed in potential adversaries' future tactics and capabilities in all phases of conflict and operating in all domains (land, air, maritime, space, and cyberspace). The training environment creates realistic actions-reactions-counteractions so leaders can learn from the consequences of their decisions, and units can refine or validate their tactics, techniques, and procedures. Figure 3 is a brief illustration of how the Army manages readiness by first looking at unit capabilities, and then by identifying the appropriate training and continually assessing and evaluating that training.

FIGURE 3. Managing Army Readiness



MET Mission-Essential Task
OE Operational Environment
MTOE Modified Table of Organization and Equipment
TDA Table of Distribution and Allowances
TOE Table of Organization and Equipment

"Money is a weapon system. Through sustained process standardization and audit remediation efforts, we are continuously ensuring every taxpayer dollar efficiently supports the readiness and lethality our Warfighters need to succeed, one transaction at a time."

— BG MARK S. BENNETT
Commanding General, *U.S. Army Financial Management Command*

Objective 1.1: *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. Throughout their career, Soldiers acquire knowledge and skills through resident courses, mobile training teams, and distributed learning. The goal of institutional training is to generate the required quantity of highly proficient Soldiers able to meet the Army's readiness objectives and execute Army missions consistent with their Military Occupational Specialty (MOS).

Performance Indicators: Table 1 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 1.1.a: Percent fill rate. The fill rate or execution rate measures the number of Soldiers sent to training (input) as a percentage of the number of trained Soldiers needed (quota).
- Measure 1.1.b: Percent graduation rate. The graduation rate measures the number of Soldiers who graduated from their assigned training as a percentage of input.

Table 1 displays data from FY 2016 – FY 2019 for 10 categories of institutional training, including IMT. The objective of IMT is to achieve a quota fill rate of at least 95% and a graduation rate of at least 90%. Overall, the Army improved its quota fill rates from the 2018 rates through increased recruitment, improved instructor-to-student ratios and better alignment of quotas with training seat capacity. It was able to achieve its graduation objective most of the time. The Army will continue to work toward meeting training quotas to assure its Soldiers are always ready. Note: Year-end FY 2020 data was not available at the time of AFR publication.

TABLE 1. Individual Training

	FY 2016					FY 2017					FY 2018					FY 2019				
Training Category	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %
AIT	98171	85795	84493	87%	98%	97230	82429	80070	85%	97%	103519	86743	84375	84%	97%	97470	80962	78273	83%	97%
BCT	87697	72491	66096	83%	91%	91256	73501	67698	81%	92%	102631	74994	67808	73%	90%	86340	74379	68009	86%	91%
BOLC	15917	13178	12909	83%	98%	14831	12600	12289	85%	98%	15582	12935	12641	83%	98%	16363	14165	13877	87%	98%
IERW	879	769	743	87%	97%	985	1045	1049	106%	100%	1088	1052	1023	97%	97%	1088	1088	1097	100%	101%
IERW-CC	876	866	859	99%	99%	990	918	897	93%	98%	1088	1132	1109	104%	98%	1157	1134	1122	98%	99%
INITIAL LANG	796	714	589	90%	82%	675	639	490	95%	77%	842	720	436	86%	61%	899	797	260	93%	33%
OCS	4964	3281	2754	66%	84%	4282	3126	2770	73%	89%	4566	3779	3471	83%	92%	4153	4044	3290	97%	79%
OSUT	33698	30978	27050	92%	87%	37428	31416	28212	84%	90%	37848	31533	28221	83%	89%	39577	32487	27573	82%	85%
WOBC	3098	2603	2590	84%	100%	3313	2966	2948	90%	99%	3734	3121	3103	84%	99%	3462	3040	3018	88%	99%
WOCS	2701	2270	2140	84%	94%	2831	2441	2317	86%	95%	2842	2501	2420	88%	97%	2655	2642	2510	100%	95%
TOTAL	**248797**	**212945**	**200223**	**86%**	**94%**	**253821**	**211081**	**198740**	**83%**	**94%**	**273740**	**218510**	**204607**	**80%**	**94%**	**253124**	**214738**	**198929**	**85%**	**93%**

Training Categories

AIT: Advanced Individual Training
BCT: Basic Combat Training
BOLC: Basic Officer Leader Course
IERW: Initial Entry Rotary Wing
IERW-CC: Initial Entry Rotary Wing – Common Core
INITIAL LANG: Initial Language
OCS: Officer Candidate School
OSUT: One Station Unit Training
WOBC: Warrant Officer Basic Course
WOCS: Warrant Officer Candidate School

Quota Fill and Grad Rates:

>= 95%
95% – 89%
89% – 79%
<= 79%

Note 1: Data reflects Army students only; all Components
Note 2: Data includes multi-phase courses
Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of April 21, 2020

Objective 1.2: *Training Units*

The Army trains, as part of a joint team, to shape Operational Environments (OEs), prevent conflict, and conduct large-scale combat operations. The Army does this by conducting tough, realistic, and challenging training, at home stations, at Combat Training Centers (CTC), and while deployed. The Army's CTC Program remains the foundation of an integrated training strategy that builds trained, proficient, and combat-ready units and leaders to conduct operations as part of the Joint Force.

Performance Indicators: Table 2 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 1.2.a: Percent of scheduled brigades completing CTC rotations.

Performance Results: 70% of brigades scheduled to participate in a CTC rotation during FY 2020 completed training. It was a Chief of Staff Army/Senior Leader decision to cancel 1 JRTC Rotation due to operational demand, and 3 JRTC rotations and 3 NTC Rotations to reduce the spread of COVID-19 in order to protect our Soldiers, allied partners and Army civilians participating in these training events. Otherwise, the CTC Program would potentially have 100% execution.

TABLE 2. Brigade Training

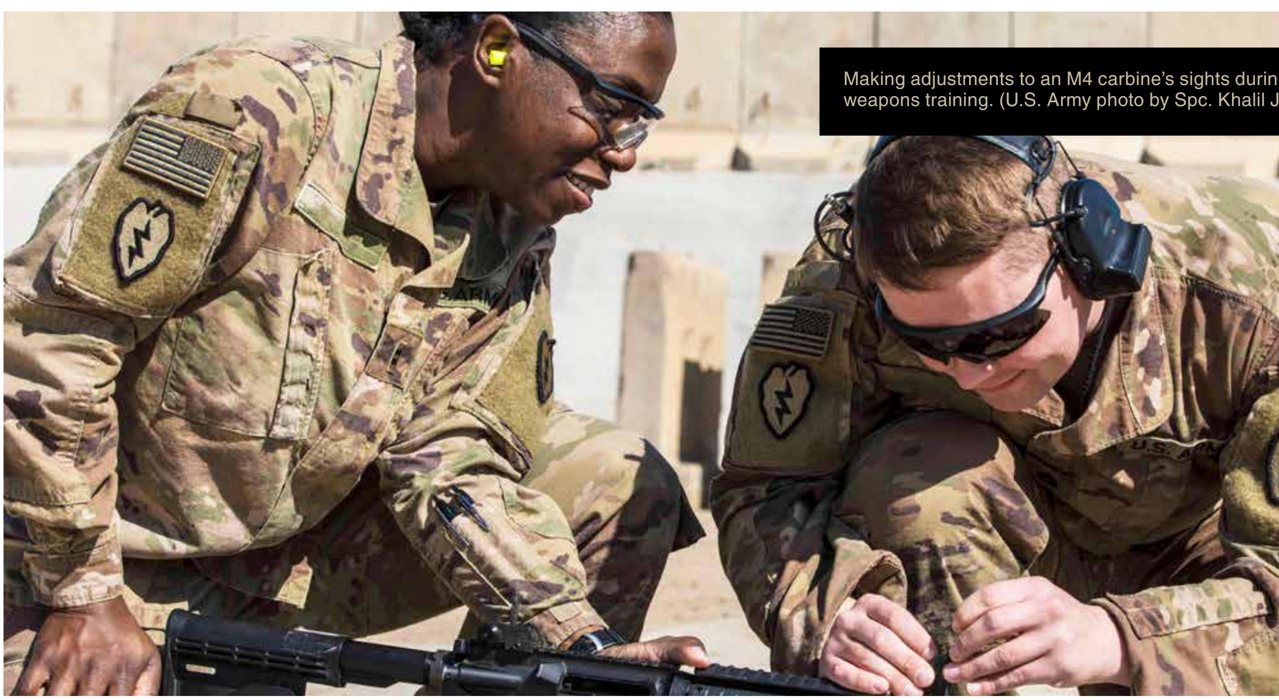
	FY 2020	
	Target	Actual
Percent of scheduled brigades completing CTC rotations	100%	70%

TABLE 3. CTC Rotations Completed

Type of CTC Rotation Completed	Assigned Brigade Combat Team (BCT)	Rotations Completed
Maneuver: Decisive Action/Unified Land Operations (DA/ULO)	Active BCT	13
	Army National Guard (ARNG) BCTs	1
Command Post Exercises	Army Service Component Commands	2
	Army Corps	3
	Army Divisions	8
	Army BCTs	2
	Army Sustainment Brigades	6
	Functional/ Multifunctional Brigades	15
	Army Special Forces	0

Objective 1.3: *Developing Adaptive Army Leaders*

Unit training and leader development are the Army's lifeblood. Competent, ethical leaders with a warrior mentality are the Army's competitive advantage that cannot be replaced by technology or substituted with advanced weaponry and platforms. The Army leader development strategy is the key to preparing the Army for large scale combat operations. The increasingly uncertain, complex, and interconnected global



Making adjustments to an M4 carbine's sights during weapons training. (U.S. Army photo by Spc. Khalil Jenkins) environment demands that the Army invest in leader development. This development is the life-long synthesis of training, education, and experience acquired through opportunities in the operational, institutional, and self-development domains. These efforts will allow us to be ready to deploy, fight, and win decisively against any adversary.

Performance Indicators: Table 3 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 1.3.a: Number of graduates in each course as compared to the quota.

Performance Results: Table 4 displays results of professional development courses within the Noncommissioned Officer Professional Development System (NCOPDS) and Officer Education System (OES). The table provides the number of trained Soldiers needed to meet readiness (quota) and the number of Soldiers graduating from training (grad). The Army will continue to strive to meet the quotas for professional development courses.

TABLE 4. Professional Development

		Professional Development									
		Noncomissioned Officer Professional Development System (NCOES)					Officer Education System (OES)				
Number of Leaders Trained		Basic Leader Course	Advanced Leader Course	Senior Leader Course	Master Leader Course	Sergeant Major Course Resident/ Ph2 Non-resident	Warrant Officer Advance Course Resident	Warrant Officer Staff Course Resident/ Non-resident	Warrant Officer Senior Staff Course Resident/ Non-resident	Intermediate Level Education Resident/ Common Core	Senior Service College Resident/ Distance Learning
FY 2016	Quota	39241	30734	17665	0	2009	3231	2482	812	12493	1861
	Grads	32596	28021	16581	141	1525	2965	2248	804	8180	1565
FY 2017	Quota	38216	29615	18966	276	3025	3355	2272	860	11491	1827
	Grads	35194	29669	19385	306	2465	2812	1977	892	8253	1567
FY 2018	Quota	41998	40855	23349	4076	3172	3067	2499	810	12782	1824
	Grads	40361	36506	21802	3714	2709	2867	1886	693	8355	1773
FY 2019	Quota	44012	39840	23367	5514	2824	2606	2377	924	9924	1849
	Grads	42967	35863	22399	5145	1127	2179	1727	750	5942	750

Note 1: All data is based on start date, i.e., if a class starts in FY 2018 and graduates in FY 2019, it is counted as FY 2019 data.
Note 2: Data based on Army Training Requirements and Resources System (ATTRS) reports as of May 11, 2020.
Note 3: Year-end FY 2020 data was not available at the time of AFR publication.

Modernization

Strategic Goal 2: *To make Soldiers and units more prepared to win our nation's wars, then return home safely.*

Modernization of the Army is critical to achieving the Army's mission. The Army has reached an inflection point: we can no longer afford to defer modernizing our formations and capabilities without risking overmatch and the ability to accomplish our mission on future battlefields. Given the challenges and trends of the strategic environment, reforming our modernization model to one that can tap the full potential of technological advancement is a strategic imperative.

Building the future Army to outpace 21st century threats requires investing, developing, and fielding weapons and platforms with next generation technology by 2028 that will provide our formations with distinct advantages over near-peer competitors in six prioritized capability areas of investment:

- Long-Range Precision Fires (LRPF): Develop platforms, capabilities, munitions, and formations that restore U.S. Army dominance in range, lethality, mobility, precision and target acquisition.

- Next Generation Combat Vehicles (NGCV): Develop combat vehicles that integrate other close combat capabilities in manned, unmanned, and optionally manned teaming that leverages semiautonomous and autonomous platforms in conjunction with the most modern firepower, protection, mobility, and power generation capabilities.
- Future Vertical Lift (FVL): A set of manned, unmanned, and optionally manned platforms that can execute attack, lift, and reconnaissance missions on the modern and future battlefield at greater range, altitude, lethality, and payload.
- Army Network: An integrated system of hardware, software, and infrastructure that is sufficiently mobile, reliable, user-friendly, discreet in signature, expeditionary and which the Army uses to fight effectively in any environment in which the electromagnetic spectrum is denied or degraded.
- Air and Missile Defense (AMD): A series of mobile integrated platforms, capabilities, munitions, and formations that ensure our future combat formations are lethal while remaining protected from modern advanced air and missile delivered fires, to include drones.
- Soldier Lethality: A holistic series of capabilities, equipment, training, and enhancements that span all fundamentals of combat: shooting, moving, communicating, protecting, and sustaining to ensure our Soldiers are more lethal and less vulnerable on the modern battlefield.

Checking a radar during training. (U.S. Army photo by Sgt. Amanda Hunt)

To provide a comprehensive plan for modernization going forward, the Army aligned the six modernization priorities with objectives across three successive future year defense programs (FYDP): Near (present to FY 2023) to close critical capability and capacity gaps, Mid (FY 2024 to FY 2028) to achieve overmatch and begin fielding next generation capabilities for Multi- Domain Operations (MDO); and Far (FY 2029 to FY 2034) to strengthen overmatch and fully field next generation capabilities for MDO. One of the programs within FYDP includes the Science and Technology (S&T) Program which will identify, develop, and demonstrate technology options that inform and enable effective and affordable capabilities for the Soldier. These programs will set a basis for the modernization of the future Army. The objectives below were established based on the six modernization priorities and highlight some of the goals achieved during FY 2020.

Objective 2.1: *Resourcing the equipment reset of operational (Operation and Maintenance, Army) and procurement programs (Other Procurement, Army) for overseas contingency operations.*

Contingency operation reset funding restores units to the desired level of combat readiness required for future missions. Reset is performed to restore equipment readiness. Reset encompasses maintenance and supply activities that restore and enhance combat capability to unit and pre-positioned equipment by repairing, rebuilding, or procuring replacement equipment that was either destroyed, damaged, stressed, or worn beyond economic repair due to contingency operations. Reset is a vital means for maintaining Army equipment readiness in order to sustain a force that is ready for any contingency.

Performance Indicators: The measures below are performance indicators in determining progress in meeting this objective.

- Measure 2.1.a: Percentage obligated of FY 2019 equipment reset operational and sustainment funding.
- Measure 2.1.b: Number of items repaired by AMC, including completed aircraft and vehicles.
- Measure 2.1.c: Percentage obligation of procurement funding for FY 2018, FY 2019, and FY 2020.

Performance Results: As of September 30, 2020, the Army had obligated 100% of the $1,021 million equipment reset operational and maintenance funding. The goal is 100% obligated by the end of FY 2020.

As of September 30, 2020, the AMC had repaired 6,999 items in sustainment level reset with a FY 2020 requirement of 16,585 items. AMC reported the completion of 92 aircraft with a FY 2020 requirement of 164. Items that are not completed in FY 2020 will be carried over to FY 2021. Four brigades have completed field level reset.

As of September 30, 2020, the Army executed 99% of the $249 million available from FY 2018 procurement funding, 93% of the $378 million available from FY 2019 procurement funding, and 34% of the $258 million available from FY 2020 procurement funding. The goal for procurement is 100% obligation of FY 2018, 90% of FY2019 and 80% of FY 2020 funding. This funding directly supports the procurement of new equipment or the recapitalization of equipment used in a named operation.

Objective 2.2: *Department of Defense Information Network – Army (DoDIN-A) Global Security Strategy.*

The National Defense Strategy and The Army Strategy note that the global security environment is increasingly complex and characterized by challenges to the free and open international order and the re-emergence of long-term, strategic competition between nations. These circumstances require a focused assessment of threats, strategic adjustments based on the changing character of warfare, and a transformation of the Department of Defense. Army Senior Leaders directed that a holistic Army Network Strategy be implemented to actively work towards gaining network superiority for the Army as a part of the joint force. Accordingly, there are multiple agencies within the Army that are undertaking efforts to modernize the Army's network capabilities. The U.S. Army established the Army Network Plan Framework (ANPF) to organize and coordinate these efforts and to accelerate modernization of the Army's network. The ANPF aligns with the Army Strategy's focus on building readiness, modernizing, reforming the Army, and strengthening alliances and partnerships while taking care of our people and living the Army values. Execution of the ANPF will enable the Army to meet its Title 10 responsibilities to man, train, and equip the force while building and sustaining readiness. Additionally, the ANPF parallels and will enable the Army Campaign Plan over multiple phases and time horizon.

As our nation's adversaries increasingly contest our historical dominance in all operational domains, the network, and all it entails, is the critical enabler to the success of the future force. The ANPF sets the Army on a path that will ensure technological dominance against all adversaries and establishes the foundation for an aggressive implementation plan to ensure our Warfighters are provided with a network that enables success in fighting and winning our nation's wars.

The ANPF mirrors The Army Strategy's priorities and supports the Army's intent to build a multi-domain ready force by 2035. It establishes five Lines of Effort (LOEs) critical to shaping the future Army:

LOE 1: Modernize the Network – Agile and Accelerated Technology and Capability Development

LOE 2: Shape the Force – Ready Forces Prepared for High-Intensity Conflict

LOE 3: Reform Processes and Policies – Improve Performance and Affordability

LOE 4: Network Sustainment – Comprehensive Enterprise and Tactical Sustainment

LOE 5: Security and Survivability – Commander's Freedom of Action within Cyberspace

Figure 4 below displays The Army Network Plan Framework inclusive of all LOEs listing the objectives and future state of the network. For current status, this visualization can be accessed real-time at: https://www.sms.army.mil/dashboards/885360438/shared/A36382F87802D22FC23FEE940A59833D66F2AEFF595C5DA4

FIGURE 4. Army Network Plan Framework

This framework is a critical element of achieving the overarching Army Vision. Implementation of the ANPF LOEs and their aligned objectives will modernize, shape and reform the Army's network and policy to better enable mission accomplishment. The modernization efforts represent changes in policy, equipment, and procedures, as well as, complex system of systems engineering to ensure common environments, responsiveness, and capability, globally. Accordingly, no single measure can serve as an indicator of objective achievement. Therefore, the Army uses measure indices to determine the risk surrounding modernization outcomes arrayed across the ANPF LOE's. The index for each LOE is supported by objectives, which in turn are supported by many metrics that roll-up to establish a risk assessment.

Performance Measure / Indicators: The ANPF is currently supported by 138 key performance indicators that are a combination of quantitative and qualitative metrics. The performance indicators are reported monthly and are housed in an Army system of record. The indicators are reviewed on a recurring basis to update and apply relevant assessment factors to the objectives as necessary. The indicators selected by the ANPF community, vetted and approved by senior leaders, are outcome-based measures that change over time, in order to continue to support the LOE they are assigned within.

Below is a sample of the current measures that are performance indicators in determining progress in meeting this objective.

- *Measure 2.2.a: Objective 1.2.1-3*, the % Execution of Planned Experimentation Events
- *Measure 2.2.b: Objective 1.4.1-1*, the % of Common Operating Environment (COE) Resourcing (Funding)
- *Measure 2.2.c: Objective 2.1.1-2*, the % of Synthetic Training Environment (STE) Capacity Available (Virtual/Gaming and Live)
- *Measure 2.2.d: Objective 2.2.1-2*, the # Completed Manpower Model Studies to HQDA
- *Measure 2.2.e: Objective 3.3.2-1*, the % of Policy Conflicts Resolved
- *Measure 2.2.f: Objective 3.5.1-1*, the % Variance between GFEBS and ITAS
- *Measure 2.2.g: Objective 5.2.1-2*, the % of installations JRSS compliant
- *Measure 2.2.h: Objective 5.5.3-1*, the % of site with integrated ICS continuous monitoring

Each of these metrics support the LOE and Objectives they are grouped under. Currently LOE 4 is still working to identify relevant performance indicators for Network Sustainment. The individual metric performance values are combined to create a performance score that is normalized across all elements of the ANPF (e.g. a score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or on track). The goal score of 10 indicates perfect performance or 100% achievement. Grey cells indicate that no performance information was reported at the indicated junction.

Performance Results: Table 5 below displays the annualized risk assessment, based on all the supporting indicators reported, displaying the score and represented by a corresponding stoplight color. Table 6 below displays a breakdown of the LOE's into their supporting displaying performance information. In both tables, the individual metric performance values are combined to create a performance score that is normalized across all elements of the ANPF (e.g. a score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or on track). The goal score of 10 indicates perfect performance or 100% achievement. Grey cells indicate that no performance information was reported at the indicated junction.

TABLE 5. Army Network Plan Framework Annualized Performance Indicators for the overarching plan

	Performance Roll-up			
	FY 2019		FY 2020	
ANPF	Score*	Goal	Score*	Goal
The Army Network Plan	6.12	10	4.73	10
LOE1 – Modernize the Network	6.48	10	4.08	10
LOE2 – Shape the Force	7.35	10	7.22	10
LOE3 – Reform Processes and Policies	4.54	10	4.98	10
LOE4 – Network Sustainment				
LOE5 – Security and Survivability			2.64	10

*A score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or on track

Infantry Soldiers fire an FGM-148 Javelin during a combined arms live fire exercise. (U.S. Army photo by Sgt. Liane Hatch)

TABLE 6. Army Network Plan Framework Annualized Lines of Effort Objectives Performance Indicators

Army Network Plan Framework		Performance Roll-Up			
		FY 2019		FY 2020	
Line of Effort	Objectives	Score*	Goal	Score*	Goal
LOE 1 – Modernize the Network	OBJ 1.1 Deliver Standards Based Architecture			0	10
	OBJ 1.2 Modernize Mission Command Network			6.02	10
	OBJ 1.3 Set the Enterprise			3.46	10
	OBJ 1.4 Achieve and Sustain Interoperability	6.48	10	6.84	10
LOE2 – Shape the Force	OBJ 2.1 Enhance Training Systems and Infrastructure	8.75	10	8.61	10
	OBJ 2.2 Improve Force Design and Structure	7.88	10	8.15	10
	OBJ 2.3 Build Readiness	6.67	10	6.67	10
	OBJ 2.4 Develop Human Capital	6.11	10	5.43	10
LOE 3 – Reform Processes and Policies	OBJ 3.1 Integrate Mission Areas	5.37	10	4.35	10
	OBJ 3.2 Optimize Governance Processes and Structure	3	10	3	10
	OBJ 3.3 Reshape Policy	10	10	8.7	10
	OBJ 3.4 Transform Army Enterprise Architecture (AEA)	1.11	10	2.2	10
	OBJ 3.5 Ensure IT Investment Accountability	4.44	10	5.89	10
LOE 4 – Network Sustainment	OBJ 4.1 Determine Network Sustainment Requirements		10		10
	OBJ 4.2 Network Lifecycle Sustainment Planning		10		10
	OBJ 4.3 Plan and Program Sustainment Resources		10		10
	OBJ 4.4 Support Network Modernization Fielding		10		10
	OBJ 4.5 Sustain Enterprise and Tactical Networks		10		10
LOE 5 – Security and Survivability	OBJ 5.1 Manage Risk		10	6.88	10
	OBJ 5.2 Secure Army Networks		10	1.11	10
	OBJ 5.3 Secure Data		10	2.56	10
	OBJ 5.4 Harden Weapon Systems and Platforms		10	0	10
	OBJ 5.5 Harden Control Systems		10		10

*A score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or on track

Reform

Strategic Goal 3: *To maximize the value of every dollar, operate transparently, and use resources wisely*

In order to reform the Army's current culture, we must continue to foster a commitment to fiscal responsibility and accountability, while continuing to achieve our mission. Continued attention to controlling and reducing the cost of overhead and management structures, while ensuring the associated activities are not negatively impacted, is essential. Instilling a strong cost- and efficiency-conscious culture across the Army through leadership and policy implementation is critical to enabling the Army of the future to deliver value to the Warfighter. Knowing what it costs to deliver business capabilities allows Army leaders to assess the return on investment, leading to improved decision making across the organization. The objectives below align to the overall goal of reform.

Objective 3.1: *Reorganizing an Infantry Brigade Combat Team (IBCT) to Stryker Brigade Combat Teams (SBCT) while assuring Soldiers and equipment are readily available.*

One of the projects during FY 2020 was to adjust and improve BCT capabilities, refocusing on large scale ground combat operations. In order to do this, the Army had a goal to increase power lethality by increasing SBCT capacity within the Army by one. To reduce cost and gain efficiencies, the Army uses pre-established IBCTs to convert to SBCTs.

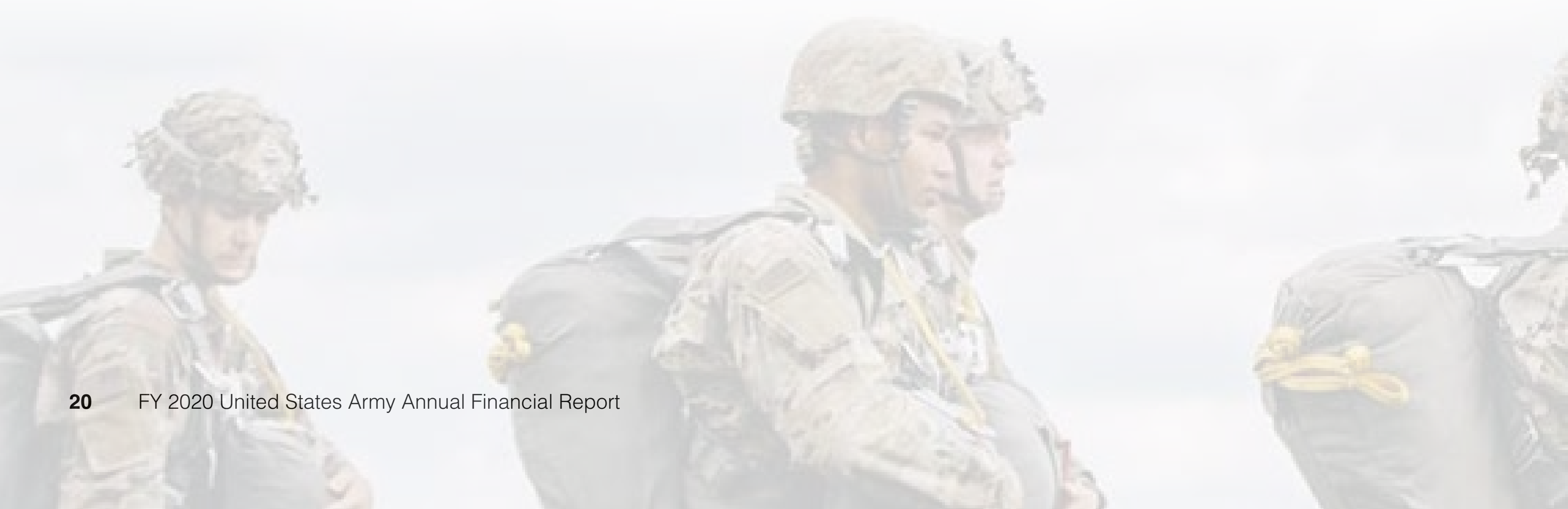
Performance Indicators: The measures below are performance indicators in determining progress in meeting this objective.

- Measure 3.1.a: Increase the number of SBCTs by one in FY 2020.
- Measure 3.1.b: Percent of availability of authorized Soldiers.
- Measure 3.1.c: Percent of on hand pacing items.

Performance Results: In June 2019, the Army began the conversion of the 1st Brigade, 1st Armored Division (AD) at Fort Bliss, Texas from a Stryker Brigade Combat Team (SBCT) to an Armored BCT (ABCT). This is an increase of 6% in ABCTs, increasing the Total Army quantity of ABCTs from 15 to 16, with 11 in the regular Army and 5 in the ARNG. The removal of Strykers from Fort Bliss provided an opportunity to convert 2nd Brigade, 4th Infantry Division (ID) from an IBCT to SBCT, increasing the Total Army quantity of SBCTs from 8 to 9, with 7 in the Regular Army and 2 in the ARNG. The overall number of BCTs remains at 58 with 31 in the regular Army and 27 in the ARNG.

As of September 2020, 2nd Brigade, 4th ID at Fort Carson, Colorado has 102% of its authorized Soldiers with 92% available for deployment.

The Army also monitors the quantity of on hand pacing items to include Stryker vehicles and artillery systems. Currently, 86% of these items are on hand at Fort Carson. Achieving high percentages of available Soldiers and on hand equipment is critical to a successful brigade-level training exercise in FY 2021 – 2022.



The conversion of 2nd Brigade, 4th ID at Fort Carson, Colorado continues through FY 2020 into FY 2022. This brigade will execute a training rotation at the National Training Center as part of its final certification before any planned deployments.

Objective 3.2: *Re-stationing Forces*

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 service working groups, identified and analyzed opportunities for consolidation of common support functions, such as logistics, training, medical, command, control, communications, computers, and information technology. The EIC actions completed in FY 2020 are listed below.

Performance Indicators: Table 7 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 3.2: Percent of EIC actions completed.

Performance Results: In 2020 the Army spent approximately $4.9 million1 to implement EIC actions. The Army completed two additional EIC actions in FY 2020, bringing the total completed to 20 of 33 actions[2]. Collectively, the 33 EIC actions require one-time costs across FY 2016-25 of approximately $356 million[1] and will yield $105 million[3] in annual savings beginning in FY 2025. The annual savings the EIC effort produces will provide 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.

TABLE 7. EIC Performance Results

EIC Performance Results[4]	FY 2017	FY 2018	FY 2019	FY 2020
Number of EIC Actions scheduled to complete	1	3	1	4
Number of EIC Actions completed	1	2	2	2
Percentage	100%	67%	200%	50%

[1] Army EIC Cost and Savings Summary Exhibit, EC-02, as of 16 Feb 2020
[2] Army EIC Business Plan Coordination Spreadsheet & Army EIC Quick Wins Chart
[3] Army EIC Cost and Savings Summary Exhibit, EC-02, as of 16 Feb 2020 & Army "Quick Wins" Chart
[4] Army EIC Business Plan Coordination a/o 15 May 2020 & Army Quick Wins Status Chart a/o 16 Sept 2020

A U.S. Army paratrooper waits to board an aircraft prior to an airborne operation. (U.S. Army photo by Spc. Ryan Lucas)

Objective 3.3: *Business Transformation Initiatives*

To optimize cost savings and improve the Army's ability to deliver readiness at the best value, the Army has refined and institutionalized its approach to business process improvement. The Army does this through application of a variety of methodologies, to include continuous process improvement (CPI) and business process reengineering (BPR). Through effective application of these core methodologies the Army is greatly improving its ability to ensure delivery of the highest possible product and service quality, on-time, every time, anywhere.

CPI efforts have improved logistics, program management, buying practices, headquarters restructuring, and other functions to enhance the effectiveness and efficiency of Army operations. The desired end state is an Army 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 to streamline the Army force generation processes, and (4) continues to improve the adaptability of generating processes through organizational redesign, innovation, and integration. The Army sustains its CPI strategy and approach to ensure that it applies the best methods and tools to the complex challenges that face the Army. The Army measures CPI efforts by accounting for direct cost savings or cost avoidance achieved from FY 2015 baseline, with a target of 5% increase annually.

In FY 2017, the Army established the BPR Center of Excellence (CoE) to institutionalize and improve the Army's approach to BPR. The CoE delivers four core capabilities: design of BPR curriculum, development of a cadre of trained BPR specialists to support Army's business process owners, support of enterprise BPR efforts across the Army, and serving as the senior review authority providing evaluation of BPR efforts in support of the Business Capability Acquisition Cycle (BCAC). The BPR CoE currently supports training of BPR practitioners, continues to develop modernized BPR approaches, and provides direct support to commands and Defense Business System proponents and developers to improve and streamline business processes in support of the Army's Business Mission Area.

In FY 2019, the Army established the Army School of Business at the Army Logistics University, Fort Lee VA. The School will consolidate

Business Mission Area Training to include Lean Six Sigma (LSS), BPR, Robotic Process Automation, Data Analytics for Non-ORSA's and other business-related courses. The school is expected to reach full operational capability and will provide full-service support in late FY 2021.

Performance Indicators: The measures below are performance indicators in determining progress in meeting this objective.

- Measure 3.3.a: FY 2020 financial benefits conferred from CPI/BPR initiatives.
- Measure 3.3.b: Number of students trained in BPR Foundation course.
- Measure 3.3.c: Number of students trained in BPR Intermediate course.

Performance Results: Army leaders continue their efforts to streamline and improve Army processes, infrastructure and organization design. Since the Secretary of the Army and Chief of Staff of the Army initiated the CPI effort in FY 2006, the program has delivered an average annual financial benefit (savings and cost avoidance) of $1 billion. In FY 20, Army CPI efforts resulted in a financial benefit (cost savings/avoidance) of $2.251 Billion, and trained 45 practitioners, (19 GB and 26 BB) bringing the total number of Army trained process improvement practitioners to 13,746, greatly impacting the Army's ability to routinely see and improve its processes as a matter of routine. (Note: student number down from 490 in FY 2019 due to COVID-19).

The BPR CoE currently provides training to support the optimization of Army business processes, and continues to apply modernized BPR approaches to support the force. The BPR CoE established a three-tiered training curriculum which culminates in an Army BPR Professional Certification. In FY 2020, 170 students completed the Tier One Foundation course and 44 students completed the Tier Two Intermediate course, with one student attaining Tier Three certification. To prevent interrupted service to the Army Enterprise as a result of COVID-19, the BPR CoE restructured both the Tier One Foundation and Tier Two Intermediate courses to accommodate online learning. To-date the BPR-COE has trained 619 BPR practitioners (487 Foundational, 125 Intermediate & 7 Advanced) and executed direct support projects delivering over $400,000 in financial benefits to the Army. The knowledge learned from these courses will support leaders as they continue to press the Army's strategic goal of reform.

Objective 3.4: *Establish the Army Business Mission Area (BMA) business system information technology model (Figure 5) with major emphasis on the unification quadrant.*

Define and develop incremental ERP capabilities to support specific lines of business while enhancing overall enterprise agility, performance assessment, accountability, decision-making, and overall effectiveness in an increasingly resource constrained environment.

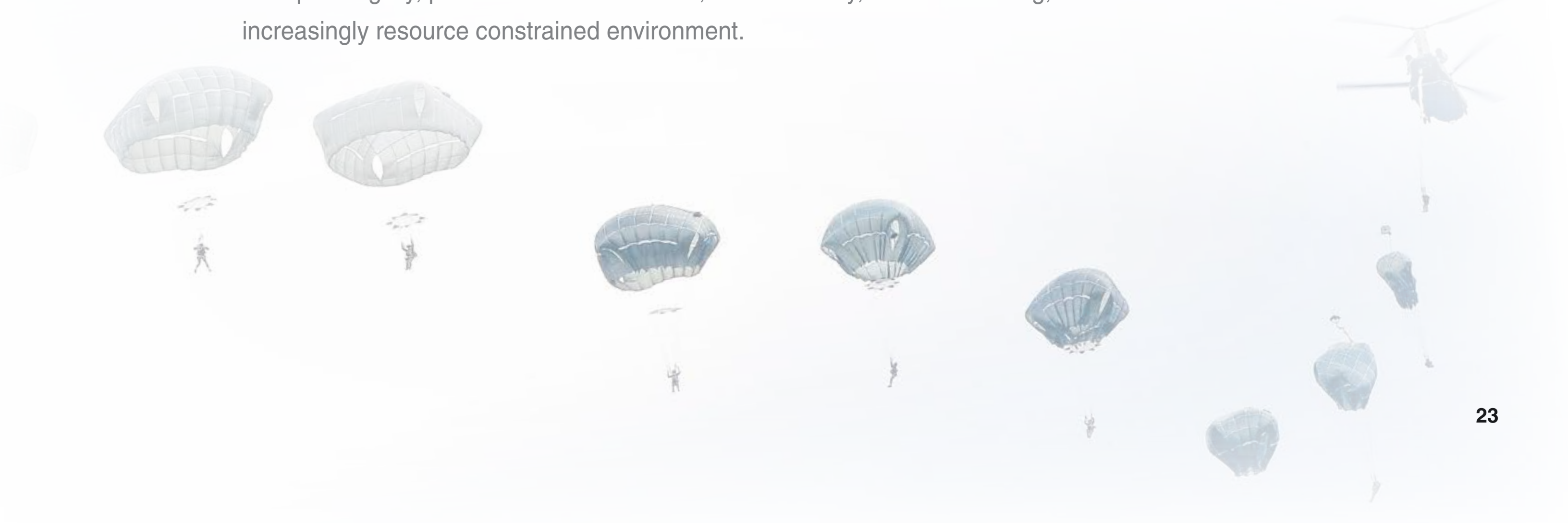
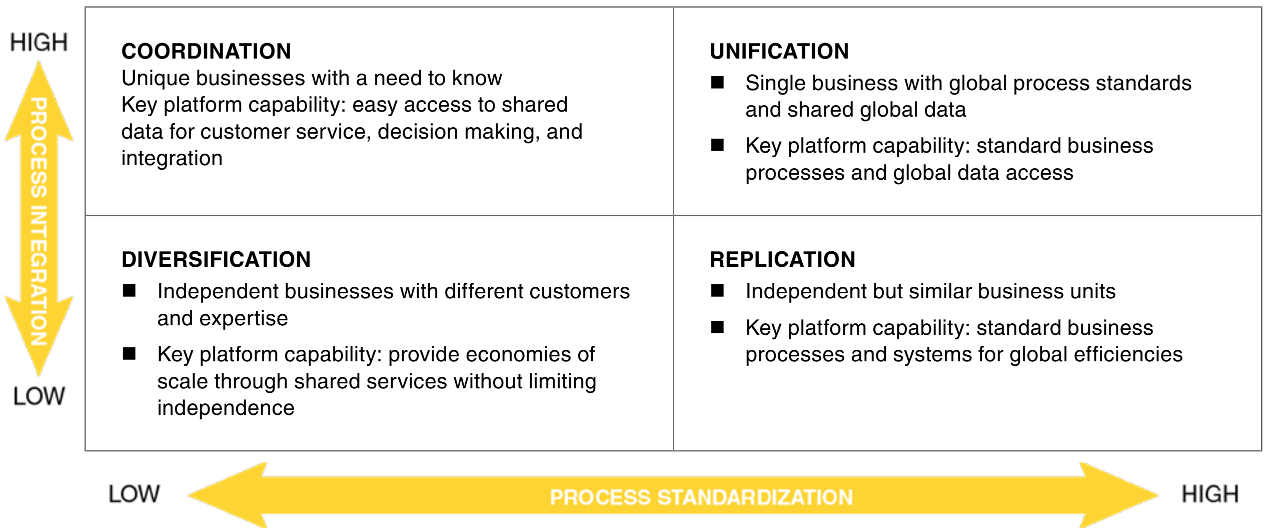


FIGURE 5. BMA Business System Information



Performance Indicators: Planned system retirements and enduring target systems on schedule completion.

- Measure 3.4.a: Planned legacy system retirements accomplished on time. Target: 95%.

Performance Results: The target number of DBS for system retirement during FY 2020 was 74 systems. The Army retired 39 legacy DBS investments during FY 2020. This results in an on-time metric of 52.7%. The Army missed the 95% target established in the Army Business Strategy primarily due to delays in fielding of IPPS-A capabilities caused by repeated Congressional funding cuts that prevented the sunset of legacy systems according to the planned schedule.

People

Strategic Goal 4: *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.*

People are the Army's most valuable assets and are critical to achieving all aspects of the Army mission. Taking care of Army Service members, their families, and civilian staff is a commitment that the Army continues to honor. The Army will make the most efficient use of the Total Force by targeting areas such as transition and personnel planning to remain agile and responsive, regardless of the current fiscal challenges. The Army will initiate efforts to reinvent the civilian workforce and military service members everywhere: bringing in and retaining highly skilled people; rewarding people and promoting on the basis of performance and talent; and thinking about ways to broaden experience.

Objective 4.1: *Manning the Force—Recruiting and Retaining Soldiers*

To achieve the Army Vision of 2028, the Regular Army is on a steady growth ramp to achieve 492,000 Soldiers in FY 2026. The Army will have associated growth in the Reserve components (Army National Guard and Army Reserve), by recruiting and retaining high quality, physically fit, mentally tough Soldiers who can deploy, fight, and win decisively on any future battlefield.

Performance Indicators: Tables 8 – 12 display measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.1.a: Quality Percent Tier 1 Educational Credential Holders (Active Component).
- Measure 4.1.b: Total Enlisted Recruiting.
- Measure 4.1.c: Active Component End Strength. The number of Soldiers on active duty at the FY-end; data as of September 30, 2020; does not include 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 of FY 2016 – FY 2018 identified within the National Defense Authorization Act (NDAA). Goal and minimum of FY 2019 – FY 2020 established by the Secretary of the Army, approved by the Secretary of Defense, and within 2% of end-strength limits identified within the NDAA.
- Measure 4.1.d: Reserve (ARNG and USAR) End Strength. The number of Soldiers in ARNG and USAR; data as of September 30, 2020.
- Measure 4.1.e: Number of Soldiers reenlisted during a given FY against published goals.

Performance Results: 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 at least a 90% rate of new recruits with Tier 1 educational credentials, i.e., high school diploma or above. The Army has achieved approximately 96% Tier 1 recruits for FY 2020. The overall attrition rate has decreased from FY 2019 to FY 2020. The decreased attrition rate and overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force. In FY 2020, the Army offered a selective recruitment bonus to attract personnel for specific skill areas, including Infantry Recruit, Cryptologic Linguist, and Air Missile Defense crewmember.

The Army achieved the Active Component FY 2020 recruiting mission. The United States Army Reserve (USAR) and Army National Guard (ARNG) did not achieve its FY 2020 recruiting mission.

The retention program continued to support Army readiness by retaining Soldiers serving in high demand special skills areas. In FY 2020, the Army offered a selective retention bonus to attract and retain personnel in specific skill areas, including Csyber Operations Specialist, Special Forces, and Cryptologic Linguist. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army exceed its FY 2020 retention goal. The Army will continue to develop and implement programs to address Soldier retention.

TABLE 8. Quality Percent Tier 1 Educational Credential Holders (Active Component)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Tier 1 Goal	90%	90%	90%	90%	90%
Tier 1 Actual*	96%	96%	95%	94%	96%

*Actual data as of September 30, 2020.

TABLE 9. Enlisted Recruiting

	FY 2016 Actual	FY 2017 Actual	FY 2018 Goal	FY 2018 Actual	FY 2019 Goal	FY 2019 Actual	FY 2020 Goal	FY 2020 Actual	Percent Delta
Active Component	62,681	68,862	76,500	69,972	68,000	68,185	62,000	62,151*	100.08%
ARNG	33,135	34,298	44,342	34,629	39,000	39,063	42,730	42,730*	86.47%
USAR	15,865	13,272	15,600	11,327	15,600	15,304	15,850	13,706*	89.73%

*Actual data as of September 30, 2020. The Percent Delta has no adverse impact on Army Operational Readiness.

TABLE 10. Active Component End Strength

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Goal	475,000*	476,000*	483,500*	478,000**	485,000***
Actual*	475,400	476,245	476,179	483,941	485,383
Percent Delta	+0.1%	+0.05%	-1.5%	+1.2%	+0.1%

* Actual data as of September 30, 2020. The Percent Delta has no adverse impact on Army Operational Readiness.
**Goal and minimum of FY 2016 – FY 2018 identified within the National Defense Authorization Act (NDAA).
***Goal and minimum of FY 2019 – FY 2020 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the National Defense Authorization Act (NDAA).

TABLE 11. Reserve (ARNG and USAR) End Strength

	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Goal	FY 2020 Actual	Percent Delta
ARNG	341,590	343,603	335,204	335,973	336,000*	334,828**	99.65%
USAR	198,395	194,318	188,811	190,719	189,500*	188,964**	99.72%

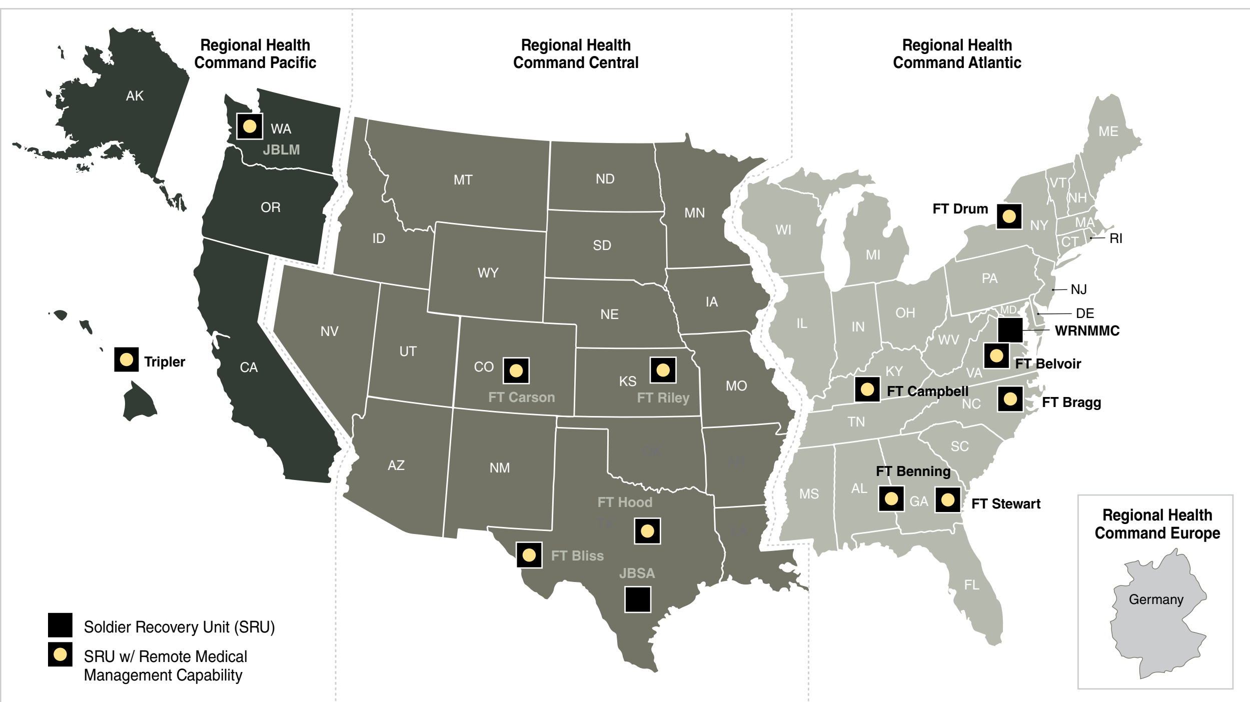
* Goal and minimum of FY 2019 – FY 2020 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the National Defense Authorization Act (NDAA).
** Actual data as of August 30, 2020.

TABLE 12. Active, National Guard and Reserve Component Retention

	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Goal	FY 2019 Actual*	FY 2020 Goal	FY 2020 Actual	Percent Delta
Active Component	55,181	58,373	55,881	50,515	51,331	50,219	53,024*	105.59%
ARNG	31,319	31,530	34,913	35,200	36,138	37,272	34,260**	91.92%
USAR	15,886	16,737	19,012	13,434	17,089	9,700	13,004*	134.06%

* Actual data as of September 30, 2020.
** Actual data as of August 30, 2020.

Objective 4.2: *Providing Warrior Care and Transition*



Achieving the Army's Warrior Care and Transition objective is the responsibility of the Army Recovery Care Program (ARCP), whose congressionally mandated mission is to provide the Army's wounded, ill, and injured (WII) Soldiers, Veterans, and their families with the medical management, access to care, and transition support they need and earned. As a staff directorate of U.S. Army Medical Command (USAMEDCOM), it is

A drill sergeant watches over trainees as they stand in formation while wearing masks and maintaining physical distancing during reception before entering basic combat training. (U.S. Army photo by Sgt. Dustin D. Biven)

led by its Deputy Chief of Staff Army, Recovery Care Program (DCS-ARCP). The ARCP is the U.S. Army's proponent for overseeing, integrating, and synchronizing policy, advocacy, and implementation of warrior care initiatives that contribute to Army Readiness. The ARCP priority is the recovery and transition of wounded, ill, and injured Soldiers. Program population was 1,888 as of 30 June 2020. Over the past 12 months 2,038 Soldiers entered the program and 4,499 Soldiers spent at least one day in the program. By October 1, 2020, the ARCP will complete its transformation into a leaner, more efficient program while continuing to ensure it remains the premier military warrior care program.

The cornerstone of the program is the Comprehensive Recovery Plan (CRP). The CRP employs six interdisciplinary processes to produce a tangible, achievable plan of action devised by the Soldier in collaboration with Soldier Recovery Unit (SRU) clinicians and SRU leadership. Although standardized, the CRP allows each Soldier to customize their recovery process, enabling them to set and reach their personal goals. Recovery Care Coordinators (RCCs) and the interdisciplinary team of the ARCP support the CRP and ensure access to benefits, resources, and enhanced care throughout the recovery and transition process.

Objective 4.2.1: *Provide centralized oversight, guidance, and advocacy empowering wounded, ill, and injured Soldiers, Veterans, and families to implement their CRPs to return to the force or to transition to the civilian community with dignity, respect, and self-determination.*

Performance Indicators: Tables 13 – 17 display measures that are performance indicators in meeting the above objective.

Readiness:

- Measure 4.2.a: Continued Soldier time-in program reduction.
- Measure 4.2.b: Percent of Soldiers returned to the force as a part of Army readiness and lethality.

Oversight:

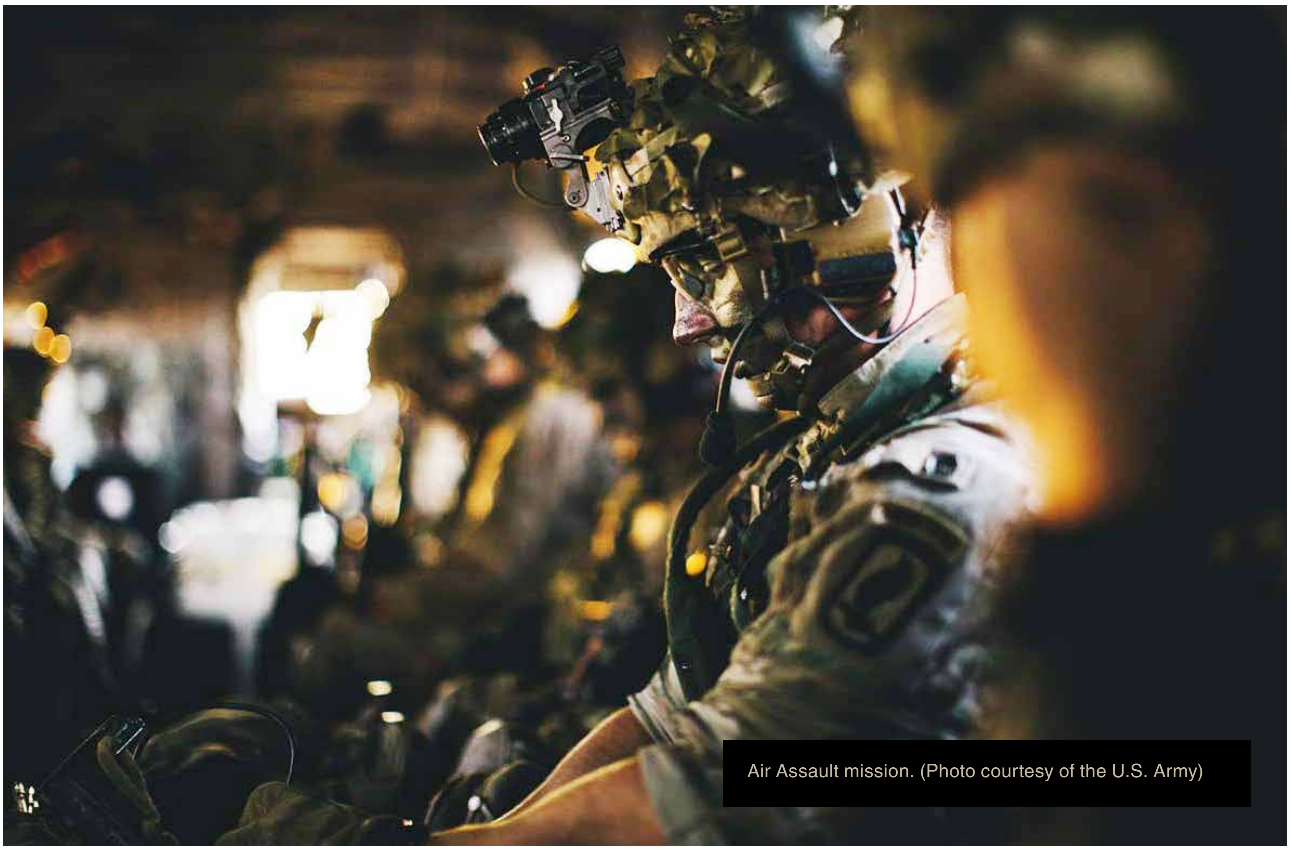
- Measure 4.2.c: Percent of Organizational Inspection Program (OIP) compliance rates.

Reintegration and Transition Support:

- Measure 4.2.d: Percent of Soldiers in the "Transition from the Army" career track that are participating in a Career and Education Readiness (CER) worksite.
- Measure 4.2.e: Percent of "warm handoffs" of eligible transitioning Soldiers to the Veterans Administration.

Performance Results: The ARCP's focus on providing enhanced access to care for ARCP Soldiers contributes to the Army's total force readiness. Of the more than 81,000 Soldiers who have been assigned to the ARCP, 42% have returned to duty, a rate of return that the ARCP has maintained for the past three years.

Policy: In FY 2020, the Army published a newly revised AR 40-58, *The Army Recovery Care Program*, dated May 12, 2020. The regulation mandates changes to evolving processes and systems that will provide better critical care management for Soldiers. Principal among these changes is the establishment of single entry criteria that all Soldiers, regardless of component (Active Duty/Active Guard Reserve, Army National Guard, or U.S. Army Reserve). The single entry criteria is based on the Soldier's need for complex case management.



Air Assault mission. (Photo courtesy of the U.S. Army)

Training: ARCP provides a mixture of distance learning and residence to train and educate SRU cadre as well as ARCP directorate staff. Among the resident courses ARCP conducts are several that are designed to meet the needs of SRU personnel, ranging from the SRU command team down to squad leader; nurse case managers, clinicians, and transition coordinators. Training include ARCP and SRU organization and operation, ARCP procedures, leadership, clinical operations, patient movement, transition, and resilience. Principal among these courses is the Senior Leaders and Clinicians Course (SLCC), which is held quarterly. The course provides initial entry training for senior personnel and clinicians to prepare them to assume positions at either an SRU or Regional Health Command (RHC) Recovery Care Office (RCO). These courses also introduce SRU leaders and clinicians to clinical and administrative subject matter experts at ARCP headquarters and provide another cornerstone of success in the SRU.

Soldier Transition: ARCP's Career and Education Readiness Division (CERD) is responsible for policies and programs to prepare ARCP Soldiers for transition to Veteran Status and civilian life. CERD implements programs, drafts policy, and coordinates with stakeholders to maintain or improve measures of performance throughout the FY. The CERD's strategic plan includes objectives in the following functional areas: policy, training, evaluation, strategic communication, and external partnerships to continue validating CER participation and documenting its long-term results. CERD establishes the foundation for success for new Transition Coordinators during the Initial Transition Coordinator Training Course. Then, utilizing monthly Transition Coordinator training sessions and two formal Transition Coordinator Training Conferences, CERD transforms ideas and best practices into policy, thereby continuing the increase of participation rates amongst eligible Soldiers in CERD-sponsored opportunities. Lastly, CERD validates the program via the formal staff assistance visits conducted at the 14 SRUs.

Policy Oversight and Compliance: ARCP sends teams to visit each SRU no less than once each 18 months. These teams evaluate SRU compliance with policies, procedures, and best practices, with an overall compliance rate of nearly 90%. The checklist is regularly updated to ensure an evolving oversight program that captures changing policy. The staff assistance effort includes four quarterly assessments and a root cause analysis to determine required policy changes and to determine where to effect change or provide addition guidance to assist units or adjust policy. This quarterly analysis and a standard operating procedure help spread best practices across the enterprise and lead to the continuing improvement of the program. ARCP also conducts monthly synchronization meetings with RCOs to adjust policy, improve oversight, and integrate training.

TABLE 13. End of Fiscal Year Soldier Average Time in Program[1]

	FY 2018 End of FY Average (days)	FY 2019 End of FY Average (days)	FY 2020 Goal	FY 2020 Average (days) as of 9 Sept 2020
Active Component	214	250	<280	275
Army National Guard	238	250	<285	297
U.S. Army Reserve	282	282	<336	318
All Components Average	**233**	**255**	**<296**	**292**

Source: Medical Operational Data System Warrior in Transition (MODS-WT)

TABLE 14. Return to Force[2]

	FY 2018	FY 2019	FY 2020
Active Component	30.64%	30.46%	30.01%
Army National Guard	57.91%	58.17%	58.36%
U.S. Army Reserve	54.21%	54.41%	54.55%
Total Completed Program to Date	76,717	79,285	81,821
Total Returned to Force to Date	32,366	32,366	34,397
Goal	*No historic goal established; objective is to return as many Soldiers to duty as possible.		
All Components Average	**42.2%**	**42.17%**	**42.04%**

Source: MODS-WT

TABLE 15. Organizational Inspection Program (OIP) Averages

FY 2018 Inspection Compliance Rates	FY 2019 Goal	FY 2019 Inspection Compliance Rates (9 of 14 WTUs)
87.11%	85%	85%

Source: Army DCS-WCT FY19 OIP Results

TABLE 16. Soldiers CER Participation[3]

	FY 2018	FY 2019	FY 2020
Eligible (Average of each end of month total)	826	930	861
Participation (Average of each end of month total)	722	854	752
Percent Goal	90%	90%	90%
Percent Participation	**87%**	**92%**	**87%**

Source: Army Warrior Care and Transition System (AWCTS)

TABLE 17. Veteran's Administration (VA) Warm Handoff[4]

	FY 2017	FY 2018	FY 2019	FY 2020
Soldiers Eligible for Referral	1,883	1,855	1,624	1,808
Soldiers Referred	1,698	1,707	1,442	1,698
Percent Goal	90%	90%	90%	90%
Percent Referred	**90.2%**	**90.6%**	**90%**	**93.9%**

Source: Federal Case Management Tool (FCMT) and MODS-WT

Notes:
[1] "Time in Program" calculated by average days in the program for Soldiers current in the program at the time information was analyzed (last week of each FY). Because of the COVID-19 pandemic, fewer soldiers are entering the program, and that decrease affects "Time in Program."
[2] By returning an SFC to active duty instead of separation, the Army saves $988,000 (Source: Wounded Warrior Transition Analysis, Center for Army Analysis, 15 May 2017).
[3] Analysis includes all Army Components.
[4] A successful "VA Warm Handoff" is defined as a completed VA Form 10-0454 (Military Treatment Facility Referral Form to VA Liaison) being sent electronically by a Soldier's Nurse Case Manager to the nearest Veterans Administration (VA) LNO, and the Soldier subsequently meeting with the VA Veterans Health Administration counselor to complete the form. At this point, the data is entered into the VA's FCMT and the Soldier is considered as having been referred.

Objective 4.3: *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 FH and UH at enduring locations through replacement and improvement projects, and divestiture of excess or substandard inventory.

The Army's resource investment over the years was shaped to meet the Office of the Secretary of Defense (OSD) directed targets of 90% of the housing inventory with a facility condition index (FCI) of 80% or higher. While OSD uses the FCI, the Army equivalent are Quality (Q) ratings and the ratings Q1 and Q2 are the Army equivalent of ratings that are 80% FCI or higher.

By providing housing allowances, the Army enables Soldiers, with and without dependents, to secure adequate and affordable housing in the local community. Approximately 70% of Soldiers are housed in this manner through the Housing Services Offices at the Army garrisons worldwide. The Army maintains about 10,398 Army-owned FH units and seeks to improve or replace inadequate FH to achieve an inventory that consists of 90% being quality-rated Q1 or Q2. If necessary, the Army programs for FH construction projects to build inventory in which there are quality and/or quantity deficits.

The Army has also utilized FH and UH privatization options to deliver adequate and affordable housing on Army installations in the United States. The Army's privatized housing Residential Communities Initiative (RCI) exists at 49 installations in the United States, including Alaska and Hawaii for an end-state inventory of 86,348 family homes. The Army RCI program also has five UH privatization projects at Forts Irwin, Drum, Bragg, Stewart, and Meade. The Army's plans to eliminate inventory of inadequate lodging at locations in the United States, including Alaska, Hawaii and Puerto Rico through the Privatized Army Lodging (PAL) program. The PAL program operates at 40 installations.

As of the end of FY 2020, the UH, also known as barracks, portfolio is vast. The Deputy Chief of Staff (DCS) G-9 is responsible for over 6,811 UH buildings that encompass over 484,167 spaces. The types of UH include permanent party, institutional training, and collective training.

The Army has primarily focused on improving the quality of the permanent party and institutional training UH and has established plans to raise the quality ratings to meet and exceed the OSD goal and is tracking that progress.

Objective 4.3.1: *Family Housing*

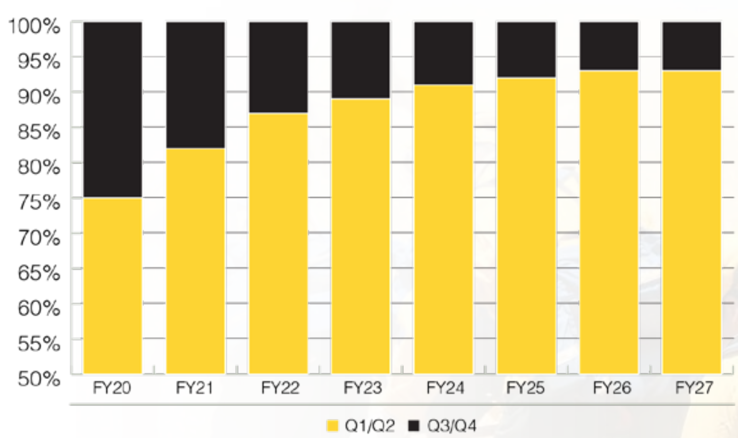
Deputy Chief of Staff (DCS) G-9 expects the Army will achieve the OSD 90% goal of Army FH inventory rated Q1 and Q2 by the end of FY 2023. No Soldier will be in housing rated Q4 by 2024.

Performance Indicators: Figure 6 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.1.a: The percent of Army FH rated Q1/Q2 versus Q3/Q4.

Performance Results:

FIGURE 6. Family Housing with Quality Rating 1-4



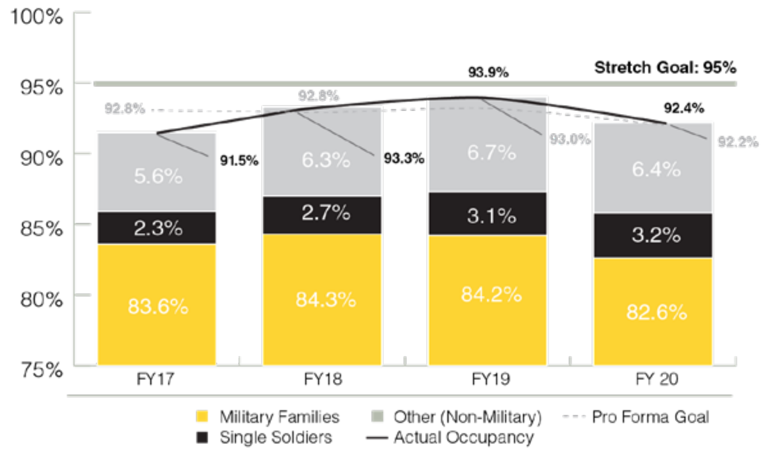
Objective 4.3.2: *Maintain program occupancy rate at or above business plan.*

Performance Indicators: Figure 7 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.2.a: Occupancy increase/decrease for Soldier housing.

Performance Results:

FIGURE 7. Occupied Military Housing



Objective 4.3.3: *Army Unaccompanied Housing*

Army Barracks – Deputy Chief of Staff (DCS) G-9 will achieve the OSD 90% goal of Q1/Q2 inventory for permanent party UH in FY 2027, institutional training UH in FY 2024 and collective training UH in FY 2030.

Performance Indicators: Figures 8 – 10 display measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.3.a: Percent of permanent party UH rated Q1/Q2 versus Q3/Q4.
- Measure 4.3.3.b: Percent of institutional training UH rated Q1/Q2 versus Q3/Q4.
- Measure 4.3.3.c: Percent of collective training UH rated Q1/Q2 versus Q3/Q4.

Performance Results: Overall, Army achieved the OSD goal of 90% Q1/Q2 for Training Barracks in FY 2019. Although there are still Soldiers in Q3/Q4 housing, Army is on track to achieve the OSD goal for Permanent Party by end of FY 2021 and Transient by end of FY 2026.

For permanent party barracks, the Army had 190,307 spaces at the end of 3rd Quarter FY 2020; 77% at Q1/Q2.

For institutional training barracks, the Army had 103,459 spaces at the end of 3rd Quarter FY 2020; 84% at Q1/Q2.

For collective training barracks, the Army had 190,401 spaces at the end of 3rd Quarter FY 2020; 67% at Q1/Q2.

FIGURE 8. Permanent Party UH

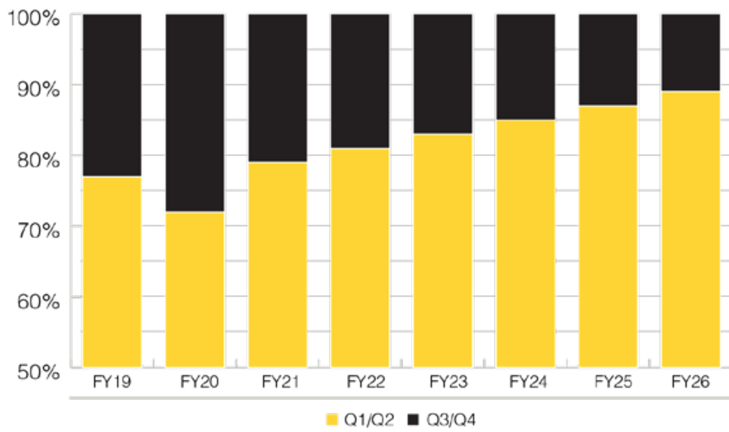


FIGURE 9. Institutional Training UH

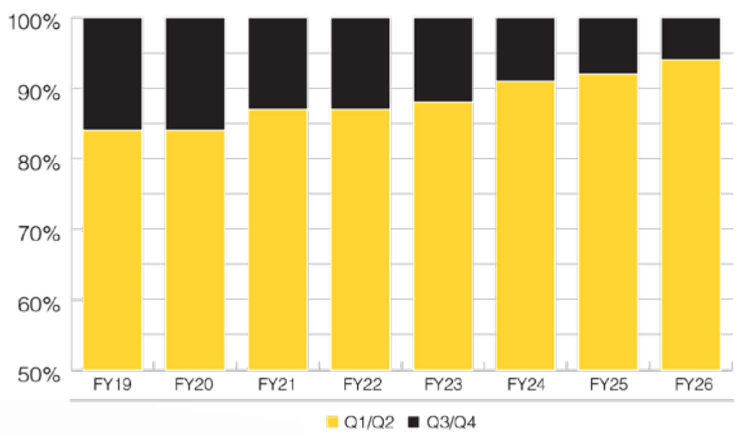
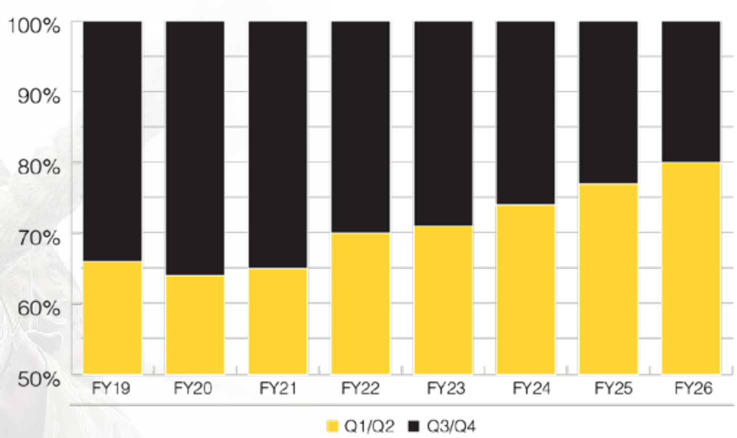


FIGURE 10. Collective Training UH



A Cadet participates in an obstacle course during training at West Point. (U.S. Army photo by Matthew Moeller)

Objective 4.4: *Enhancing the Civilian Workforce*

Enhancing the Civilian workforce includes filling vacant Civilian positions as timely as possible to meet mission requirements while still executing within budget. The Army Civilian workforce includes over 296,000 employees working in approximately 500 unique job series, comprising about 22% of the Total Army Force. Civilians work as Appropriated Fund (AF) employees, including dual-status military technicians working for the Army National Guard); Non-appropriated Fund (NAF) employees in support of Morale, Welfare, and Recreation (MWR) programs; and Civil Works funded employees. The Army also employs foreign nationals (FNs) in both a direct hire and indirect hire status. As of September 30, 2020, Civilian strength by category was as follows:

Total: 296,809	
Appropriated Fund (Military Function):	**246,563**
US Direct Hire:	227,277 (includes 26,694 Army National Guard Military Technicians)
FN Direct Hire:	6,342
FN Indirect Hire:	12,944
NAF:	**24,766**
Civil Works:	**25,480**

Objective 4.4.1: *Execute Army Civilian positions within 2% (98% – 102%) of authorizations.*

Executing Civilian positions within budget ensures that the Civilian workforce is staffed to meet mission requirements. Executing above or below budget can put the Army at risk for funding in the future and can impact support to the Soldier and to the mission.

Performance Indicators: Table 18 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.1.a: Percentage execution of Civilian positions (end of year on-board versus FY 2020 authorizations in the President's Budget (PB21).

Performance Results: The Army has executed slightly above its FY 2020 authorizations throughout the fiscal year. While over-execution directly impacts Army Civilian readiness and may require fiscal tradeoffs since civilian pay is a "must pay" account, the Army is currently within manageable levels. The Army can affect its execution through natural attrition and/or adjusting hiring practices. The Army achieved its goal by finishing the fiscal year within the range of 98-102% of execution.

TABLE 18. Civilian Execution

Measure	Goal	FY18	FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Civilian Execution Percentage (On-Board vs. FY20 Auths (PB21)	98%-102%	101.1%	101.5%	102.6%	101.3%	101.4%	101.6%

Objective 4.4.2: *Attain less than 20% (10) of Mission Critical Occupations (MCOs) below 90% fill.*

The Army must ensure that its MCOs are filled adequately. This not only ensures that the Army is executing within budget, but that it is distributing its resources appropriately to support critical missions.

Performance Indicators: Table 19 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.2.a: Number of MCOs below 90% fill [on-board versus Tables of Distribution and Analysis (TDAs) authorizations].

Performance Results: The Army has improved the number of MCOs that are not adequately filled since nearly reaching the goal in the 1st quarter FY 2020. The Army has made these improvements partly as a result of greater understanding and use of Direct Hire Authorities (DHA). These authorities are aimed at bringing in critical, high demand occupations at specific locations or organizations. The Army expects this to further improve as we continue to become more effective in the use of DHA. While the Army ended the year above the goal of having fewer than 10 MCOs at less than 90% fill, three of the twelve that were below 90% had fill rates between 88.2% and 89%, putting them right on the cusp.

TABLE 19. Army MCO Fill

Measure	Goal	FY18	FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Number of Army MCOs below 90% Fill	Less than 10	13	10	10	12	12	*

*Q4 FY 2020 data not available at the time of report

Objective 4.4.3: *Average Civilian fill time below 80 days.*

The ability of the Army to fill vacant positions quickly is imperative to ensure that we have people in the right jobs performing the right mission.

Performance Indicators: Table 20 displays the measure that serves as the performance indicator in determining progress toward meeting this objective.

- Measure 4.4.3.a: Average Civilian fill time (Civilian Human Resources Agency Production Books).

Performance Results: The Army has shown great improvement to Civilian time to hire since FY 2017, reducing to under 75 days on average in the 3rd quarter FY 2020. These improvements have been in part due to a variety of different policies and programs implemented over the past year, to include the use of DHA. In addition, the Secretary of Defense set a goal for the entire Department of Defense to reduce time to hire below 45 days. While this may not be achievable for all positions, the Army will continue to focus its efforts on reducing time to hire by utilizing programs like DHA.

TABLE 20. Average Civilian Fill Time

Measure	Goal	FY18	FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Average Civilian Fill Time	Less than 80 days	92.2	84.4	79.7	86.9	74.4	*

*Q4 FY 2020 data not available at the time of report

CONCLUSION

Given the threats and challenges ahead, it is imperative the Army has a clear and coherent vision of where we want to be in the coming years. We must retain our overmatch against all potential adversaries and remain capable of accomplishing our mission in the future. The Army must continue to increase readiness, improve modernization, and increase capacity through effective reform. Readiness remains unequivocally our number one priority—it underpins everything the Army does. Recognizing that a 21st century modernization plan and concept of operations would be impossible to achieve under an obsolete 20th century bureaucracy, the Army is implementing a series of reforms that will enable continuous advancements in readiness and will define American land power for another generation. We have an opportunity to improve readiness 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.

ANALYSIS OF FINANCIAL STATEMENTS – GENERAL FUND

Army prepares annual financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). The Army financial statements are subject to an independent audit to provide reasonable assurance they are free from material misstatements. Army management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The Army Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2019 to FY 2020. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

The Army Consolidated Balance Sheets present the amounts of future economic benefits owned or managed by Army (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Figure 11 shows the Army Assets Comparison as of September 30, 2020 and 2019. Total assets amounted to $316,456 million in FY 2020 and $303,647 million (restated) in FY 2019, a 4.2% increase. This increase is mainly attributed to: (1) Incremental OM&S balances in FY 2020 that are due to numerous activities, including the following: (a) regular operating, business and other events as part of ongoing remediation of underlying asset data; (b) limited visibility into certain Materiel in Transit populations which could contribute to fluctuations at any given quarter-end; and (c) system transitions from FY 2019 into FY 2020 in Army moving from reporting retail-level OM&S balances from Worldwide Ammunition Reporting System (WARS) alternatively to and from Standard Army Ammunition System (SAAS); and (2) General Property, Plant and Equipment, Net which increased from $141,829 million to $148,280 million, primarily reflecting incremental Construction-in-Process, primarily driven by Corps of Engineers reported activity, offset partially by lower reported Equipment balances.

FIGURE 11. Assets Comparison

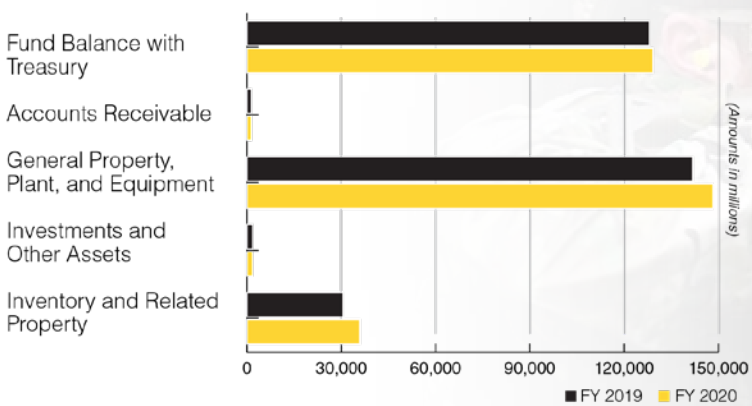
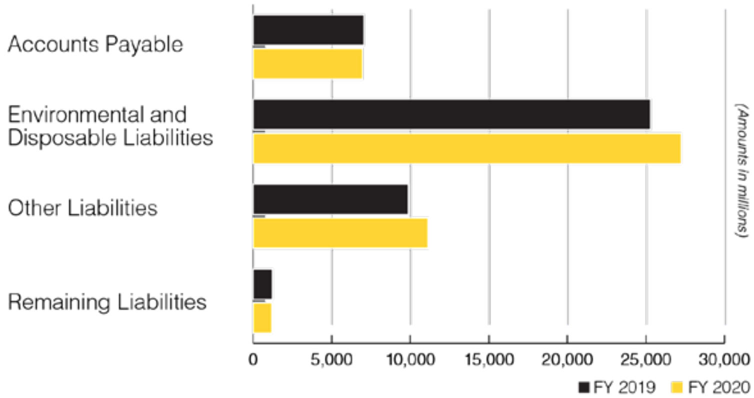


Figure 12 shows the Army Liabilities Comparison as of September 30, 2020 and 2019. Total liabilities amounted to $46,541 million in FY 2020 and $43,451 million in FY 2019, a 7.1% increase. This increase is primarily attributed to increases in Environmental and Disposal Liabilities from $25,288 million in FY 2019 to $27,236 million FY 2020, which include higher estimates related to asbestos closure ($1,045 million), and installation restoration program and building demolition and debris removal, primarily at formerly used defense sites ($296 million) and under the base realignment and closure program ($289 million).

FIGURE 12. Liabilities Comparison



Consolidated Statements of Net Cost

The Consolidated Statements of Net Costs present the gross cost incurred by Army to conduct its operations less any exchange revenues earned from its activities.

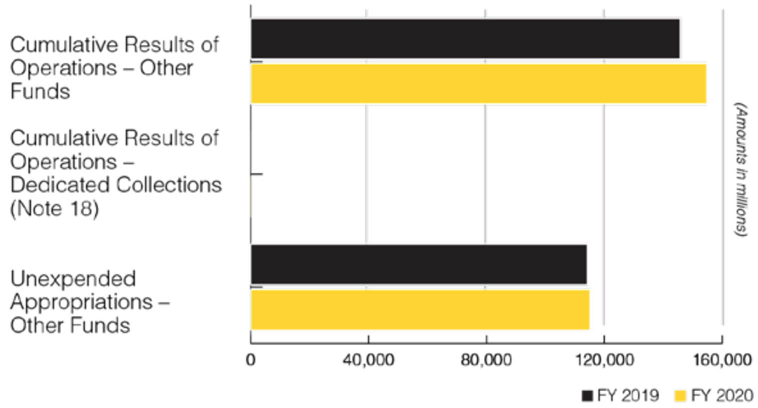
The major elements of the Consolidated Statements of Net Cost include program costs totaling $179,855 million in FY 2020 and $183,115 million in FY 2019 and earned revenues amounting to $8,523 million in FY 2020 and $7,063 million in FY 2019. These amounts are comprised of both intragovernmental and costs with the public. Total net costs of operations decreased by $4,719 million, or 2.7%. This decrease is primarily attributable to decreases in net costs totaling $7,467 million, or 9.4%, associated with Alliance and Partnership and Readiness related appropriations, especially within the Afghanistan Security Forces and ISIL Training and Equipment funds.

Consolidated Statements of Changes in Net Position

The Consolidated Statements of Changes in Net Position present those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenues such as donations and forfeitures of property and imputed financing from costs absorbed by other federal agencies. Army net cost of operations and appropriations used reduce net position.

Figure 13 shows the three components of the Army net position for FY 2020 and FY 2019. Total net position amounted to $269,915 million in FY 2020 and $260,196 million (restated) in FY 2019, a 3.7% increase. The increase is attributed to incremental "Cumulative Results of Operations – Other Funds" from $145,828 million in FY 2019 to $154,733 million in FY 2020, driven largely by the higher volume of appropriations used in FY 2020 ($8,667 million) together with incremental net transfers in without reimbursement ($3,640 million).

FIGURE 13. Net Position

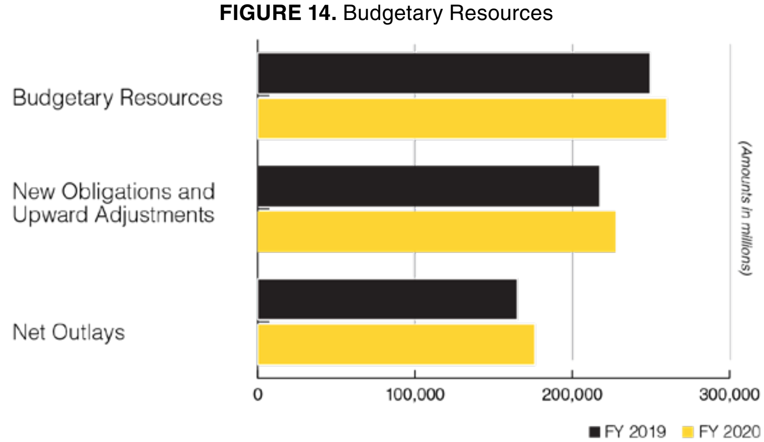


Combined Statements of Budgetary Resources

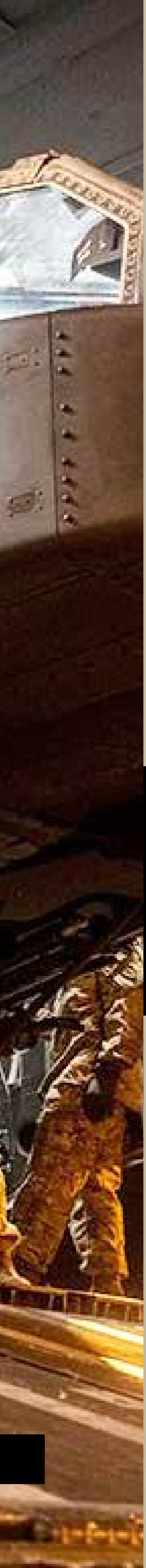
The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Army for the fiscal years ended September 30, 2020 and 2019, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments results from an order placed, contracts awarded, or similar transactions, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by the Department of the Treasury for Army obligations.

Figure 14 shows a comparison of budget authority, new obligations and upward adjustments and gross outlays in FY 2020 and FY 2019. The reported total Army budget authority was $259,951 million and $249,473 million as of September 30, 2020 and 2019, respectively, a 4.2% increase. New obligations and upward adjustments amounted to $227,650 million as of September 30, 2020 and $217,202 million as of September 30, 2019, a 4.8% increase. Net outlays amounted to $176,132 million as of September 30, 2020 and $164,988 million as of September 30, 2019, a 6.8% increase. The increase in budget authority is due primarily to increases in overall Army GF appropriations received, most notably in spending authority from offsetting collections ($14,925 million) realized in particular within the Research, Development, Test and Evaluation appropriation.

FIGURE 14. Budgetary Resources



AH-64 Apache. (Photo courtesy of the U.S. Army)



ARMY WORKING CAPITAL FUND OVERVIEW

The National Security Act of 1947 (Public Law 81-216) authorized the creation of working capital funds to more effectively control and account for the cost of programs and work performed in the Department of Defense (DoD). In Fiscal Year (FY) 1992, the Congress established the Defense Business Operating Fund (DBOF), combining all of the DoD working capital fund activities. In FY 1997, the DBOF became the Defense Working Capital Fund (WCF). The Army WCF is one of the five primary WCFs within the Defense WCF. The Army WCF is indicated by fund citation (97X4930.001). The Army WCF operates numerous commercial-like and industrial facilities that provide essential services and support for readiness and sustainability of the warfighting forces.

The Army WCF includes two activity groups: Supply Management Activity (SMA) and Industrial Operations (IO). As with all Defense WCFs it operates under a revolving fund concept, i.e., relying on revenue from sales to finance operations rather than submitting a budget proposal for direct appropriations from Congress. The basic tenet of the revolving fund structure is to create a customer-provider relationship between military operating units and support organizations. This relationship is designed to make managers of the Army WCF and decision makers at all levels more aware of costs for goods and services. Unlike profit oriented commercial businesses, the revolving fund's goal is to break even over the long term by returning any monetary gains to appropriated fund customers through lower rates or collecting any monetary losses from customers through higher rates. Revolving fund prices are generally stable during the year of execution to protect customers from unforeseen fluctuations that would impact their ability to execute the programs approved by Congress.

The Army WCF is primarily used to help the Army maintain readiness by providing supplies, equipment, and ordnance necessary to support the projection and sustainment of its forces in the most efficient and cost-effective manner possible. To carry out this mission, Army WCF activities [part of the U.S. Army Materiel Command (AMC)] must control and reduce costs. In addition, the activities must maintain their capability to quickly ramp up from peacetime workload levels to meet wartime requirements.

Appropriated Funds

The Army WCF operates without significant direct appropriations, therefore, operations generally have no fiscal year limitation on obligating funds. The Army may request direct appropriations to maintain capacity and capability to meet mobilization and wartime surge requirements. This enables stable and competitive rates for its peacetime customers. For FY 2020, the Army WCF received appropriation and balance transfers of more than $839.8 million. This $575.4 million increase was largely driven by the Army WCF's revenue losses associated with customer modifications to scheduled deployments, cancelled training events, and reduced demand for depot operations that resulted from the COVID-19 pandemic.

(Dollars in Millions)	FY 2020	FY 2019
Appropriated Funds	$839.8	$264.4

Revenues, Expenses, Accumulated and Net Operating Results (AOR and NOR)

The Army WCF incurs expenses and generates revenues from the sale of goods and the provision of services for a fee. The Army WCF is a big business, with an FY 2020 gross revenue totaling about $16.4 billion. Most of the revenue comes from sales to Army and Defense Department customers. To compare Army WCF revenue to private sector firms, its revenue approximates the revenues of recognizable brands like Sherwin-Williams Company and Gap, Inc. *(Fortune 500 list – 2020 as of 10/2020. Revenues in billions)*:

162	Whirlpool Corporation	$	20.4
165	Kohl's, Inc.	$	20.0
180	Sherwin-Williams Company	$	18.0
192	General Mills, Inc.	$	16.9
199	Gap, Inc.	$	16.4
203	Colgate-Palmolive Company	$	15.7

Net Operating Result (NOR)

The NOR measures the activity's net cost of operations within a single fiscal year and is used to monitor how closely the activity performs compared to its budget.

The Army WCF financial statements do not explicitly include the AOR or NOR. Both results are part of the Accounting Report (AR) 1307 Statement of Operations. This statement discloses the results of the entity's operations for the reporting period, including the changes in its net position from the end of the prior reporting period.

Accumulated Operating Result (AOR)

The AOR measures the activity's accumulated annual net operating results since the fund's inception. Rates are set during budget development with the intent for the fund to break even over the long term. Specifically, rates are set to:

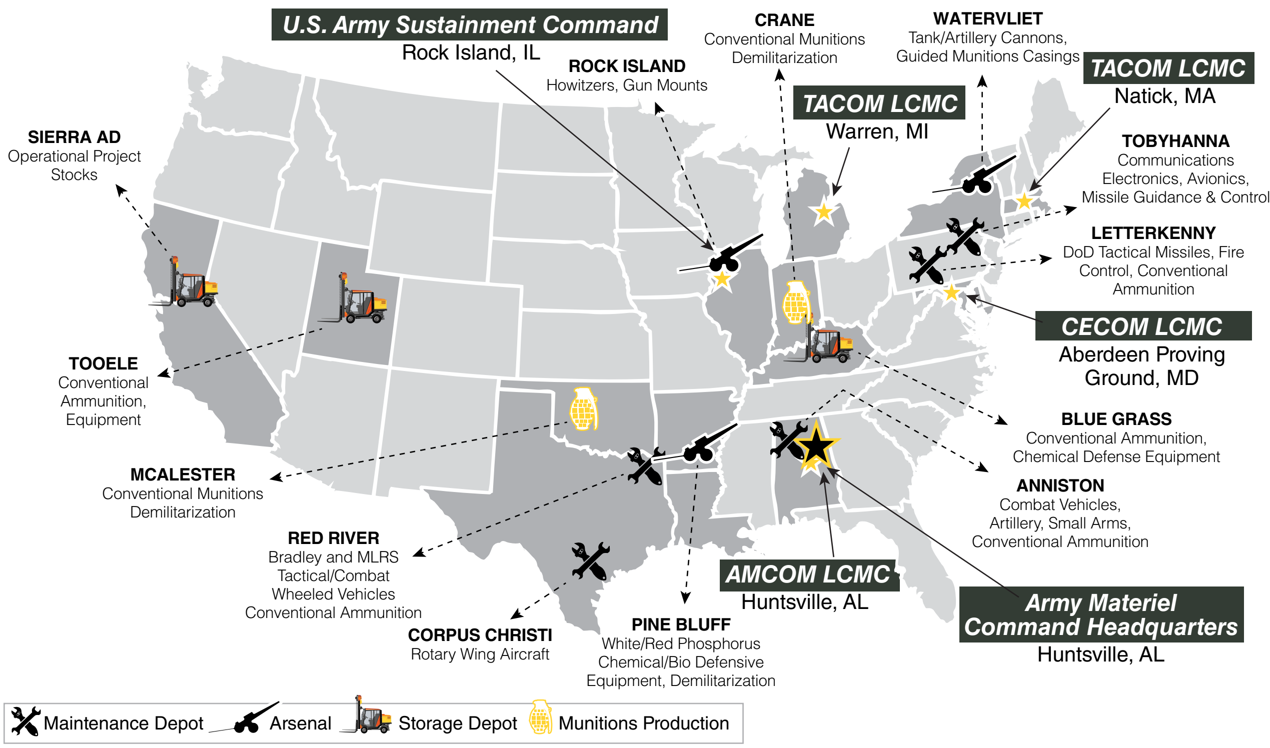
- Recover the activity's costs such as payroll, supplies, contracts, equipment, inventory, depreciation, and maintenance and
- Maintain sufficient cash corpus to cover operating disbursements and six months of capital disbursements.

See the Performance Goals section for additional discussion on the AOR and NOR.

ARMY MATERIEL COMMAND

The AMC, headquartered at Redstone Arsenal in Huntsville, AL serves as the major command for Army WCF logistics operations. The AMC is the Army's materiel integrator and the premier provider of materiel readiness – technology, acquisition support, materiel development logistics power projection and sustainment – to the total force, across the spectrum of joint military operations. AMC executes the Army WCF through two Activity Groups: IO and SMA. The IO Activity includes the financial activity of the 13 government-owned, government-operated depots, arsenals and ammunition plants. The SMA includes the financial activity for managing spare parts. Other commands and activities outside of these two business areas are funded by non-Army WCF sources. Figure 1 displays the Army WCF activities within AMC.

FIGURE 1. Army Materiel Command Army Working Capital Fund Activities



BUSINESS APPROACH

The AMC is responsible for following the budgetary guidelines under which the Army WCF operates. The budgetary guidelines require incurring operating costs and collecting customer fees while budgeting to achieve zero accumulated operating results at the end of the budget period, unless otherwise approved by the Office of the Under Secretary of Defense (Comptroller). To achieve this goal, the Army WCF activities set stabilized rates prior to the beginning of each fiscal year. These rates are based on forecasts of potential workload (revenue) and the cost of meeting workload requirements (expenses). Stabilized rates equate to set unit prices for goods and set unit funded costs for services.

The Army financial statements covering Army WCF reflects the operations of two activity groups, Supply Management and Industrial Operations. The two groups are critical to Army equipment and materiel readiness.

Supply Management Activity

The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The activity group is committed to supporting and building readiness for present and future challenges. The Army's equipment and operational readiness, and the strength to win the Nation's wars, are directly linked to the availability of equipment and materiel. The SMA administers spare parts inventory for Army managed items, Non-Army managed items (NAMI) and war reserve secondary items (WRSI). It also maintains a protected inventory of spares in Army Prepositioned Stocks (APS), which is released to support deploying combat units. The Life Cycle Management Commands assigned to the AMC manage the SMA, which consists of four major commodity groups:

- Aviation and missiles
- Communications-electronics
- Tank-automotive and armaments
- Non-Army managed items

The war reserve stocks contain materiel from all commodity groups. As new equipment is added to the Army's operational and training forces, new spare parts are also scheduled for inclusion in the Supply Management inventory.

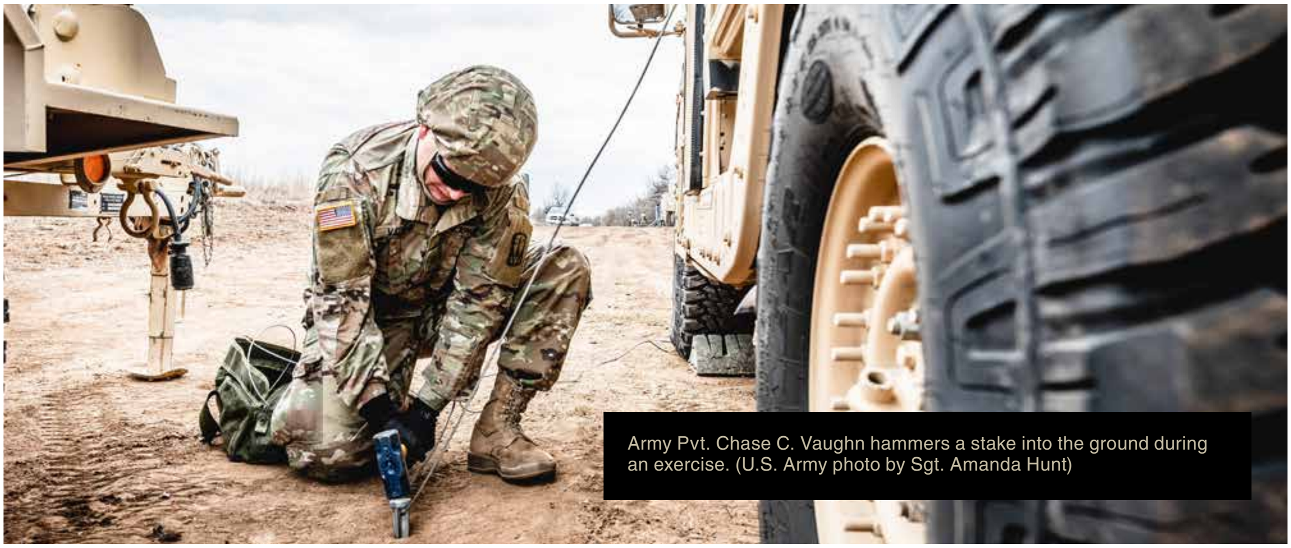
The SMA manages stocks of materiel for sale to Army operating units and to other DoD customers. The materiel purchased and maintained depends on the area of materiel support at the various command locations. The Army's equipment and operational readiness, and its combat capability, are directly dependent on the timely availability of this materiel.

SMA activities are committed to meeting the readiness needs of Soldiers by ensuring supplies and equipment are available when and where needed during peace and war time. The supplies and equipment include spares, repair parts, and major items within any of the four commodity lines. NAMI are those items not managed by the Army, but rather supplied by the Defense Logistics Agency (DLA) and the General Services Administration.

INDUSTRIAL OPERATIONS

The IO activity group provides the Army an organic industrial capability to conduct depot level maintenance, repair and upgrade; manufacture munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DoD. IO is comprised of thirteen government owned and operated installation activities, each with unique core competencies. These include five hard-iron maintenance depots, three arsenals, two munitions production facilities, and three storage sites. Although comprised of diverse organic industrial capabilities, the preponderance of workload and associated estimates in the IO budget submission relate to depot level maintenance, repair, and upgrade. The complex operational environment continues to place tremendous demands on equipment, resulting in higher usage rates than during routine peacetime operations.

Refueling a UH-72 Lakota Helicopter. (U.S. Army photo by Sgt. Patrik Orcutt)



Army Pvt. Chase C. Vaughn hammers a stake into the ground during an exercise. (U.S. Army photo by Sgt. Amanda Hunt)

The IO activity group provides the equipment and ordnance necessary to project, sustain, and reconstitute forces as required to satisfy the peace and wartime needs of the DoD. The IO Activity provides the Army and DoD with the industrial capability to:

- Perform depot-level maintenance, repair, and modernization of weapon systems and component parts.
- Manufacture, renovate, and demilitarize materiel.
- Produce quality munitions and large caliber weapons.
- Perform a full range of ammunition maintenance services for the DoD and U.S. Allies.
- Perform ammunition receipt, store and issue functions.
- Provide installation base support to mission elements and tenant activities.

For its activities, IO both competes and partners with the private sector to ensure its goods and services are delivered efficiently and effectively. IO activities are set up by commodity/service function.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – WORKING CAPITAL FUND

The AMC strategic plan builds upon the Army's Strategic Readiness priority. While many of the AMC strategic activity results are reported as part of Army-wide metrics, the section below discusses Strategic Plan Measures and results as they relate directly to the Army's Working Capital funded activities' achievements.

OPERATIONAL MEASURES AND RESULTS

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 WCF. The goal of the Army WCF 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. The AOR and NOR do not agree to the Statements of Net Cost and Changes in Net Position because they exclude certain transactions that are included in the financial statements.

TABLE 1. Net and Accumulated Operating Results by Activity Group

(Amount in Millions)	FY 2018	FY 2019	FY 2020
Industrial Operations NOR	($167.7)	($426.9)	(138.6)
Supply Management NOR	2,265.0	(1,754.1)	1,455.7
Combined NOR	2,097.3	(2,181.0)	1,317.1
Industrial Operations AOR	($801.5)	($1,228.4)	(1,465.1)
Supply Management AOR	18,070.5	16,316.4	17,772.1
Combined AOR	17,269.0	15,088.0	16,307.0

Sources:
1) NOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.1.d & B.2.d).
2) AOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.3.).

STRATEGIC PLAN MEASURES AND RESULTS

Strategic Priority: Strategic Readiness

The Army Working Capital Fund supports the Army's vision to sustain and maintain a scalable, ready, and modern force, recapitalize combat equipment, and reset assets to equip a robust, ready, regionally engaged, and responsive force structure. This effort is in direct support of materiel readiness for operating units.

Tightening the track of an M88 Recovery Vehicle. (U.S. Army photo by Sgt. Bill Boecker)

Strategic Readiness

Performance Goal: *Operational Readiness*

Operational Readiness is the capability and capacity of The U.S. Army to conduct the full range of military operations. The AMC, through the Organic Industrial Base (OIB), provides the materiel necessary for acceptable levels of Operational Readiness.

Objective 1.1: *Performance to Promise (P2P)*

Performance to Promise is AMC's commitment to providing support throughout the entire life cycle of an item and is required to assure that materiel can be maintained in its operational environment with minimum resources for achieving operational readiness and sustainability.

Performance Indicator (metric): The Cumulative Performance to Promise Metric illustrates the Army's ability to meet customer requirements by assessing monthly command schedule performance goals. AMC has set a goal to pursue a P2P goal of 100%, indicating expected performance within established timelines.

Performance Results: The below table displays the IO activity group's ability to meet performance requirements within the required time period throughout the fiscal year. While IO met requirements within the planned timeframe more than 90% of the time throughout the entire fiscal year, IO does not accept the status quo and continues to make improvements through organization culture changes and process improvements. Although the COVID-19 pandemic has presented some external challenges, IO is committed to improving internal processes and providing quality products.

TABLE 2. Cumulative Performance to Promise: All Plants

	Oct19	Nov19	Dec19	Jan20	Feb20	Mar20	Apr20	May20	Jun20	Jul20	Aug20	Sep20	Total
Met	1,372	1,401	1,471	1,632	1,704	1,762	1,819	1,822	1,825	1,694	1,712	1,674	19,888
Not Met	131	134	128	118	121	149	145	155	176	215	183	242	1,897
Sum	1,503	1,535	1,599	1,750	1,825	1,911	1,964	1,977	2,001	1,909	1,895	1,916	21,785
Percent	91%	91%	92%	93%	93%	92%	93%	92%	91%	89%	90%	87%	91%

The Commanding General of AMC pursues a P2P goal of 100%.
Met: Requirement completed within the planned time period
Not Met: Requirement not completed within the planned time period.
Percent: The percentage of instances when the OIB meets customer requirements for the time period indicated.

Objective 1.2: *Supply Availability*

Supply Availability (SA) is the measure of the depth and breadth of inventory required to meet tactical unit's demands across the full range of military operations. The goal is to release orders within the month they are required based on the Required Delivery Date (RDD). SA fill rate is the percentage of orders released out of the total due for the month.

AMC, through its SMA team, leverages this key metric as one the primary indicators for supply operations performance to ensure critical supplies necessary in sustaining equipment and soldier readiness are available across the spectrum of military operations.

Performance Indicator (metric): Supply availability and equipment readiness are the foundation of materiel readiness, ensuring Soldiers and units have the right equipment, parts and materiel to achieve their mission

– anytime, anyplace. Life Cycle Management Commands (LCMC) are responsible for ensuring inventory levels are sustained with sufficient material to meet current and contingency operations. The SA metric is a monthly measure and highlights the Army's ability to meet operational requirements by assessing LCMC's ability to meet material availability performance goals that contribute to readiness. Material backorders are closely monitored as part of supply availability as they have a negative impact to SA (As an example, if a material is required and not available because it is backordered, SA for that material would be reduced for the duration of the Administrative and Production Lead Times (ALT/PLT) for contracting which averages 18 – 24 months).

AMC leadership has established an SA goal of 100% and challenged LCMCs with a target SA rate of 93%, which the LCMCs have achieved and sustained since July 2020.

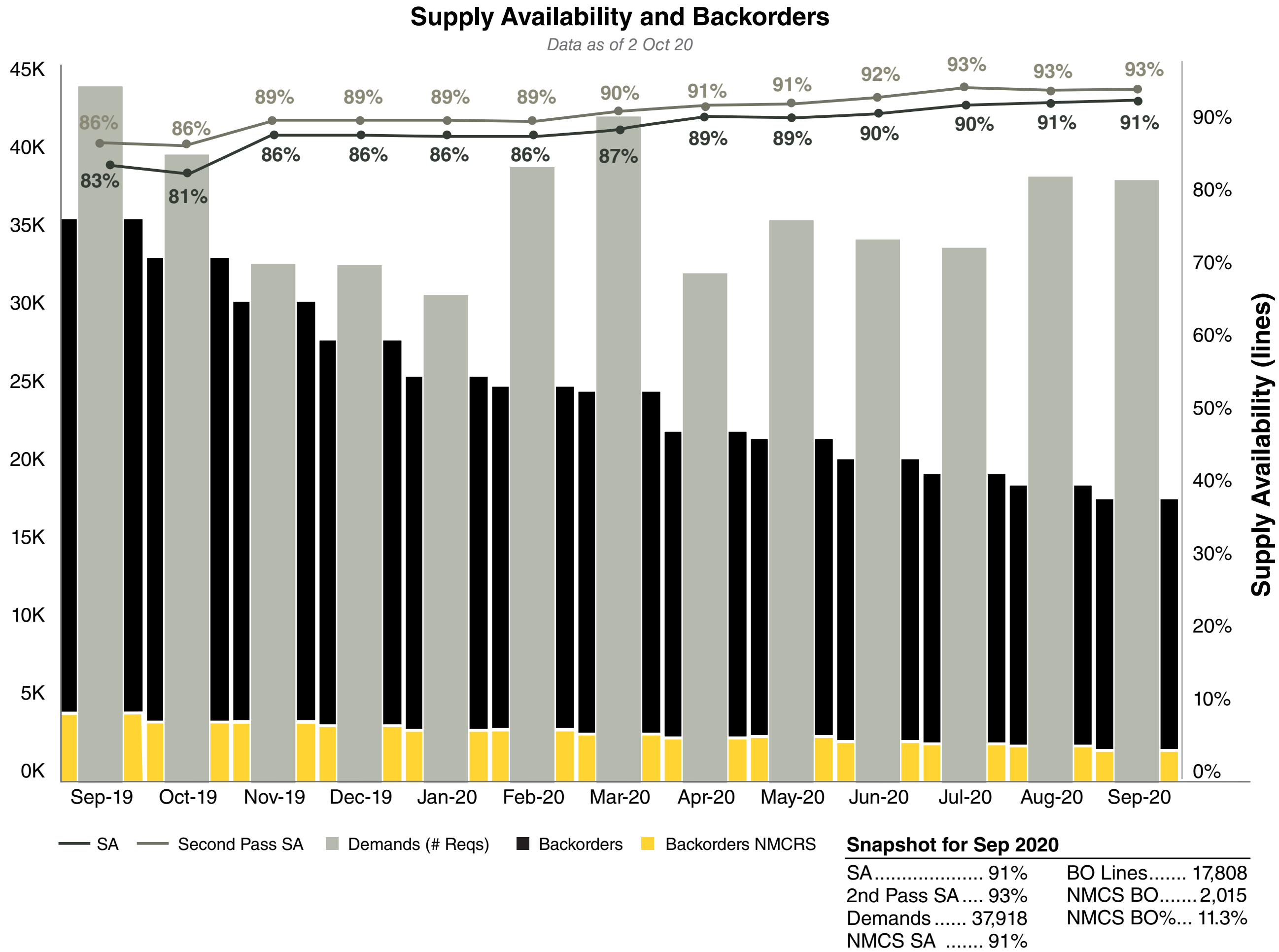
Performance Results: The figure below shows 1st and 2nd pass SA in relationship with demand during FY 2020. On a first pass the material is released immediately based on RDD. A second pass may be required for materials with management controls. The figure also provides supply availability and a count of outstanding backorders associated with a "Not Mission Capable Supply" (NMCS) condition. These NMCS backorders, which drive delays in obtaining replacements for failed items, are preventing a weapon system from preforming its mission.

Largely attributable to the COVID-19 Pandemic, fulfilling demands have been impacted by shifts in mission and training requirements, which were not initially a part of planning and prioritization. Unlike economic downturns in the past where supply side or demand side issues drove segments of supply chain operations resulting in excesses or shortages, the COVID-19 Pandemic is a global event affecting national economies across the world and simultaneously bring down both supply and demand affecting over 87% of the industry. These circumstances allowed the Army to continue operations with minimal impacts to operational capabilities and resulted in the following:

- Supply availability sustained at 93% since July 2020.

Inventory at our forward positioned, retail activities remained stable This pandemic has also driven a significant downturn in sales and AMC is working to apply corrections to planning and execution to ensure requirements are managed and the effects are minimized.

FIGURE 2: Supply Availability (SA) (Percentage)



AUDIT IMPROVEMENTS

The Army WCF audit continues to progress towards an opinion, with more extensive testing each year, as the Army WCF strives toward more improved controls, more accurate and complete documentation, and enhanced ability to respond to auditor requests in future years. During FY20, the Army WCF focused on the Secretary of Defense audit priorities, high impact findings, material weaknesses, and compliance with regulatory standards across priority areas. Remediation of these areas will not only help the Army WCF produce accurate and reliable financial statements but will also improve operations and readiness. Additionally, in response to COVID-19 the Army WCF adapted its strategy to forge ahead on audit response and remediation despite social distancing guidelines.

Prior to FY20, Army WCF's general ledger system, LMP (Logistics Modernization Program), did not require segregation of duties in review and approval of journal vouchers (JVs) entered into the system. In FY20, the Army WCF implemented a workflow within LMP that routes journal vouchers for approval from necessary supervisors, as well as impacted commands. Approvals are maintained in the audit trail of the JV workflow and allow for easy accessibility upon request.

U.S. Army High Mobility Artillery Rocket Systems. (Photo courtesy of the U.S. Army)

The Army WCF performed analysis for over 1,300 unique Army WCF FY19 transaction types over five business processes to identify non-compliant posting logic within LMP and submitted five (5) system change requests (SCRs) to avoid misstatements. The implementation of those SCRs and the continued effort to make LMP compliant with FFMIA system requirements will lead to the reduction of JVs and audit related findings.

The Army WCF completed the transfer of data to the DoD's common enterprise data repository ADVANA for the reconciliation between the unadjusted trial balance (UTB) (preliminary) and the adjusted trial balance (ATB) (final). ADVANA allows for an automated UTB-ATB reconciliation and Financial Statement Drilldowns for all four financial statements (balance sheet, statement of net cost, statement of budgetary resources, and statement of changes in net position), resulting in a more efficient, effective, and timely quarterly reconciliation. In FY21, the Army WCF plans on transitioning additional Army WCF reconciliations to ADVANA; producing a streamlined process for reviewing and researching variances in data between feeder systems and LMP.

The Army WCF took many steps in FY20 towards achieving supportable beginning balances for Army WCF Fund Balance with Treasury (FBwT), Inventory, and Property, Plant and Equipment (PP&E).

FBwT audit remediation activities between FY19 & FY20 led to a $250M reduction of undistributed cash. This better positions Army WCF to achieve its objectives to improve cash reporting accuracy and completeness, FMR & OMB Circular A-136 compliance, and timeliness/relevance of FBwT reconciliations. The Army WCF, in collaboration with DFAS, implemented several control activities that included better understanding the drivers of variance inflow, creating variance buckets with accompanying resolution procedures and liquidating pre-FY15 differences annually. While many of the controls were implemented late in FY19, the results were solidified in FY20.

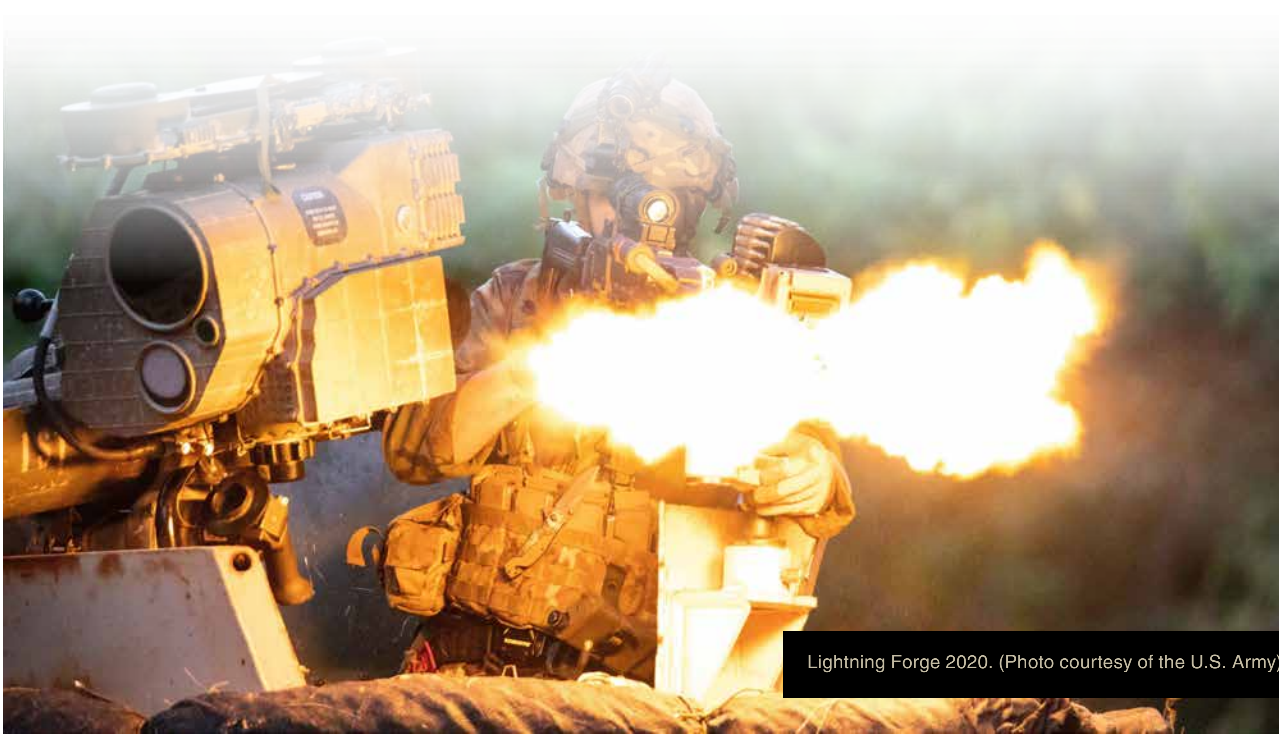
The Army WCF continues to make improvements to inventory documentation and processes to fully execute inventory corrective action plans. This remediation has included investments in developing and refining operational progress metrics that track inventory critical capabilities required to achieve an audit opinion including Stock

Transfer Orders (STOs), Improperly Valued Materials, Work-in-Process (WIP), and Material Ownership Data (MOD). Notably, the Army WCF refined its data categorization rules which led to reduced MOD discrepancies from $314M in June to $139M in August, which supports transactions for inventory ownership data and accurate valuation and reporting of inventory balances.

The Army WCF implemented the retroactive application of the $250,000 capitalization threshold to the entire population of Army WCF general equipment (GE) which resulted in a $22M decrease in the net book value. This allowed the Army WCF to report the proper Army WCF GE universe and removed approximately 8,400 GE assets that were previously reported on the Balance Sheets as capital assets. Moving forward, Army WCF can now more easily track capital assets, maintain the supporting documents, and address system variances due to a more manageable number of capital assets.

The Army WCF implemented the Real Property (RP) Financial Reporting Responsibilities Policy to report all assets located on the ten Army WCF installations in GFEBS. The Army WCF updated approximately 2,000 asset records using the GFEBS asset conversion tool to accurately interface into LMP and provide more accurate reports. Going forward, this will ensure facilities are accurately reported in the financial statements and the Army WCF has more reliable records.

FY20, the Army WCF developed documentation for applying deemed cost to opening balances of general equipment and real property, per accounting standards. As of FY 20 year end, the Army WCF developed GAAP compliant alternative valuation packages for 148 GE assets out of 605 total assets. The deemed cost methodology for calculating replacement value for Army WCF real property contains five overarching factors. Also, the Army WCF has developed sufficient support for three of these factors and can rely on them as key inputs to the deemed cost alternative valuation.

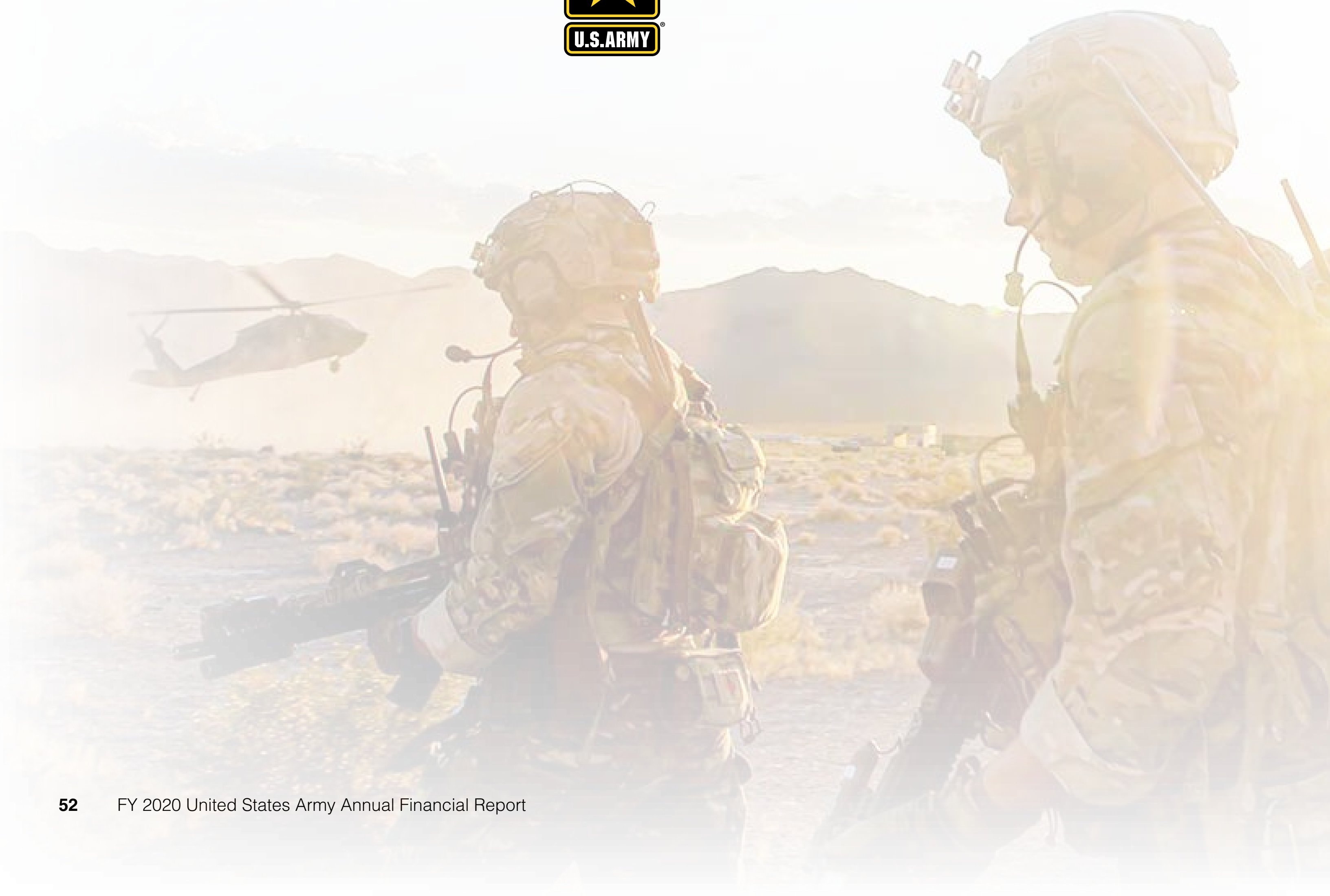


Lightning Forge 2020. (Photo courtesy of the U.S. Army)

POSSIBLE FUTURE EFFECTS OF EXISTING CONDITION AND FINANCIAL DEMANDS

Today's political environment is one that almost ensures the likelihood of major contingency efforts in multiple areas at a time. Having a global Army WCF presence throughout the last 17 years has taken a serious toll not only on the operability of Army WCF equipment, but has also created additional priorities for available funding in the Army WCF. The Army WCF operations are critical to providing supplies, materiel, and services that ensure unit and soldier readiness for current and future deployments and contingencies. As Army WCF investments to promote readiness continue, the Army WCF will likely expand investment in modernization to achieve greater future lethality and to build the future force and infrastructure through the entire organizational spectrum. This kind of process engineering will look across the entire Army WCF enterprise including its doctrine, organization, training, materiel, leadership and education, personnel, and facilities (DOTMLPF).

Strategic readiness also includes a recognition that funding sources may not be available at the required levels; therefore, alternatives which allow the Army WCF to do more with less, to pare down processes to minimize duplication of effort and to use resources efficiently are invariably in the "wheel house" of the Army WCF activities.



ANALYSIS OF FINANCIAL STATEMENTS – WORKING CAPITAL FUND

Army WCF prepares annual financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). Army management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

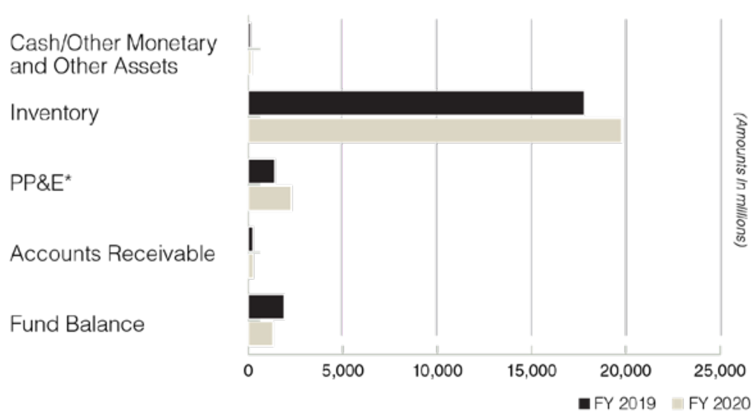
The Army WCF Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army WCF, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2019 to FY 2020. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

The Army WCF Consolidated Balance Sheets present probable future economic benefits obtained or controlled by the Army WCF (Assets), claims against those Assets (Liabilities), and the difference between them (Net Position).

Figure 3 shows the Army WCF Assets comparison as of FYs 2020 and 2019. Total assets amounted to $23,762.1 million at the end of FY 2020, while $21,436.1 million in total assets were reported by the end of FY 2019, a $2,326 million increase (10.85%). This increase is mainly attributable to a $1,967.8 million increase in Inventory and Related Property since the prior year. Decreases in customer demands as a consequence of the COVID-19 pandemic were contributory to the increase in Inventory and Related Property.

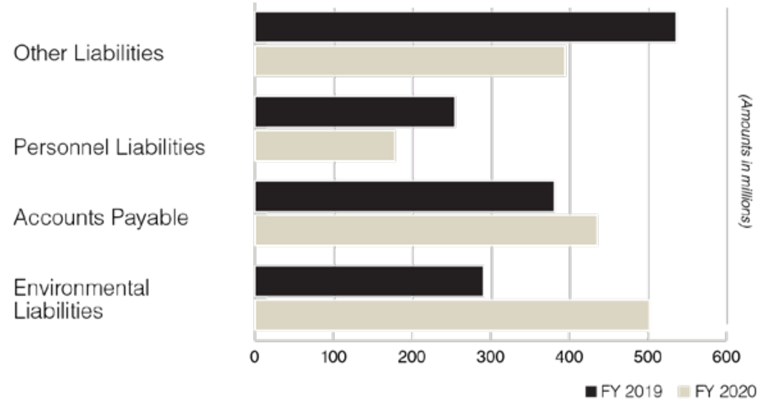
FIGURE 3. Assets Comparison



*The FY 2019 PP&E balances has been restated to reflect the impact of a prior period adjustment.

Liabilities totaled $1,510.9 million as of the end of FY 2020, a $48.4 million increase (3.31%) since FY 2019 when $1,462.6 million in liabilities were reported. The Environmental and Disposal Liabilities (E&DL) balance increased $210.6 million (72.4%) over FY 2019 due to the inclusion of additional asset types and survey costs in its closure estimates. This increase was partially offset by a reduction in personnel related liabilities due to a decrease in the actuarial estimate and a reduction in accounts payable to the public. Figure 4 shows the breakout of the Army WCF's liabilities as of the end of FYs 2020 and 2019.

FIGURE 4. Liabilities Comparison



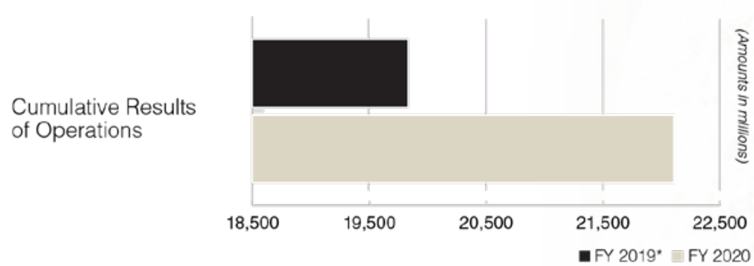
Consolidated Statements of Net Cost

The Consolidated Statements of Net Cost present the gross cost incurred by the Army WCF to conduct its operations less any exchange revenues earned from its activities. The major elements of the Consolidated Statements of Net Cost include program costs totaling $16,030 million in FY 2020. These costs were offset by earned revenues of $16,362 million, resulting in $332 million net earnings from operations. During FY 2019, program cost exceeded earned revenue by more than $2,666 million. The $2,998 million reduction in net cost is largely due to reduction in the costs of sales for supply management activities which is directly linked to client demands which were impacted by the COVID-19 pandemic.

Consolidated Statements of Changes in Net Position

The Consolidated Statements of Changes in Net Position present the change in net position during the reporting period. The Army WCF's net position is impacted by both the results of operations and other financing sources which include appropriations. The Army WCF's net position increased $2,277.6 million during FY 2020 and decreased $2,415.4 million during FY 2019. Total net position amounted to $22,251.2 million in FY 2020 and was restated to $19,973.6 million in FY 2019, an 11.4% increase. Figure 5 shows the Army WCF's Cumulative Results of Operations, the primary component of its Net Position, for FY 2020 and FY 2019. The $2,274.4 million increase is attributed to a decrease in the Net Cost of Operations from $2,666 million in FY 2019 to $332 million in net earning during FY 2020.

FIGURE 5. Cumulative Results of Operations



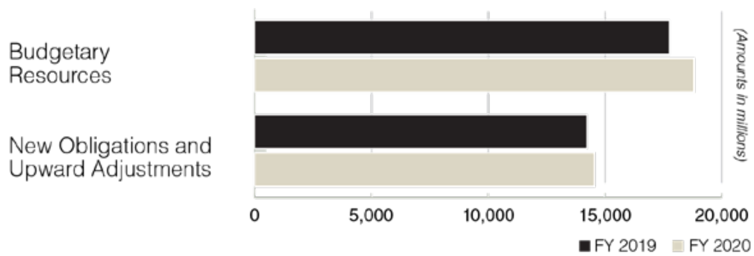
*The FY 2019 Cumulative Results of Operations balances has been restated to reflect the impact of a prior period adjustment.

Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources provide information related to the budgetary resources that were made available to the Army WCF as of September 30, 2020 and 2019, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments result from orders placed, contracts awarded, or similar transactions. Gross outlays reflect the actual cash disbursed for Army obligations.

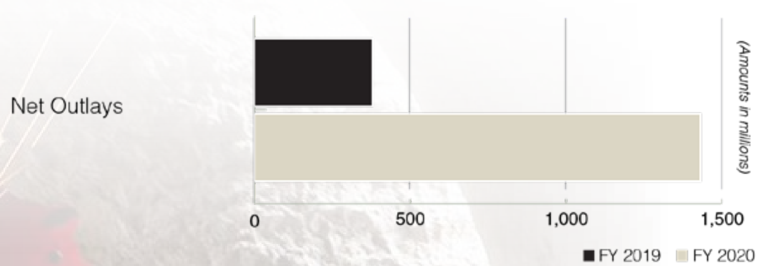
Figure 6 shows a comparison of budget authority and new obligations and upward adjustments in FY 2019 and FY 2020. The reported total Army WCF budget authority was $18,818 million and $17,756 million for FYs 2020 and 2019, respectively. The $1,062 million increase in budget authority is primarily due to an increase in appropriations and unobligated balances received to offset the impact of the COVID-19 global pandemic. Adjustments to prior year obligations due to changes in requirements also contributed to the variance.

FIGURE 6. Budgetary Resources



The Statements of Budgetary Resources report the Army WCF's Net Outlays, which are gross outlays net of offsetting collections. Figure 7 presents a year to year comparison of net outlays which totaled to $1,432 million and $379 million during FY 2020 and FY 2019, respectively. The $1,053 million increase in net outlays is influenced by both the timing of disbursements and collections and the reduction in earned revenue.

FIGURE 7. Net Outlays



GENERAL FUND AND WORKING CAPITAL FUND MANAGEMENT ASSURANCES

Analysis of Systems, Controls and Legal Compliance

United States Department of the Army (Army) management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act* of 1982 (FMFIA). The Army's Commanders and mangers conducted their assessment of risk and internal control in accordance with Appendix A of Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Green Book, GAO-14-704G, *Standards for Internal Control in the Federal Government*, to ensure the integrity of their reporting systems, programs, and operations annually. These requirements promote the production of reliable, timely, and accurate financial information through efficient and effective internal controls. Through effective internal controls, the Army improves its efficiency and operating effectiveness and enhances public confidence in its stewardship of public resources.

The Army operates a robust Risk Management and Internal Control Program (formerly the Managers 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. The objectives of the Army's system of internal control are to provide reasonable assurance regarding:

- Effectiveness and efficiency of Army internal control operations
- Reliability of Army's financial and nonfinancial reporting
- Army's overall compliance with applicable laws and regulations; and
- Army's overall financial information systems' compliance with the FMFIA

> *Why do government agencies hire external contractor firms to fix their internal controls? The key word is "internal", correct?*

— WESLEY MILLER
Deputy Assistant Secretary of the Army – Financial Operations
Army Financial Management & Comptroller

Photo courtesy of the U.S. Army.

Internal Controls Governance

The Deputy Assistant Secretary of the Army (DASA) for Financial Operations (FO), the DASA for Financial Information Management (FIM), and the Commanding General of the U.S. Army Financial Management Command (USAFMCOM) worked jointly to execute the Business Process Management (BPM) program to successfully capture seven end-to-end financial processes across the Army General and Working Capital Funds that trigger a financial event impacting the general ledger and financial statements. The BPM mission is to improve and optimize Army standardized processes, both classified and unclassified, that pertain to finance policies, systems, and reporting requirements; provide end-to-end field implementation support for processes and deliver campaigns that improve readiness and establish a culture of audit success. The Army will leverage the documentation in the coming years to streamline testing efforts across the organization.

Internal Control Evaluation

In adherence to the Office of the Under Secretary of Defense (Comptroller) guidance, the Army reports levels of assurance over its internal controls in three distinct areas: Reporting, Operations, and Compliance. Army's evaluation of internal controls extends to every responsibility and activity undertaken by Army and applies to program, administrative, and operational controls. Further, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, Army's statement of reasonable assurance is accordingly provided within the limits of this description.

During Fiscal Year (FY) 2020 each reporting organization was required to review their ICEP (internal control evaluation plan) to align with their Risk Assessment. Specifically, higher risk areas were monitored on a more frequent basis than lower risk areas. Testing is facilitated by the Department of the Army (DA) Form 11-2 and an internal control checklist with supporting documentation. Army Reporting Organizations conduct testing of the key processes listed on their ICEP facilitated by the DA Form 11-2. These forms are retained with evidence of the completed testing. Testing included identifying material key processes that were included in the risk assessments, developing test plans (with the consideration of nature, timing, and extent), selecting the testing method, executing testing of automated versus manual controls, and summarizing/analyzing the results.

FMFIA and OMB Circular No. A-123 Appendix A Compliance – Reporting

The Army conducted its assessment of the effectiveness of internal controls over reporting (including external financial reporting) in accordance with OMB Circular No. A-123. Appendix B, "Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted" section, provides specific information on how the Army conducted this assessment. Based on the results of the assessment, the Army can provide a modified statement of assurance that internal controls over reporting were operating effectively, with the exception of the 15 material weaknesses reported in Appendix B-1 of the Annual Statement of Assurance.

In addition to the 15 ICOFR material weaknesses for the Army General Fund (GF) and Working Capital Fund (WCF), there are three compliance material weaknesses and four operational material weaknesses for a total of 22 material weaknesses.

The Army GF currently has 12 IPA-identified financial statement material weakness categories: 1) Beginning Year Balances; 2) Operating Materials and Supplies; 3) General Property, Plant, and Equipment; 4) Environmental and Disposal Liabilities; 5) Evidential Matter; 6) Information Technology Controls; 7) General Ledger Adjustments; 8) Accounts Payable/Receivable; 9) Financial Reporting; 10) Fund Balance with Treasury; 11) Completeness; and 12) Entity Level Controls.

The Army WCF currently has 13 IPA-identified financial statement material weakness categories: 1) Beginning Year Balances; 2) Inventory; 3) General Property, Plant, and Equipment; 4) Environmental and Disposal Liabilities; 5) Revenue; 6) Evidential Matter; 7) Information Technology Controls; 8) General Ledger Adjustments; 9) Accruals; 10) Financial Reporting; 11) Fund Balance with Treasury; 12) Completeness; and 13) Entity Level Controls.

It is important to note that many of the areas between Army GF and Army WCF overlap and the Army is working to remediate these weaknesses, devising corrective action plans (CAPs) to tighten service provider oversight and internal controls over financial reporting and creating a governance board through the Business Mission Area Champion (BMAC) framework to aid in the implementation and sustainment of changes to business processes, systems, and internal controls. A total 383 CAPs have been issued in response to these changes.

"The audit is not about getting an "A" on a report card. Achieving positive audit results will improve Army's mission execution and provide greater visibility of critical data for decision making!"

— GREG SCHMALFELDT
Director, *Defense Finance and Accounting Service – Indianapolis (DFAS-IN)*

U.S. Army paratroopers cross over concertina wire during the assault of a city exercise. (U.S. Army photo by Spc. Ryan Lucas)

FMFIA and OMB Circular No. A-123 Compliance – Operations

Also, in accordance with OMB Circular No. A-123 the Army conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No A-123, the GAO Green Book, and the FMFIA. Based on the results of the assessment, the Army can provide a modified statement of assurance, except for the four material weakness, that internal controls over operations were operating effectively.

During FY20, US Army DCS, G4 implemented a multi-year corrective action plan to resolve the Second Destination Transportation (SDT) material weakness resulting from the lack of an enterprise system to automatically link shipping transactions to financial systems with appropriate internal controls. During FY20, DCS, G4 conducted a co-Champion brief with ASA(FM&C) to walk through the corrective actions taken and the supporting documentation to validate downgrading the material weakness to a significant deficiency.

Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance – Compliance

The FFMIA as well as OMB Circular No. A-123, Appendix D, requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management system requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) 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 FFMIA. Based on the results of this assessment, the Army can provide a modified statement of assurance, with the exception of the three material weaknesses reported, that the internal controls over compliance were operating effectively.

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.

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

November 10, 2020

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditors' Report on the U.S. Department of the Army General Fund Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FI-0040.000, Report No. DODIG-2021-019)

We contracted with the independent public accounting firm of KPMG LLP (KPMG) to audit the U.S. Department of the Army (Army) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required KPMG to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the Army's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018, Updated April 2020. KPMG's Independent Auditors' Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army General Fund Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army General Fund FY 2020 and FY 2019 Financial Statements and related notes.

KPMG's report discusses 12 material weaknesses related to the Army's internal control over financial reporting.** Specifically, KPMG's report describes the following material weaknesses.

- The Army and its service provider did not develop or implement processes and internal controls to prepare complete and accurate populations for beginning balances on the consolidated financial statements.
- The Army did not consistently design, document, or implement internal controls over Operating Materials and Supplies, which led to personnel not properly recording or providing populations of transactions and not providing documentation to support the consistent operation of controls and recording of transactions.
- The Army did not design, document, or implement internal controls to provide an accurate valuation of assets to be reported in the General Property, Plant, and Equipment account and to provide a complete population of Real Property assets.
- The Army did not consistently design, document, or implement internal controls and processes to accurately estimate its environmental and disposal liability.
- The Army and its service provider did not consistently have supporting documentation readily available to demonstrate that revenue; costs; Fund Balance With Treasury; General Property, Plant, and Equipment; Operating Materials and Supplies; environmental and disposal liabilities; other liabilities; and other transactions were properly reported on the consolidated financial statements.
- The Army and its service providers did not consistently implement sufficient or effective information technology controls to protect the financial systems and related financial data, including access controls, segregation of duties, configuration management, security management, and business process application controls.

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* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

- The Army and its service provider did not properly design or implement internal controls over manual journal entries and other adjustments to ensure that adjustments to the general ledger were complete, accurate, and valid.

- The Army did not fully develop, document, or implement controls over accounts payable and receivable to verify that the balances on the financial statements completely and accurately reflect underlying events.

- The Army and its service provider did not effectively design or implement internal controls over financial reporting to ensure information was fairly presented in accordance with Generally Accepted Accounting Principles and to prevent, or detect and correct, misstatements in the consolidated financial statements and note disclosures.

- The Army and its service provider did not develop, document, or implement internal controls that allowed the Army to reconcile its Fund Balance With Treasury ending balance from the general ledger systems to the U.S. Treasury.

- The Army did not design or implement internal controls to consistently validate that financial transactions were transferred completely and accurately between feeder systems and from feeder systems to the accounting system of record.

- The Army did not properly design and implement entity-level controls to establish a control system that allowed the Army to produce reliable financial reporting.

KPMG's report also discusses two instances of noncompliance with applicable laws and regulations. Specifically, KPMG's report describes instances in which the Army's financial management systems did not substantially comply with the Federal Financial Management Improvement Act and the Federal Managers' Financial Integrity Act.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed them with KPMG's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Army General Fund FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 10, 2020, report, and the conclusions expressed within the report.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

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

Attachment:
As stated

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary of the Army
Inspector General of the Department of the Defense

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States (U.S.) Department of the Army (Army) General Fund (GF), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin Number (No.) 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements. Additionally, management revalued a significant portion of general equipment at standard purchase prices as of September 30, 2020 prior to the application of depreciation which is not in accordance with U.S. generally accepted accounting principles.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these consolidated financial statements.

Emphasis of Matter

As discussed in Note 9 to the consolidated financial statements, Army GF implemented the Office of the Under Secretary of Defense (Comptroller) change in accounting policy for reassigning real property during the year ended September 30, 2020. Our disclaimer of opinion is not modified with respect to this matter.

Other Matters

Interactive Data

Management has elected to reference information on websites or other forms of interactive data outside the Army's *Annual Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (MD&A) related to the Army GF and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to such information in accordance with auditing standards generally accepted in the United States of America because of the lack of evidential matter. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged to audit the basic consolidated financial statements as a whole. The following information is presented in the Army's *Annual Financial Report* for purposes of additional analysis and is not a required part of the Army GF's basic consolidated financial statements: Message from the Secretary of the Army; Message from the Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller); the Army Working Capital Fund Financial Section; and the Army Working Capital Fund information in the MD&A. Such information has not been subjected to the procedures applied in our engagement to audit the Army GF's basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In connection with our engagement to audit the consolidated financial statements as of and for the year ended September 30, 2020, we considered the Army GF's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army GF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control 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 and correct, misstatements on a timely basis. 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 entity's financial statements will not be prevented, or detected and corrected, 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. We consider the deficiencies described in Exhibit I as items to be material weaknesses.

Compliance and Other Matters

In connection with our engagement to audit the Army GF's consolidated financial statements as of and for the year ended September 30, 2020, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03, and which is described in Exhibit II.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit II, in which the Army GF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Management's Responses to Findings

Management's responses to the findings identified in our engagement are described in a separate letter. Management's responses were not subjected to the procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Army GF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 10, 2020

A. Beginning Year Balances

The United States Department of the Army (Army) management (management) and its service provider did not develop and implement processes and internal controls to prepare complete and accurate populations of transactions and adjustments for the beginning balances on the consolidated financial statements.

The above condition primarily resulted because management and its service provider did not maintain sufficient and appropriate detailed transactions and historical supporting documentation, monitor the design and operating effectiveness of the control system, and fully implement corrective actions to remediate the deficiencies.

The criteria is Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*.

As a result of the deficiencies noted above, the potential exists that beginning year balances may be incomplete, inaccurate, or invalid and such misstatement would fail to be prevented or detected and corrected in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service provider to perform, the following:

- Develop and implement processes and controls to prepare complete and accurate populations at the transaction-level for beginning balances and reconcile such populations to the trial balance.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the beginning balance sheet and statement of budgetary resource balances.
- Monitor the design and operating effectiveness of the control system as part of the normal course of operations.
- Focus resources on implementing corrective actions and resolving configuration issues for financial systems.

B. Operating Materials and Supplies

Management did not consistently design, document, and implement internal controls over Operating Materials and Supplies (OM&S) as follows:

- Management did not design, document, or implement controls to provide supporting documentation for the value of OM&S. Further, management applied the most recent standard purchase price to value OM&S at period end and did not use an appropriate cost flow assumption to arrive at historical cost.
- Management has not consistently designed and implemented controls to accurately record OM&S transactions to the appropriate U.S. Standard General Ledger (USSGL) account and perform a reconciliation to demonstrate the completeness and accuracy of transactions recorded as of the balance sheet date.
- Management did not design, document, or implement controls to expense OM&S under the consumption method, which expenses OM&S when issued to the end user rather than in the period goods are purchased.
- Management did not fully consider or document the completeness and accuracy of all data inputs and assumptions used in the estimate of net realizable value for OM&S classified as excess, obsolete, and unserviceable. Further, management did not design and implement controls to appropriately review and determine classification of excess, obsolete, and unserviceable OM&S was accurate which resulted in prior period errors.
- Management did not design and implement effective controls over the completeness of the OM&S balance to include controls to:
  - Reconcile transactions for OM&S assets produced or held at Government Owned Contractor Operated and Contractor Owned Contractor Operated locations.
  - Record and reconcile transactions related to OM&S assets that are in the process of being refurbished.
  - Report and reconcile all in-transit assets as of the balance sheet date.
- Management did not design and implement effective controls over whether OM&S assets within the financial records met the classification requirements to be reported and were owned by the entity. Management also did not document accounting policies to demonstrate the financial reporting considerations for all classes of materials that could meet the definition of OM&S.
- Management did not design and implement or consistently demonstrate controls over physical observation, record retention, or validation that quantities and key data elements were accurately and timely recorded into the accountable property systems.
- Management did not design and implement controls to accurately classify and value OM&S held for repair or remanufacture.

The above conditions primarily resulted because management did not identify all key risks associated with OM&S, including all of the relevant financial statement risks. As such, they do not have policies and procedures designed and implemented to address the risks which led to personnel not properly recording or providing populations of OM&S transactions, and not providing documentation to support the consistent operation of controls and transactions recorded.

The criteria are as follows:

- Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) 3*: Accounting for Inventory and Related Property;* and Interpretation of Federal Financial Accounting Standards 7*: Items Held for Remanufacture*
- GAO *Standards for Internal Control in the Federal Environment*
- The Department of Defense (DoD), *Financial Management Regulation (*FMR*)*
- DoD and Army standard operating procedures, policies, and guidance

As a result of deficiencies noted above, the potential exists that misstatements would fail to be prevented or detected and corrected.

Recommendations:

We recommend that management:

- Design and implement controls so that the value of OM&S is properly recorded on the balance sheet at its historical cost.
- Design and implement controls to properly record cost of goods used transactions as operating expenses in the period when the OM&S assets are issued to the end user.
- Design, implement, and document controls to determine that asset quantities and key data elements are properly recorded in the accountable property systems, transactions recorded are reconciled to the financial reporting system, and documentation is retained to demonstrate the consistent operation of controls and support transactions recorded so that it can be readily accessible.
- Provide training to key personnel to achieve consistent execution of OM&S count procedures across all Army installations.
- Design and implement controls to accurately classify and value OM&S held for repair or remanufacture and other asset classifications. Document the rationale for categories of materials that are deemed immaterial and will not be reported as they are identified.
- Demonstrate and document the completeness and accuracy of data inputs and assumptions used in calculating net realizable value for excess, obsolete, and unserviceable OM&S and disclose the annual gain or loss related to valuation changes. Periodically reassess and reevaluate such inputs and assumptions as necessary.
- Design and implement controls to completely and accurately reconcile, classify, and report all assets that meet the definition of OM&S as of the balance sheet date in the financial statements, and exclude assets not meeting the definition of OM&S from the financial records.

C. General Property, Plant and Equipment

Management did not consistently design, document and implement internal controls over general property, plant and equipment (PP&E) as follows:

- Management did not provide sufficient appropriate documentation to demonstrate the valuation of PP&E was properly reported at historical cost on the balance sheet and related note disclosures. Further, management applied an alternative valuation methodology by recording certain general equipment (GE) at current standard purchase price.
- Management did not provide sufficient documentation to consistently demonstrate controls were effectively designed and implemented over depreciation and impairment. Specifically, management did not support the useful lives for general equipment, and did not consistently design and implement controls over record retention and validation of useful lives of real property. Management did not consistently identify and report potential impairment related to real property and general equipment assets.
- Management did not design and consistently implement controls to determine that the populations of capitalized real property assets and transfers in of real property assets were completely and accurately reported, or to determine that key data elements were accurately recorded in the system. Additionally, management did not properly implement controls to determine that key data elements were completely and accurately recorded in the system.
- Management does not have sufficient processes in place to properly account for costs related to capitalizing PP&E and completeness of balances. Specifically, management does not have a process for accumulating and monitoring costs incurred for general equipment construction in process (CIP), general equipment capital improvements, non-military construction (Non-MILCON) CIP, and internal use software (IUS). Additionally, management does not capitalize the portion of contract financing payment liabilities that are related to CIP. Management also did not document accounting policies to demonstrate the financial reporting considerations for all assets that could meet the definition of PP&E.
- Management did not design and implement controls over PP&E adjustments to address consideration of whether the adjustments are accurate and corrections of errors related to the prior year that should be considered using SFFAS 21, and to consistently allocate costs between facilities, specifically, when Army is the constructing agent. Additionally, management did not design and implement controls to determine that key data elements were accurately recorded in the property system when updates in the system are made for inventory adjustments, capital improvements, and disposals.
- Management did not have sufficient processes in place to properly identify ownership of capital assets. Specifically, management did not effectively design and implement a control to accurately identify ownership of general equipment assets within the property system. Additionally, management did not design and consistently implement controls to properly report ownership of real property and land acreage in the financial statements and accurately adjust real property assets' carrying value for ownership changes which resulted in corrections to prior period financial statements.
- Management did not design and consistently implement controls over physical observation, validation of key data elements, and record retention relating to general PP&E.
- Management did not properly disclose certain required information as set forth by Office of Management and Budget (OMB) Circular Number (No.) A-136 and relevant SFFAS guidance.

The above conditions primarily resulted because management did not identify all key risks associated with PP&E, including all of the relevant financial statement risks. As such, they do not have policies and procedures designed and implemented to address the risks, which led to personnel not properly recording PP&E transactions, and not providing documentation to support the consistent operation of controls and transactions recorded. Additionally, management did not fully implement planned corrective actions for deficiencies identified in prior years.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- FASAB SFFAS 6 *Accounting for Property, Plant, and Equipment*; SFFAS 21 *Reporting Corrections of Errors and Changes in Accounting Principles*; SFFAS 29 *Heritage Assets and Stewardship Land;* SFFAS 44 *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*; Technical Release 14*: Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment*
- OMB Circular No. A-136, *Financial Reporting Requirements*
- DoD FMR
- Army and DoD policies, regulations, and instructions

As a result of deficiencies noted above, the potential exists that misstatements in the general PP&E balances in the balance sheet and related notes would fail to be prevented or detected and corrected.

Recommendations:

We recommend that management:

- Complete the process of valuing the opening balances of real property in accordance with SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*, including updating policies to define what constitutes key supporting documentation to support the consistent and accurate reporting of the valuation of PP&E, communicate the policies throughout the Army, and establish and implement controls to maintain sufficient appropriate supporting documentation to demonstrate that the valuation of PP&E is properly reported on the balance sheet.
- Monitor, research timely, and update the property system based on differences identified between the property system and inspection documents and implement controls to address proper record retention.
- Design, implement, and document controls to determine that the key data elements are properly recorded in the property systems, reconcile the capital asset listing to the financial reporting system, address adjustments related to data cleanup with consideration of SFFAS 21, valuation of PP&E, and retain all relevant supporting documentation to be readily accessible.
- Identify risk points relevant to financial statement assertions for GE and Non-MILCON CIP transactions, accumulating and monitoring IUS transactions and based on those risks, design and implement policies and procedures over accumulating and monitoring GE and Non-MILCON CIP costs, GE capital improvements and IUS transactions.

Exhibit I – Material Weaknesses

- Design and implement controls to determine that key data elements are properly recorded in the property systems, effectively support the consistent allocation of costs between facilities, identify and financially report impairment, accurately identify asset ownership, track government furnished equipment, and address the completeness and accuracy of the Financing Sources Transferred In Without Reimbursement.
- Communicate, monitor, train, research timely, and update property system on differences identified and implement controls over the monthly change report and record retention.
- Design and implement policies and procedures to address the risk points related to the timely approval and completion of records for museum collection items, estimate the portion of the liability that should be capitalized if the entitlement system cannot be configured to identify contracts that meet capitalization criteria, and to address completeness and accuracy of disclosures for land and land rights, stewardship land, and heritage assets in accordance with United States (U.S.) Generally Accepted Accounting Principles (GAAP).

D. Environmental and Disposal Liabilities

Management did not consistently design, document and implement controls and processes over environmental and disposal liabilities (E&DL) to:

- Identify changes to the listing of the real property assets with an associated estimated future environmental cleanup cost from the period the listing is prepared through year-end (roll-forward period), determine completeness of real property and event populations, identify and estimate future environmental disposal costs for general equipment, and perform reconciliations of populations to sources.
- Determine that all obligated contracted costs are excluded from the costs to complete estimate used to determine the environmental and disposal liabilities and are included in the unliquidated obligation query to determine the costs that reduce the environmental and disposal liability.
- Determine the assumptions and inputs are reasonable and in accordance with industry standards, the correct remediation effort is used, all necessary activities are included; cost and schedule estimates are reasonable and accurate; contingency is included to address uncertainty; the calculations are accurate; and the estimate is supported.
- Review each estimate, including assumptions and inputs, at a sufficient level of precision to identify misstatements in the estimate, confirm consistency with the guidance, and maintain documentation evidencing the review steps taken and completion of the review.
- Evidence review of the asset-driven estimate methodologies and guidance and support the rationale for the CATCODES, which determine the assets that have an environmental and disposal cost at the end of the assets' useful life.
- Determine if event-driven liabilities (e.g., contamination released into the environment) at Army Working Capital Fund (WCF) installations should be transferred to Army WCF.
- Determine the completeness of landfills as either event-driven or asset-driven (e.g., environmental closure at the end of an asset's useful life) liabilities.
- Review and approve quarterly input call received from the field used to determine the quarterly environmental and disposal liability reporting and useful life calculations for the asset driven liability estimates.
- Review the manual compilation of the information and sources used to prepare the quarterly journal entries and maintain sufficient documentation to support the entries.
- Perform retrospective review to determine the reasonableness of the estimation methodologies and the assumptions and data used in the methodologies.
- Review newly identified properties and projects to determine eligibility.
- Determine review assignments to provide segregation of duties and responsibility for the review of the estimates.

The above conditions primarily resulted because management did not perform a complete risk assessment to identify financial statement risks, fully establish policies and controls to address such risks, provide sufficient guidance and training to personnel, and timely implement planned corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB, SFFAS 5*: Accounting for Liabilities of The Federal Government;* SFFAS 6*: Accounting for Property, Plant, and Equipment;* SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board;* Interpretation of Federal Financial Accounting Standards 9: *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities;* Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government;* and Federal Financial Accounting Technical Release 18: *Implementation Guidance for Establishing Opening Balances*
- GAO's Cost Estimating and Assessment Guide
- Army Policies and Guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements to environmental and disposal liabilities and related expense line items and disclosures in the consolidated financial statements.

Recommendations:

We recommend that management:

- Complete risk assessments to identify environmental and disposal liability risks and fully establish policies and controls to address such risks, provide sufficient guidance and training to personnel performing environmental and disposal liability responsibilities, and timely implement planned corrective actions.
- Design and implement controls and processes to:
  - Identify changes in real property assets with an associated estimated future environmental cleanup cost from interim through year-end and determine completeness of real property listing.
  - Identify and estimate future environmental disposal costs for general equipment.
  - Perform reconciliations of the population to the source and retain evidence of the review.
  - Determine if event-driven liabilities (e.g., contamination released into the environment) at Army WCF installations should be transferred to Army WCF.
  - Identify landfills as either event-driven or asset-driven (e.g., environmental closure at the end of an asset's useful life) liabilities.
  - Document review of the asset-driven estimate methodologies and guidance and support the rationale for the CATCODES, which determine the assets that have an environmental and disposal cost at the end of the assets' useful life.
  - Review and approve quarterly input call received from the field used to determine the quarterly environmental and disposal liability reporting and useful life calculations for the asset driven liability estimates.

  - Establish supporting documentation requirements and maintain documentation to be readily available for inspection.
  - Review each estimate, including assumptions and inputs, at a sufficient level of precision to identify misstatements in the estimate, confirm consistency with the guidance, and maintain documentation evidencing the review steps taken and completion of the review.
- Compile and retain Formerly Used Defense Sites (FUDS) completeness documentation that is readily available and timely documenting of eligibility in the system.
- Perform a risk assessment to identify the risk of excluding a FUDS project from the population, design processes to account for newly identified properties and projects, and design and implement a process to record a liability for a project when it is probable and measurable.
- Develop and document the active/Base Realignment and Closure (BRAC) completeness methodology and implement policies and procedures to compile and retain the complete listing of event-driven sites.
- Perform a peer review of the asset-driven and active/BRAC estimates and quality control (QC) review of event-driven estimates to determine the assumptions and inputs are reasonable and in accordance with industry standards, the correct remediation effort is used, all necessary activities are included, cost and schedule estimates are reasonable and accurate, contingency is included to address uncertainty, the calculations are accurate, the estimate is supported, and personnel are trained on document retention.
- Design and implement controls and processes to determine that all obligations incurred to reduce the environmental contamination that are excluded from the estimated future environmental cleanup liability are included in the system query and to review the manual compilation of the information and sources used to prepare the quarterly journal entries, and maintain sufficient documentation to support the entries.
- Define and document review roles and responsibilities and establish segregation of duties to prevent an individual from performing the peer and QC reviews of an estimate.
- Perform retrospective review to determine the reasonableness of the estimation methodologies and the assumptions and data used in the methodologies.
- Perform an analysis and implement controls to determine if contingency assumptions are valid and in accordance with industry standards.

E. Evidential Matter

Management and its service provider did not consistently have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for revenue, costs, Fund Balance with Treasury, general property, plant, and equipment, OM&S, E&DL, other liabilities, and other transactions were properly reported on the consolidated financial statements. Management did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the request or transactions recorded in the general ledger used to prepare the consolidated financial statements, and/or (c) was inappropriately reviewed and approved or the review and approval was not documented by management.

Management and its service providers relied on information produced by the financial and feeder systems to support certain transactions and balances on the consolidated financial statements; however, management did not have effective general information technology controls (GITCs) over such systems and therefore, did not provide reliable evidential matter.

The above conditions primarily resulted because of the following:

- Management did not perform a proper risk assessment and/or did not demonstrate a full understanding of its processes, policies and procedures over record retention.
- Management and/or its service providers did not assign resources to timely locate and provide supporting documentation.
- Management and/or its service providers did not design and implement business processes and controls to maintain evidential matter and evidence of supervisory review.
- Management did not implement corrective actions timely.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD FMR
- Army policies and other guidance

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur or records in the general ledger may not represent complete, accurate, and/or valid transactions, potentially leading to a misstatement in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service provider to perform, the following:

- Perform and document a thorough risk-assessment and work with its service provider, as necessary, to design, document, and implement procedures and controls to maintain evidential matter.
- Assign and train the necessary resources to locate and provide supporting documentation in a timely manner.

- Update policies and procedures to define the key evidential matter that is required to support financial statement amounts and performance of controls, require evidential matter to agree with the general ledger detail, and have evidential matter readily available for inspection.
- Focus resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, and contingency planning controls.
- Communicate the evidential matter policies, procedures, and controls to the Army and its service providers.

F. Information Technology Controls

Management and its service providers continued to make progress in addressing prior year Information Technology (IT) control deficiencies within their systems. However, management and its service providers did not consistently implement IT controls to protect the Enterprise Resource Planning (ERP) and related feeder systems' financial data. In addition, management did not implement compensating controls to address service providers IT controls that were not effectively designed, implemented or operated. The conditions could affect management's ability to provide timely financial data that is complete, valid, and accurate. Our specific findings are summarized as follows:

- **Access Controls**. Management and its service providers did not consistently implement operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end users, privileged users, temporary elevated access, and system administrative default powerful user profiles. Management and it service providers did not consistently conduct and document periodic reviews of user accounts on at least an annual basis, to include the removal of access for terminated or transferred employees and contractors and to determine the need for continued and appropriate access based on least privilege principles, and user inactivity. In addition, management and its service providers did not consistently implement operating system, database, and application audit logging and review controls, including security event identification, tracking, evaluation, and response procedures. Further, management and its service providers did not consistently implement periodic reviews of application, database, and operating system user account and password security parameters.
- **Segregation of Duties.** Management and its service providers did not consistently implement controls preventing and/or detecting the inappropriate use of incompatible operating system, database, and/or application privileges. Further, management did not consistently implement controls over the restriction of access to the ERP and feeder system segregation of duties risk rule sets based on least privilege considerations. In cases where incompatible access privileges were required based on business need, management and its service providers did not consistently implement controls to monitor the activities of users granted access to such privileges to ensure unauthorized activities were detected and addressed in a timely manner. Additionally, management and its service providers did not consistently segregate/monitor the use of incompatible access privileges related to system support functions that preclude system developers from updating production environments.
- **Configuration Management**. Management and its service providers did not consistently implement a comprehensive operating system, database, and application configuration change management process, to include timely installation of critical patch updates and proper configuration of production settings to prevent unauthorized changes from being made in the production environment. For implemented processes, management and its service providers did not consistently maintain evidence to support the identification and tracking, testing and/or approval of operating system, database, and application changes/patches before migration into the production environment.
- **Security Management**. Management and its service providers did not consistently implement formal vulnerability management and assessment programs for the operating systems, databases, and/or applications. For implemented programs, management did not consistently track all known vulnerabilities and associated remediation activities.
- **Business Process Application Controls.** Management and its service providers did not consistently implement a process to monitor application processing issues, to include the tracking of processing issues through resolution.

The above conditions primarily resulted because management and its service providers did not fully identify and address risks, develop and implement policies and controls, assign sufficient resources to certain responsibilities, provide sufficient oversight and monitoring of the control environment, and timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, *Revision 4,* dated April 2013 and *Revision 5,* dated September 2020, and SP 800-92, *Guide to Computer Security Log Management,* dated September 2006
- Army policies, memorandums, and other guidance
- Defense Information Systems Agency (DISA) policies and guidance
- DoD policies, memorandums, and other guidance

As a result, the weaknesses posed increased risks to the completeness, accuracy, validity, confidentiality, and availability of the systems and their financial data.

Recommendations

We recommend that management strengthen its systems environments for the operating system, database, and application layers by:

- Establishing and applying or strengthening access, segregation of duties, configuration management, security management, and/or business process application controls;
- Assign sufficient resources to implement the corrective actions and perform and document the GITCs;
- Developing or updating existing and implementing policies and procedures for controls; and
- Continue to work with its service providers to strengthen controls of service provider environments and monitor that service providers' controls are properly designed and effectively operate.

G. General Ledger Adjustments

Management and its service provider did not properly design and implement internal controls over manual journal entries and other adjustments to the general ledger as follows:

- Management did not define the criteria to be able to identify manual journal entries that are subject to increased risk due to management override of controls from transactions entered through normal business processes in its main accounting system of record and is unable to provide a population of entries. Further, management did not have controls in place over the review and approval of manual entries in an accounting system.
- Legacy accounting systems were unable to identify and differentiate between manual journal entries and transactions entered through normal business processes.
- Accounting and general ledger systems were unable to demonstrate that manual journal entry listings are complete and that all necessary adjustments were completely and accurately recorded.
- Management recorded manual journal entries in the financial reporting system to correct account relationships, edit checks, and abnormal balances. Additionally, management recorded manual journal entries to agree to the U.S. Department of Treasury's (Treasury) records or to resolve variances with federal trading partners. Management did not research the underlying causes of the need for these manual journal entries to determine that the journal entries were appropriate. Further, although management and its service provider self-identified and corrected erroneous or inaccurate manual journal entries, the journal entry review control did not prevent the recording of the entries.

The above conditions primarily resulted because of the following:

- Management did not identify a process risk point for out of balance account relationships and identifying manual journal entries. Further, management did not define standard postings for standard business processes in the accounting systems and did not implement consistent review and documentation requirements for transactions entered outside established standard business processes.
- System configuration and posting logic issues create a need for a significant volume of manual journal entries that need to be processed and reviewed within a compressed financial reporting timeline. Legacy systems used to process financial transactions have limitations in identifying manual adjustments and contribute to the need for adjustments through incorrect crosswalk configurations and improper data attributes.
- Management and its service provider have not completed but are in the process of implementing corrective action plans.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Treasury Financial Manual (TFM), Volume I, Part II

As a result of the deficiencies over journal entries and other adjustments, the risk exists that process level internal controls may be overridden and a misstatement may occur in the financial statements and related note disclosures.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Develop, document, and implement policies and procedures to track and minimize the manual journal entries processed in legacy systems to reduce the impact of system limitations in identifying manual journal entries.
- Coordinate with the systems owners to identify and correct the root cause of errors in the files submitted to the financial reporting system; develop and implement procedures and controls over the completeness and accuracy of transactional data transmitted to the financial reporting system; and improve the transactional data to contain the appropriate level of detail.
- Define and implement standard postings that are part of normal business processes and subject to established controls; and require individuals responsible for data entry to use standard transaction codes to significantly reduce the number of manual journal entries.
- Adhere to monitoring procedures to verify manual journal entries are properly supported, are appropriate, and are consistently reviewed to prevent erroneous or inaccurate entries.
- Develop and implement controls, such as reconciliations, to ensure that manual journal entry logs and populations are complete.
- Analyze existing business processes and manual adjustments to define adjustments and provide a clear definition of the adjustment types recorded in general ledger systems; determine if system updates are necessary from the analysis results.

H. Accounts Payable and Receivable

Management did not fully develop, document and implement controls over accounts payable and receivable to record the balances on the consolidated financial statements to completely and accurately reflect underlying events. Specifically, management did not have adequate controls in place as follows:

- Management did not develop methodologies to record accruals for goods and services received but not yet invoiced at period end, to include travel, grants, reimbursable outbound transactions, government purchase cards, supplies, and miscellaneous payments.
- Management implemented accrual methodologies for certain revenue and expense activities, however, the methodologies were not sufficient to completely and accurately record accounts payable and receivable estimates. Deficiencies included: methodologies that did not capture amounts received but not invoiced at period end; excluding data and federal receivables from the accrual methodology; lack of demonstrating completeness and accuracy of inputs; insufficient or imprecise support for key assumptions; lack of documenting the criteria for identifying and researching outliers; lack of retrospective reviews of estimates to validate accuracy of assumptions; lack of review of the parameters used to generate data used in the accruals; and lack of controls validating calculations.
- Management did not have comprehensive, finalized, and documented policies and procedures to identify and record an estimated reserve component military payroll accrual or complete an assessment demonstrating the accrual is qualitatively and quantitatively immaterial.
- Management did not configure the accounting system to properly classify and present military payroll related payables and receivables such as employer contributions, taxes, deductions, payments, debt, and the retired pay accrual in the correct USSGL accounts.
- Management did not design and implement controls to consistently validate the receipt and acceptance of goods and services prior to recording in the general ledger.

The above conditions primarily resulted because management did not consistently identify key risks associated with the recording of accounts payable and receivable or did not have sufficient resources to address the risks. As such, they do not have policies and procedures designed to address those risks. Further, the accounting system did not always include relevant data and was not configured to consistently record transactions to the correct general ledger accounts.

For developed methodologies, management did not dedicate the sufficient time and resources to document and implement the new methodologies, enforce policies, or demonstrate the impact of changes to key assumptions. Further, management did not fully implement planned corrective actions related to deficiencies identified in prior years.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal government*
- FASAB SFFAS 1, *Accounting for Selected Assets and Liabilities;* SFFAS 5, *Accounting for Liabilities of the Federal Government; and* SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- TFM *U.S. Standard General Ledger Supplement* and *Intragovernmental Transactions Reporting Guidance*
- DoD FMR

- Defense Finance Accounting Services (DFAS) Standard Operating Procedures

By not recording the necessary accruals and adjustments, the risk exists that accounts payables and receivables on the consolidated financial statements and related note disclosures could be misstated.

Recommendations:

We recommend that management perform the following:

- Develop, document, and implement methodologies to completely and accurately account for activities received or due as of period end. Methodologies should include documentation of the key assumptions, validation of the completeness and accuracy of inputs, policies, procedures, and controls to identify and record accruals.
- Continue to develop and implement corrective actions and devote appropriate level of resources to implement accrual methodologies and remediate deficiencies.
- Dedicate resources to periodically review and update existing accrual methodologies to completely and accurately account for activities received or due as of period end. Perform a retrospective review to evaluate that appropriate controls and documentation are in place.
- Document an analysis of activities that management determines are clearly inconsequential to current and future periods or variability assumptions for which management will not record an accrual.
- Develop, implement, and enforce policies and procedures to validate the receipt and acceptance of goods and services to include maintaining supporting documentation.

Exhibit I – Material Weaknesses

I. Financial Reporting

Management and its service provider did not effectively implement internal controls over financial reporting. Specifically:

- Management did not sufficiently design and implement controls over presentation of information in the financial statements and note disclosures to ensure information is presented in accordance with U.S. GAAP.
  - Management did not complete a review of policies and procedures that represent a departure from U.S. GAAP and did not perform and document a qualitative and quantitative assessment of the impact to the financial statements and related note disclosures resulting from any potential departures from U.S. GAAP.
  - Management did not sufficiently design and implement policies and controls to appropriately record certain transactions in accordance with U.S. GAAP, to include the classification of certain non-exchange expenditure transfers as expenses, and revaluing cash held in foreign currencies at the financial statement date.
  - Management did not sufficiently design or implement controls to support specific disclosures for funds from dedicated collections, public-private partnerships, and the reconciliation of net cost of operations to net outlays.
  - Management did not design and implement controls to determine the appropriate accounting treatment for munitions produced for other services prior to Army transferring ownership.
- Management did not sufficiently design and implement internal controls to support trading partner adjustments and intra-entity eliminations. Management's process does not accurately identify, support, reconcile, or transmit trading partner and intra-entity eliminations at the transactional level. Further, management did not comply with policies that ended the derivation of seller-side information using buyer-side balances.
- Management did not effectively implement internal controls in accounting for transactions impacting the statement of budgetary resources as follows:
  - Management did not fully implement controls throughout the year to compare the Report on Budget Execution and Budgetary Resources (SF-133) to the amounts on the Statement of Budgetary Resources, and Apportionment and Reapportionment Schedule (SF-132).
  - Management's process for recording adjustments to prior-year obligations was not properly designed and erroneously overstated the upward and downward adjustment balances.
  - Management recorded initial appropriations at the time of apportionment rather than upon enactment of the public law.
  - Management has not fully implemented policies and procedures to investigate and resolve differences between distributed offsetting receipts and Treasury reports, including clearing accounts and abnormal balances.
- Management and its service provider did not effectively implement controls to prevent, or detect and correct abnormal USSGL account balances, relationships, and transactions that are non-compliant with the USSGL.

- Management did not consistently perform management review controls over the interim legal representation letter cases, data call spreadsheet, journal entries and related disclosures.

The above conditions occurred primarily because management did not dedicate sufficient resources to perform risk assessment procedures and did not obtain and formally document an understanding of relevant accounting guidance, processes, risk points, and responses. Further, management placed significant reliance on sources of internal and external information that had not been validated or baselined and did not enforce consistent performance of controls.

In addition, system limitations, incorrect configuration in the accounting and financial reporting systems, and unsupported journal entries contributed to out of balance relationships, transactions, and deficient reconciliations. Finally, management did not fully implement planned corrective actions to address all elements of prior year findings.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1 *Accounting for Selected Assets and Liabilities;* SFFAS 3, *Accounting for Inventory and Related Property*; SFFAS 5, *Accounting for Liabilities of the Federal Government; S*FFAS 7 *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;* SFFAS 43, *Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds*; and SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget;* Circular No. A-123*, Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix D;* and Circular No. A-136, *Financial Reporting Requirements*
- TFM, Volume I, Part 2; *USSGL Supplement,* and *Federal Account Symbols and Titles (FAST) Book*
- DoD FMR
- DoD policy memoranda

As a result of the deficiencies noted above, the potential exists that misstatements or misclassifications would fail to be prevented or detected and corrected in the financial statements and note disclosures.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Dedicate sufficient resources to perform risk assessment procedures over relevant processes to obtain and formally document the understanding, including identifying the flow of information, material risk points, assumptions, and key controls.
- Perform and document an assessment of accounting practices from initiation of transactions through recording in the general ledger system. The analysis should include a thorough and comprehensive analysis of non-GAAP policies on financial reporting. Design and implement appropriate controls to respond to identified risks, or document that the impact on current and future periods is inconsequential.
- Implement policies and procedures to prevent or detect and correct transactions, account mapping, trading partner coding, and other erroneous data elements that result in abnormal balances and align

them with the TFM. Policies and procedures should include the need to reconcile, research, and resolve material errors, abnormal balances, and trading partner differences.

- Design or implement policies and procedures to address correct USSGL non-compliant transactions and train personnel to recognize and accurately record transactions.
- Where feasible, implement system updates to ensure data elements are completely and accurately transmitted, transaction detail or other relevant information is readily available, and transactions post to the correct USSGL accounts.
- Monitor and enforce consistent performance of controls.
- Complete implementation of planned corrective actions.

J. Fund Balance with Treasury

Management did not fully develop, document, and implement internal controls over Fund Balance with Treasury (FBwT) as follows:

- Management and its service provider did not effectively design and implement controls to address the reconciliation of FBwT to balances reported by the Treasury. Specifically, processes were not consistently documented to research and resolve variances at all levels of the reconciliation or consistently maintain documentation to evidence research and resolution of variances. Further, control operators did not consistently resolve identified variances in a timely manner or consistently research all items meeting criteria for resolution.
- Management and its service provider did not effectively design and implement controls to detect and correct suspense account transactions in a timely manner. In addition, management used suspense accounts for transactions that are not in accordance with OMB's Circular No. A-11 and did not design and implement controls to address the completeness and accuracy of financial reporting of suspense accounts.
- Management and its service provider did not effectively design and implement controls to detect and correct differences identified on the statement of differences (SOD) reconciliation in a timely manner, to include ensuring the completeness and accuracy of transactions on the SOD.
- Management and its service provider did not effectively design and implement controls to research, resolve, and maintain evidence of review of failed legacy transaction files within the Transactions by Others (TBO) Uncleared report in a timely manner.
- Management and its service provider did not effectively design and implement controls to record the adjustment to FBwT to agree to Treasury with fully supported voucher level detail and to analyze and record the adjustment to the correct federal or non-federal attribute.
- Management did not effectively design and implement controls to demonstrate individual disbursement and collection transactions were accurately recorded to the correct Treasury Account Fund Symbol, to the correct USSGL account, or were correctly classified as Federal or non-Federal.
- Management did not implement controls to timely research and resolve unmatched disbursements and collections.
- Management did not consider the aggregate effect of unreconciled and unresolved differences identified through the FBwT reconciliation, SOD transactions, suspense accounts, and TBO uncleared reports on the financial statements.
- Management and its service provider did not effectively design and implement controls to address timely preparation of the suspense and SOD universes of transactions or FBwT reconciliation for year-end financial reporting.

The above conditions exist primarily because management and its service provider did not identify all the relevant risk points within the FBwT process. Further, processes were designed to identify errors and notify appropriate individuals but not to review or resolve differences and generate evidence of such. Due to the magnitude of transactions management and its service provider have not prioritized timely preparation of year-end reconciliations and populations. Management and its service provider are developing corrective actions and new policies and have not finalized all new standard operating procedures and related desk side guidance.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1, *Accounting for Selected Assets and Liabilities*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*
- TFM Volume 1, Parts 2 and 4
- DoD FMR, Volumes 1 and 4
- Army and DFAS Standard Operating Procedures

As a result of deficiencies noted above, the potential exists that misstatements could exist in the consolidated financial statements and would fail to be prevented or detected and corrected.

Recommendations:

We recommend that management perform, or work with its service provider to perform, the following:

- Design and implement controls to expand and enhance the FBwT, suspense, and SOD reconciliations, to include: timely resolution of variances; validation of assumptions; consistent posting to reduce unmatched transactions; evaluation of cumulative effect of unresolved differences; and, record retention.
- Continue to update the design of controls to address timely and accurate recording of transactions, and detection and removal of suspense account transactions to comply with guidance described in OMB Circular No. A-11.
- Continue to address the completeness and accuracy of suspense accounts, timely and accurately prepare the suspense universe of transactions, and evaluate the cumulative impact of unresolved suspense account transactions prior to certification.
- Continue to address the completeness and accuracy of the SOD, timely resolution of transactions associated with differences between disbursing systems and Treasury records, the completeness and accuracy of recording transactions after resolution, validation of timing difference assumptions, and evaluate the cumulative impact of unresolved transactions.
- Update the design and implementation of year-end reporting to timely and accurately prepare reconciliations and populations.

K. Completeness

Management did not design and implement controls to consistently validate that financial transactions are completely and accurately reported in the financial statements as follows:

- Management did not effectively design and implement control activities for consistently validating the completeness, existence and accuracy of year-end balances, to include formally documented processes and evidence that controls included all relevant balances and general ledger accounts. Further, management did not consistently perform control activities timely such that they could record necessary adjustments for year-end reporting.
- Management did not consistently demonstrate controls were effectively implemented to resolve transactions entered into feeder or accounting systems that were not processed in the accounting system of record. Management did not consistently centrally monitor timely resolution of errors, require documentation supporting resolution, evidence the reviewer for cleared transactions, have controls in place over the completeness and accuracy of error reports, and include all relevant general ledger accounts. Errors included sales order errors, sales order billing errors, and military pay impacting personnel changes.
- Management did not properly implement controls to consistently reconcile personnel information and feeder systems to the payroll system to ensure completeness of information in the payroll systems. Management and control operators did not consistently perform and document required reviews, perform required reviews with sufficient precision to identify control exceptions, or document considerations around the adequacy of independent review thresholds.

The above conditions existed because management did not consistently perform a risk assessment to determine the sufficiency of internal controls related to reconciliations, the extent of secondary review controls, and the timing of year-end controls in relation to financial reporting timelines**.** Management did not consistently follow or enforce existing policies and procedures that were in place to address identified risks. Further, management relied on interface controls for the complete and accurate transfer of data between systems that had ineffective general information technology controls. Management is relying on implementation of a new integrated personnel and payroll system to be fully implemented to remediate certain deficiencies.

Management did not complete all planned remediation of previously identified deficiencies due to a lack of sufficient resources.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- Army policies, regulations, and other guidance
- DFAS policies

Without adequate controls over the entry of information at the point of initiation, the flow of information between feeder systems to the general ledger systems increases the risk that the financial statements are potentially incomplete, do not exist, or are not recorded accurately.

Recommendations:

We recommend that management perform the following:

- Perform and document risk assessment. Evaluate the design of existing control policies and procedures in response to risks identified.
- Continue to design, develop and implement policies and procedures to allow the timely correction of transaction processing errors and other reports for inclusion in the general ledger in the correct period and amount. Such policies should include requirements to maintain supporting documentation, demonstrating the completeness and accuracy of reports, and require timely completion of control activities at year-end.
- Identify the objective for each reconciliation to include the general ledger accounts included in the control, criteria for investigating variances, and requirements to timely research and resolve variances, and the documentation to support the controls. Obtain all necessary adjustments such that they can be included in year-end financial statements.
- Enforce existing policies and perform periodic monitoring of existing controls to verify control operators are performing the controls in accordance with requirements.
- Evaluate current resources to determine if additional resources are needed to accomplish corrective actions.
- Continue implementing corrective actions, including integrating the pay and personnel systems, and validate that new processes and functionalities address existing deficiencies.

L. Entity Level Controls

Management did not properly design and implement entity level controls, including the control activities described in previous sections of Exhibit I, to establish a control system that will produce reliable financial reporting. Specifically:

Control Environment. Management did not fully design and implement an effective control environment. For example, management did not:

- Consistently develop policies to establish and implement controls across its control environment and did not develop and maintain sufficient documentation of the control system.
- Consistently assign appropriate personnel to achieve the entity's financial reporting objectives; demonstrate management evaluated performance, hold individuals accountable for their control responsibilities, and establish succession and contingency plans for key financial roles.
- Identify, design, and implement test plans for monitoring control activities related to entity level controls.
- Effectively design and implement monitoring and enforcement controls over the completion and retention of documentation for financial disclosure program, ethics training, Financial Management certifications, and continuing education requirements.

Risk Assessment. Management did not fully design and implement a risk assessment process. For example, management did not:

- Define measurable risk tolerance for each objective in the risk profile for reporting organizations and/or define risk objectives and tolerances for certain financial process areas.
- Complete the development of its risk assessment process, including consideration of risks associated with prior year findings and identifying and responding to changes to support designing an effective control system.

Information and Communication. Management did not fully design and implement its information and communication processes. For example, management did not:

- Fully design and implement controls over the completeness and accuracy of financial data and supporting documentation.
- Effectively obtain and communicate quality information down and across internal and external reporting lines.

Monitoring. Management continued its progress in implementation of its process for monitoring and evaluating controls and identifying and remediating control deficiencies in certain areas identified in prior financial statement audits; however, management did not:

- Include evaluating service organizations controls as a part of the OMB Circular No. A-123 Internal Control Assessment. In addition, management did not identify and evaluate all key service provider controls and Army controls to address the complementary user entity controls noted by the service organizations. Additionally, management did not determine that the service organization examinations did not cover all key controls, the description of controls was insufficient, and testing results did not include information to determine certain controls were sufficiently tested. Finally, management did not implement controls to address control deficiencies at service organizations or perform assessments for service organizations that did not have an examination.

- Effectively monitor and evaluate entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

The above conditions primarily resulted because management did not identify all relevant risk points and consistently perform risk assessment procedures for various processes, disseminate quality information on a timely basis across the entity, design a proper control environment to respond to risks, and consistently monitor the control environment.

The criteria is GAO *Standards for Internal Control in the Federal Government*.

Without the proper level of entity-wide controls in place and operating effectively, the risk exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have control deficiencies over financial reporting.

Recommendations:

We recommend that management:

- Continue to develop and implement control procedures across its control environment, including maintenance of documentation readily available to support the control system.
- Prepare and implement a control catalog and test plans that document and tests entity and process level controls that respond to financial statement risks.
- Assign appropriate resources to control responsibilities, provide training to personnel, complete and document performance evaluations, hold individuals accountable for their control responsibilities, and develop succession and contingency plans for key financial roles.
- Implement uniform tracking and monitoring process for the financial disclosure program, ethics training, Financial Management certifications, and continuing education requirements and maintain documentation of such so that it is readily available for inspection.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas.
- Develop, document, and implement controls over the completeness and accuracy of financial data and supporting documentation.
- Communicate policies, procedures, and quality information across the entity.
- Evaluate service organization controls as a part of the OMB Circular No. A-123 Internal Control Assessment, obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports, and implement controls to address control deficiencies at service organizations.
- Continue efforts to develop and complete the control evaluation program covering the entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Continue efforts to develop and implement corrective action plans related to control deficiencies.

A. Federal Financial Management Improvement Act of 1996 (FFMIA)

The United States (U.S.) Department of the Army's (Army) General Fund (GF) financial systems did not substantially comply with the following FFMIA requirements:

- **Federal Financial Management Systems Requirements.** As discussed in Exhibit I – Material Weaknesses – F. General Information Technology Controls (GITCs), management did not implement sufficient effective GITCs to protect the financial accounting, reporting and feeder systems data. As a result, Army GF did not substantially comply with the federal financial management systems requirements.
- **Federal Accounting Standards.** As discussed in Exhibit I – Material Weaknesses, the Army GF's controls were not properly designed, implemented, and operating effectively, which affected management's ability to prepare the consolidated financial statements and support the amounts reported on the consolidated financial statements in accordance with the federal accounting standards. As a result, the Army GF did not substantially comply with the federal accounting standards requirements.
- **U.S. Standard General Ledger.** Management did not configure certain financial systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not fully analyze all financial processes to determine transactions are recorded consistently with USSGL requirements or document the analysis completed.

The Army GF did not substantially meet FFMIA requirements because of the reasons discussed in Exhibit I – Material Weaknesses and did not fully perform a risk assessment and remediate deficiencies identified in previous years. In addition, management had not completed its analysis to demonstrate that the accounting system posting logic is consistent with the USSGL.

The criteria are as follows:

- FFMIA
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*

As a result of the deficiencies noted above, the financial systems did not substantially comply with FFMIA and the risk exists that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations:

We recommend that management:

- Perform a complete risk assessment and implement the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial system and federal accounting standard requirements.
- Complete and document an analysis of all financial processes to determine transactions are recorded consistent with USSGL guidance.

B. Federal Managers' Financial Integrity Act (FMFIA)

Management performed an internal control assessment as required under the FMFIA, however, management's assessment did not substantially comply with FMFIA and the related OMB Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB No. A-123) requirements as follows:

- Management did not fully design and implement a framework and process to comply with the requirements, including the requirements to develop and execute a data quality plan that includes evaluation of the effectiveness of entity level controls. In addition, management did not document their defined scope and materiality of the significant financial reports and the key processes supporting material line items on the significant financial reports.
- The internal control evaluation program did not consistently document assigned resources for the program, financial statement risks and assertions covered, testing procedures performed, extent of sampling performed, testing results, corrective action plans to respond to deficiencies identified, and evidence of management review of the program. Additionally, management did not plan for and test information technology controls as part of the internal control evaluation program.

The above conditions resulted because management did not perform sufficient risk assessment and prioritize implementation of all FMFIA and OMB No. A-123 requirements when designing their evaluation over internal controls. In addition, management did not provide detailed guidance and training to individuals performing the internal control evaluation, hold such individuals accountable for effectively performing and documenting the internal control evaluation, and timely remediate deficiencies identified in previous years.

The criteria are as follows:

- FMFIA
- GAO *Standards for Internal Control in the Federal Government*
- OMB No. A-123

The Army GF did not substantially comply with FMFIA and the related OMB No. A-123 requirements, which may lead to not identifying the appropriate risks, key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting deficiencies could cause misstatements to the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Implement an enterprise risk management approach over the evaluation of internal controls as defined by OMB No. A-123.
- Develop and execute a data quality plan that includes evaluation of the effectiveness of entity level controls, as required by OMB No. A-123.
- Document the defined scope to include the significant financial reports and the key processes supporting material line items on the significant financial reports.

- Expand and communicate policies on documenting financial statement risks and assertions, testing procedures, sampling, testing results, corrective action plans, and management review of the internal control evaluation program.
- Assign resources to complete the internal control evaluation program, provide training to such individuals, and hold such individuals responsible for effectively performing and documenting the internal control evaluation.
- Perform and document the internal control evaluation program to include the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FOI

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2020 Army General Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the audit report. We concur with the findings described in the report and will continue to implement corrective actions to remediate the material weaknesses and instances of non-compliance identified.

2. The results of continued audit readiness efforts, including corrective actions developed and implemented from findings issued during previous audits, demonstrate Army's commitment toward resolving longstanding financial reporting material weaknesses. We have prioritized and focused our remediation efforts on the following areas: Information Technology controls, Fund Balance with Treasury, Real Property, General Equipment, Operating Materials and Supplies, and Environmental Liabilities. We are committed to resolving our material weaknesses, improving all aspects of operations and financial management.

3. The Army will continue to collaborate internally and externally with all stakeholders to implement the systems, processes, and internal controls necessary to achieve accurate financial statements prepared in accordance with generally accepted accounting principles. This will not only result in an unmodified audit opinion but, more importantly, will improve the quality and timeliness of the data used to efficiently and effectively manage the resources provided to us by the Congress and the American taxpayer.

Wesley C. Miller
Deputy Assistant Secretary of the Army
(Financial Operations and Information)

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2020 and 2019

(Amounts in Thousands)	2020 Consolidated	Restated 2019 Consolidated
Assets (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 129,269,183	$ 127,999,484
Investments (Note 5)	359	1,137
Accounts receivable (Note 6)	548,137	426,503
Other assets (Note 10)	232,321	175,405
Total intragovernmental	130,050,000	128,602,529
Cash and other monetary assets (Note 4)	539,712	565,915
Accounts receivable, net (Note 6)	886,022	985,905
Inventory and related property, net (Note 8)	35,584,669	30,490,283
General property, plant and equipment, net (Note 9)	148,280,032	141,829,032
Other assets (Note 10)	1,115,888	1,173,601
Total assets	$ 316,456,323	$ 303,647,265
Stewardship property, plant & equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts payable	$ 2,093,181	$ 1,758,747
Other liabilities (Note 15 and 17)	1,114,545	1,126,042
Total intragovernmental	3,207,726	2,884,789
Accounts payable	4,866,149	5,307,136
Military retirement and other Federal Employment benefits (Note 13)	1,197,718	1,230,162
Environmental and disposal liabilities (Note 14)	27,235,681	25,288,059
Other liabilities (Note 15 and 17)	10,033,979	8,741,322
Total liabilities	$ 46,541,253	$ 43,451,468
Commitments and contingencies (Note 17)		
Net Position		
Unexpended appropriations – other funds	$ 115,108,008	$ 114,303,814
Cumulative results of operations – dedicated collections (Note 18)	73,969	63,698
Cumulative results of operations – other funds	154,733,093	145,828,285
Total net position	269,915,070	260,195,797
Total liabilities and net position	$ 316,456,323	$ 303,647,265

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

Department of Defense – Department of the Army

CONSOLIDATED STATEMENTS OF NET COST (UNAUDITED)

For the Years Ended September 30, 2020 and 2019

(Amounts in Thousands)	2020 Consolidated	2019 Consolidated
Program Costs (Note 19)		
Gross costs	$ 179,854,822	$ 183,114,713
Military personnel	63,826,102	62,436,258
Operations, readiness & support	66,507,052	74,332,837
Procurement	21,274,203	21,415,978
Research, development, test & evaluation	20,254,969	16,860,241
Family housing & military construction	7,992,496	8,069,399
(Less: earned revenue)	$ (8,522,745)	$ (7,063,497)
Net cost before losses/(gains) from actuarial assumption changes for military retirement benefits (Note 19)	171,332,077	176,051,216
Net program costs including assumption changes	171,332,077	176,051,216
Net Cost of Operations	$ 171,332,077	$ 176,051,216

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

Department of Defense – Department of the Army

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (UNAUDITED)

For the Year Ended September 30, 2020

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations			
Beginning balance	$ -	$ 114,303,814	$ 114,303,814
Prior Period Adjustments:			
Corrections of errors	-	(14,676)	(14,676)
Beginning balance, as adjusted	-	114,289,138	114,289,138
Budgetary financing sources:			
Appropriations received	-	180,000,781	180,000,781
Appropriations transferred-in/out	-	4,143,602	4,143,602
Other adjustments	-	(6,530,201)	(6,530,201)
Appropriations used	-	(176,795,312)	(176,795,312)
Total budgetary financing sources	-	818,870	818,870
Total unexpended appropriations	-	115,108,008	115,108,008
Cumulative Results of Operations			
Beginning balance	63,697	145,828,285	145,891,982
Prior Period Adjustments:			
Changes in accounting principles			-
Corrections of errors	-	3,635	3,635
Beginning balance, as adjusted	63,697	145,831,920	145,895,617
Budgetary financing sources:			
Other adjustments	-	(204,166)	(204,166)
Appropriations used	-	176,795,312	176,795,312
Non-exchange revenue	29	3,088	3,117
Donations and forfeitures of cash and cash equivalents	6,335	6,794	13,129
Transfers-in/out without reimbursement	-	(1,078,409)	(1,078,409)
Other budgetary financing sources	-	(2,784,094)	(2,784,094)
Other Financing Sources:			
Donations and forfeitures of property	-	8,205	8,205
Transfers-in/out without reimbursement	-	5,378,684	5,378,684
Imputed financing from costs absorbed by others	-	925,258	925,258
Other	(1,274)	1,187,760	1,186,486
Total financing sources	5,090	180,238,432	180,243,522
Net cost of operations	(5,182)	171,337,259	171,332,077
Net change	10,272	8,901,173	8,911,445
Cumulative results of operations	73,969	154,733,093	154,807,062
Net Position	$ 73,969	$ 269,841,101	$ 269,915,070

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

UNAUDITED

Department of Defense – Department of the Army

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (UNAUDITED)

For the Year Ended September 30, 2019

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Restated Consolidated
Unexpended Appropriations			
Beginning balance	$ -	$ 112,955,572	$ 112,955,572
Prior Period Adjustments:			
Corrections of errors (Note 8, Note 9)	-	(1,222,403)	(1,222,403)
Beginning balance, as adjusted	-	111,733,169	111,733,169
Budgetary financing sources:			
Appropriations received	-	178,707,434	178,707,434
Appropriations transferred-in/out	-	1,358,723	1,358,723
Other adjustments	-	(9,367,066)	(9,367,066)
Appropriations used	-	(168,128,446)	(168,128,446)
Total budgetary financing sources	-	2,570,645	2,570,645
Total unexpended appropriations	-	114,303,814	114,303,814
Cumulative Results of Operations			
Beginning balance	59,859	153,406,188	153,466,047
Adjustments:			
Changes in accounting principles	-	(1,449,802)	(1,449,802)
Beginning balance, as adjusted	59,859	151,956,386	152,016,245
Budgetary financing sources:			
Other adjustments	-	29,142	29,142
Appropriations used	-	168,128,446	168,128,446
Non-exchange revenue	-	(56)	(56)
Donations and forfeitures of cash and cash equivalents	906	84,853	85,759
Transfers-in/out without reimbursement	-	260,506	260,506
Other budgetary financing sources	-	(2,527,544)	(2,527,544)
Other Financing Sources:			
Donations and forfeitures of property	-	-	-
Transfers-in/out without reimbursement	-	1,738,851	1,738,851
Imputed financing from costs absorbed by others	-	1,115,177	1,115,177
Other	(1,526)	1,098,200	1,096,674
Total financing sources	(620)	169,927,575	169,926,955
Net cost of operations	(4,403)	176,055,620	176,051,217
Net change	3,783	(6,128,045)	(6,124,262)
Cumulative results of operations	63,642	145,828,341	145,891,983
Net Position	$ 63,642	$ 260,132,155	$ 260,195,797

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

Department of Defense – Department of the Army

COMBINED STATEMENTS OF BUDGETARY RESOURCES (UNAUDITED)

For the Years Ended September 30, 2020 and 2019

(Amounts in Thousands)	2020 Combined	2019 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 42,085,058	$ 46,546,123
Appropriations (discretionary and mandatory)	182,918,255	179,571,348
Spending authority from offsetting collections (discretionary and mandatory)	34,948,045	23,355,275
Total budgetary resources	$ 259,951,358	$ 249,472,746
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 227,649,542	$ 217,202,293
Unobligated balance, end of year:		
Apportioned, unexpired accounts	24,765,033	23,853,220
Exempt from apportionment, unexpired accounts	36,562	25,583
Unapportioned, unexpired accounts	35,248	36,608
Unexpired unobligated balance, end of year	24,836,843	23,915,411
Expired unobligated balance, end of year	7,464,973	8,355,042
Unobligated balance, end of year (total)	32,301,816	32,270,453
Total budgetary resources	$ 259,951,358	$ 249,472,746
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	176,224,931	164,699,952
Distributed offsetting receipts (-)	(92,767)	288,236
Agency outlays, net (discretionary and mandatory)	$ 176,132,164	$ 164,988,188

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

NOTES TO THE FINANCIAL STATEMENTS – GENERAL FUND

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Description and Mission of Reporting Entity

The United States (U.S.) Department of the Army (Army) mission remains constant: To deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. This mission encompasses the intent of the Congress, as defined in *Title 10* and *Title 32* of the United States Code (U.S.C.), to preserve 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 245-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.B. Basis of Presentation and Accounting

The accompanying financial statements and note disclosures have been prepared to report the financial position and results of operations of the Army GF as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*. The financial statements have been prepared from the books and records of the Army GF sub-entities (Army Active, Army Reserve, and Army National Guard) in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The accompanying financial statements account for all resources for which the Army GF is responsible.

The accounting structure of the Army GF is designed to reflect both accrual and budgetary accounting transactions. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction, such as in the recording of obligations for undelivered orders. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Army GF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position and Combined Statements of Budgetary Resources, in accordance with OMB financial statement reporting guidelines.

The Army is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded by Army GF.

1.C. Fund Types

General Funds: General funds are used for financial transactions funded by congressional appropriations, which include, but are not limited to: military personnel, operations, readiness and support, procurement, research, development, test and evaluation, and family housing and military construction.

Trust Funds and Special Funds: 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.

Deposit Funds: 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 GF and, as such, are not available for the Army GF's operations. The Army GF is acting as an agent or a custodian for funds awaiting distribution.

1.D. Revenues and Other Financing Sources

When authorized by legislation, the Army GF appropriations are supplemented by revenues generated by sales of goods or services. The Army GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and to the public.

The Army GF excludes nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statements of Net Cost and in Note 24, *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 Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Army GF records accrued interest from U.S. Treasury securities and user fees transferred from custodial activities in trust and special funds as non-exchange revenue. Exchange revenues arise when the Army GF provides goods and services to the public or to another Government entity for a price.

1.E. Use of Estimates

The preparation of the financial statements in conformity with U.S. 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. Significant estimates reported within Army GF financial statements are for probable and measurable contingent legal and other liabilities, and environmental liabilities.

1.F. Accounting for Intragovernmental Activities

The *Treasury Financial Manual* (TFM), Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, provides guidance for reporting and reconciling intragovernmental balances. 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 GF cannot accurately identify intragovernmental transactions by customer because the Army GF's systems do not track buyer and seller data at the transaction level. Seller entities to the Army GF 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 Army GF seller-side balances and are then eliminated.

In certain instances, goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the Army GF. Imputed financing represents the cost paid on behalf of the Army GF by another federal entity. Consistent with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, certain costs of the providing entity that are not fully reimbursed by the Army GF are recognized as imputed cost in the Statements of Net Cost, and are offset by imputed financing in the Statements of Changes in Net Position. The Army GF 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; and (3) losses in litigation proceedings. Consistent with the implementation of SFFAS No. 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

1.G. Transactions with Foreign Governments and International Organizations

The Army is responsible for implementing individual Foreign Military Sales cases and the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations as approved by the U.S. Department of State under the provisions of the *Arms Export Control Act of 1976*. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

1.H. Entity and Nonentity Assets

Entity assets are assets the Army GF has the authority to use in its operations. The authority to use funds in an entity's operations indicates either that the Army GF 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 GF but not available for use in its normal operations. The Army GF maintains stewardship accountability and reporting responsibility over stewardship assets. Nonentity assets are offset by corresponding liabilities. See Note 2, *Nonentity Assets* for detail regarding nonentity assets.

1.I. Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of Army GF's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. 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 U.S. Department of State process the majority of the worldwide cash collections, disbursements, and adjustments of the Army GF. 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 GF FBWT is reconciled and adjusted to agree with the U.S. Treasury accounts.

See Note 3, *Fund Balance with Treasury*, for detail regarding Fund Balance with Treasury.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army GF 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 non-purchased 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 of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Army GF 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 GF 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 current exchange rate 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 GF does not separately identify currency fluctuation transactions.

See Note 4, *Cash and Other Monetary Assets*, for detail regarding cash and other monetary assets.

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 factors such as: aging of accounts receivable, debtor's ability to pay, and payment history by aging category during the previous three years. The Army GF regards its intragovernmental accounts receivable balance, which substantially consists of amounts with other U.S. Department of Defense (DoD) component reporting entities, as fully collectible, as there is no history of material uncollectible balances. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the TFM (Chapter 4700, Appendix 10, Section 9.4.4). See Note 6, *Accounts Receivable, Net* for detail regarding accounting receivable.

1.L. Inventory and Related Property

The Army GF manages only military or government-specific materiel under normal conditions. Related property includes OM&S. OM&S is categorized as either Held for Use; Held in Reserve for Future Use; Held for Repair; or Excess, Obsolete, and Unserviceable. OM&S includes ammunition not held for sale, spare and repair parts. Items commonly used in and available from the commercial sector are not managed in the Army GF materiel management activities.

The OM&S are valued at standard purchase price, based upon catalog price. Although ammunition not held for sale, spare and repair parts are centrally managed and stored, recorded using the consumption method, and reported on the Balance Sheets as Inventory and Related Property, the Army GF may recognize expense of items at purchase using the purchase method.

See Note 8, *Inventory and Related Property, Net* for detail regarding inventory and related property.

1.M. Investments and Related Interest

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

See Note 5, *Investments and Related Interest*, for detail regarding investments and related interest.

1.N. General Property, Plant and Equipment

The Army GF uses the standard purchase price, based upon catalog price, for valuing equipment. The Army GF adopted SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*, for land balances, which permitted the disclosure of land acreage information and removal of the land dollar value in opening balances. The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

General equipment is capitalized at standard purchase price, based upon catalog price, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Army GF capitalization threshold. All other assets are capitalized at historical acquisition cost. The Army GF capitalizes improvements to existing real property 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 Army GF depreciates real property and general equipment, other than Construction-in-Process (CIP), on a straight-line basis.

The Army's General PP&E capitalization threshold is $250 thousand. The capitalization threshold applies to all asset acquisitions and modifications/improvements.

When it is in the best interest of the government, the Army GF provides government property to contractors to complete contract work. The Army GF either owns or leases such property.

The Army GF is required 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.

See Note 9, *General PP&E*, Net for detail regarding PP&E.

1.O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that are not included in the General PP&E caption presented on the Balance Sheets. 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 Sheets.

See Note 9, *General PP&E, Net* for detail regarding heritage assets.

1.P. Advances and Prepayments

The Army GF reports advances and prepayments that are permitted by law, legislative action, or presidential authorization within other assets on the Balance Sheets. The Army records advances and prepayments to nonfederal entities for various events to include, but not limited to, advances for travel to personnel, advances for military allowances such as living quarter allowances, pay and housing, and for local national payroll down payments.

See Note 10, *Other Assets*, for detail regarding advances and prepayments.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. If a lease does not meet the criteria for a capital lease it is classified as an operating lease. Payments for operating leases are expensed over the lease terms as they become payable.

Office space leases entered into by the Army GF 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.

See Note 16, *Leases*, for detail regarding leases.

1.R. Other Assets

Other assets include certain contract financing payments not reported elsewhere on the Army GF's Balance Sheet.

The Army GF 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 GF may provide financing payments. Contract financing payments are defined in the *Federal Acquisition Regulations* (FAR), 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. The Army GF records certain contract financing payments as other assets.

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.

See Note 10, *Other Assets*, for detail regarding contract financing payments.

1.S. Contingent and Other Liabilities

Other liabilities include advances from others, deposit funds and suspense account liabilities, liabilities associated with disbursing officer cash, judgment fund liabilities, the FECA reimbursement to the Department of Labor, custodial liabilities, employer contribution and payroll taxes payable, accrued funding payroll and benefits, accrued unfunded annual leave, contract holdbacks, and contingent and other liabilities.

The Army GF recognizes contingent liabilities when past events or exchange transactions occur, such as those arising from legal claims, a future loss is probable, and the loss amount can be reasonably estimated.

See Note 15, *Other Liabilities*, and Note 17, *Commitments and Contingencies*, for detail regarding contingent and other liabilities.

1.T. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Other liabilities also arise as a result of anticipated disposal costs for the Army GF assets. In accordance with SFFAS 6, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

Interpretation of Federal Financial Accounting Standards No. 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6* (Interpretation No. 9), requires component entities that report General PP&E should also recognize the associated Environmental and Disposal Liability (E&DL) cleanup costs. For additional information, see Note 14, *Environmental and Disposal Liabilities*.

1.U. Accrued Leave

The Army GF 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.

See Note 15, *Other Liabilities*, for additional information regarding accrued leave.

1.V. Treaties for Use of Foreign Bases

The Army GF has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the U.S. Department of State. The Army GF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms allow the Army GF 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 non-retrievable capital assets. The settlement due to the U.S. or host nation is negotiated and considers the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Funds from Dedicated Collections

Consistent with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards No. 27, Identifying and Reporting Earmarked Funds*, 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 GF 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. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statements of Changes in Net Position (SCNP) and the Balance Sheets.

See Note 18, *Funds from Dedicated Collections*, for detail regarding funds from dedicated collections.

1.X. Fiduciary Activities

The Army GF fiduciary activities are, as indicated in SFFAS No. 31, *Accounting for Fiduciary Activitie*s, related 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. The Army GF distinguishes the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized within the accompanying financial statements.

See Note 23, *Fiduciary Activities*, for detail regarding fiduciary activities.

1.Y. Military Retirement and Other Federal Employment Benefits

The Army GF applies SFFAS 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*, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities.

The Army GF's actuarial liability for workers' compensation benefits is developed by the U.S. Department of Labor (DOL) and provided to the Army GF 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 Army GF reported no gains and losses in retirement benefits during this fiscal year. Actuarial assumptions related to Military Retirement and Other Federal Employment Benefits are detailed in Note 13, *Military Retirement and Other Federal Employment Benefits*. The Army GF's policy is to recognize its estimated total share of the Army liability reported by the DOL.

See Note 13, *Military Retirement and Other Federal Employment Benefits*, for detail regarding military retirement and other federal employment benefits.

1.Z. Allocation Transfers

The Army GF is a party to allocation transfers with other federal agencies, representing legal delegations of authority to obligate budget authority on its behalf, 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. 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.

As a child, the Army GF has received allocation transfers from the Federal Highway Administration and the U.S. Forest Service that meet the OMB exception and that are reported within these financial statements. In addition, the Army GF receives allocation transfers for the Security Assistance programs that meet the OMB exception for EOP funds. However, the activities for these programs are reported separately from the Army's financial statements based on an agreement with OMB. As a parent, the Army GF reports in these financial statements funds allocated to the U.S. Department of Transportation for the active Army and Army National Guard.

1.AA. Restatements

During FY 2020 the Army GF recorded prior period adjustments totaling $1.1 billion to its FY 2019 Net Position, beginning balance, representing the net value of OM&S reported in error as Excess, Obsolete and Unserviceable which should have been classified within other reporting categories, most notably as Held in Reserve for Future Use, with no revaluation allowance. The effect of his reclassification is reflected in the line item, "Inventory and Related Property, net (Note 8)" on the Balance Sheet. See Note 8 for additional information.

Also, in FY 2020 the Army GF recorded prior period adjustments totaling $2.3 billion to its FY 2019 Net Position, beginning balance, representing the net value of real property transfers that Army GF had previously capitalized and reported within its financial statements in error. The effect of this adjustment is reflected in the line item "General Property, Plant and Equipment, net (Note 9)" on the Balance Sheet. See Note 9 for additional information.

1.BB. Standardized Notes to the Financial Statements

Beginning in FY 2020, the DoD Agency-wide Footnotes and its stand-alone Components' Footnotes have the same Footnote structure in the notes to the financial statements included in their respective annual financial statements. For Footnotes not applicable to a Component because it does not have such transactions, or has such transactions that are immaterial to the financial statements, the Footnote number and name is included but is marked as "Not Applicable." The shared Footnote structure provides efficiency in the preparation of the DoD Agency-wide financial statements and consistency among the DoD Agency-wide and stand-alone Component annual financial statements.

NOTE 2. NONENTITY ASSETS

As of September 30	2020	2019
(Amounts in thousands)		
Nonentity Assets		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 876,715	$ 896,101
B. Total Intragovernmental Assets	$ 876,715	$ 896,101
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 539,712	$ 565,915
B. Accounts Receivable	4,143	3,393
C. Total Nonfederal Assets	$ 543,855	$ 569,308
3. Total Nonentity Assets	$ 1,420,570	$ 1,465,409
4. Total Entity Assets	$ 315,035,753	$ 302,181,856
5. Total Assets	$ 316,456,323	$ 303,647,265

Nonentity Assets

Nonentity Fund Balance with Treasury consists of deposit funds for payroll tax withholding, other payroll withholding and cancelled year collections. Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. See 1.I for additional information.

Nonentity Cash and Other Monetary Assets consists of foreign currency, burden-sharing for the Republic of Korea, in addition to cash held by disbursing officers to carry out their paying and collecting missions. The burden-sharing for the Republic of Korea is valued using the U.S. Treasury prevailing rate of exchange.

Nonentity Nonfederal Accounts Receivable are from cancelled year appropriations and interest receivables. Collections related to these receivables will be returned to the U.S. Treasury as miscellaneous receipts.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2020		2019	
(Amounts in thousands)				
Status of Fund Balance with Treasury				
1. Unobligated Balance				
A. Available	$	24,801,595	$	23,878,802
B. Unavailable		7,501,167		8,392,685
C. Total Unobligated Balance	$	32,302,762	$	32,271,487
2. Obligated Balance Not Yet Disbursed	$	134,171,727	$	120,907,233
3. Non-budgetary FBWT				
A. Deposit Funds	$	865,386	$	886,017
B. Non-entity and Other		62,661		167,417
C. Total Non-budgetary FBWT	$	928,047	$	1,053,434
4. Non-FBWT Budgetary Accounts				
A. Investments – Treasury Securities	$	(358)	$	(1,125)
B. Unfilled Customer Orders without Advance		(33,334,968)		(22,351,936)
C. Reimbursements and Other Income Earned – Receivable		(4,798,027)		(3,879,609)
D. Total Non-FBWT Budgetary Accounts	$	(38,133,353)	$	(26,232,670)
5. Total	$	129,269,183	$	127,999,484

Status of Fund Balance with Treasury

The Status of FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It 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 of funds temporarily precluded from obligation by law which are held by U.S. Treasury. Unobligated balances include balances in expired appropriations that are available only for approved adjustments to prior obligations. 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.

Non-budgetary FBWT includes accounts with no corresponding budgetary authority and therefore not included within unobligated balances above, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT.

Non-FBWT Budgetary Accounts reduce the Status of FBWT but have no impact on FBWT and must therefore be deducted from the Status of FBWT. Examples include: unfilled customer orders without advance, reimbursements and other income earned-receivable, and investment accounts.

The FBWT reported in the Army GF financial statements has been adjusted to reflect the Army GF's balance as reported by Treasury. The difference between FBWT in the Army GF's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the Army GF's general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements.

Allocation Transfers to FBWT

The Army GF received allocation transfers from other federal agencies for execution on their behalf in the amount of $4.9 million in FY 2020 and $0.4M in FY 2019. In addition, the Army GF held cash and cash equivalents for fiduciary activities in the amount of $4.3 million in FY 2020 and $3.8 million in FY 2019; these amounts are not reported in FBWT in accordance with SFFAS 31, *Accounting for Fiduciary Activities*.

NOTE 4. CASH AND OTHER MONETARY ASSETS

As of September 30	2020	2019
(Amounts in thousands)		
1. Cash	$ 245,095	$ 220,286
2. Foreign Currency	294,617	345,629
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 539,712	$ 565,915

Cash and Other Monetary Assets are nonentity assets and by nature the Army GF may not obligate against these assets. Nonentity assets are assets held by the Army GF but not available for use in its normal operations. Nonentity assets are offset by corresponding liabilities. See Note 2, *Nonentity Assets*, for additional information regarding Cash and Other Monetary Assets.

Foreign currency is required to be valued using the U.S. Treasury prevailing rate of exchange as of the financial statement date. Due to current system limitations that preclude revaluation at period-end, the rate of latest purchase is used as an approximation.

NOTE 5. INVESTMENTS AND RELATED INTEREST

As of September 30	2020			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
i. Gift Funds	$ 358	$ 1	$ 359	$ 359
B. Accrued Interest	-	-	-	-
C. Total Intragovernmental Securities	$ 358	$ 1	$ 359	$ 359

As of September 30	2019			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
i. Gift Funds	$ 1,125	$ 8	$ 1,133	$ 1,134
B. Accrued Interest	4		4	4
C. Total Intragovernmental Securities	$ 1,129	$ 8	$ 1,137	$ 1,138

Information Related to Investments and Related Interest

Investments and Related Interest 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 GF, along with interest received from the investment of such donations. The related earnings are allocated to the appropriate Army GF 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 GF 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 GF 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. government wide financial statements.

The U.S. Treasury securities provide the Army GF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Army GF 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 6. ACCOUNTS RECEIVABLE, NET

As of September 30	2020		
(Amounts in thousands)	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 548,137	$ N/A	$ 548,137
2. With the Public	$ 1,037,812	$ (151,790)	$ 886,022
3. Total Accounts Receivable	$ 1,585,949	$ (151,790)	$ 1,434,159

As of September 30	2019		
(Amounts in thousands)	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 426,503	$ N/A	$ 426,503
2. With the Public	$ 1,108,073	$ (122,168)	$ 985,905
3. Total Accounts Receivable	$ 1,534,576	$ (122,168)	$ 1,412,408

Accounts Receivable

Accounts Receivable represent the Army GF's claim for payment from other entities. Intragovernmental receivables report amounts outstanding to be received from other federal agencies; amounts with the public report corresponding amounts owed from all other, nonfederal parties. Amounts reported reflect their net realizable values.

Accounts Receivable, Net include amounts reported within accounts receivable with the public related to criminal restitution owed to the Army GF. In Q4 FY 2020 Accounts Receivable, Net included $45.9 million of gross amounts due related to criminal restitution orders monitored by the Defense Finance and Accounting Service, of which $0.8 million is determined to be collectible.

The Army GF only recognizes an allowance for uncollectible amounts for accounts receivable with the public. The allowance for uncollectible amounts for accounts receivable with the public is derived by applying specific percentages by aging category, based on uncollectible balances over the preceding 36 months, and adjusted accordingly each quarter based on the remaining outstanding balance for each time period at fiscal year-end.

NOTE 7. DIRECT LOANS AND/OR LOAN GUARANTEE PROGRAMS

Not Applicable

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

As of September 30	2020	Restated 2019
(Amounts in thousands)		
1. Operating Materiel & Supplies, Net	$ 35,584,669	$ 30,490,283
2. Total	$ 35,584,669	$ 30,490,283

Operating Materiel and Supplies, Net

As of September 30	2020			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 30,005,554		$ 30,005,554	Standard Price
B. Held in Reserve for Future Use	2,810,435		2,810,435	Standard Price
C. Held for Repair	2,768,680		2,768,680	Standard Price
D. Excess, Obsolete, and Unserviceable	-		-	Standard Price
E. Total OM&S	$ 35,584,669		$ 35,584,669	

As of September 30	Restated 2019			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 24,923,927	$ -	$ 24,923,927	Standard Price
B. Held in Reserve for Future Use	2,885,145	-	2,885,145	Standard Price
C. Held for Repair	2,681,211	-	2,681,211	Standard Price
D. Excess, Obsolete, and Unserviceable	1,219,863	(1,219,863)	-	Standard Price
E. Total OM&S	$ 31,710,146	$ (1,219,863)	$ 30,490,283	

OM&S is categorized as either Held for Use; Held in Reserve for Future Use; Held for Repair; or Excess, Obsolete, and Unserviceable. OM&S include ammunition not held for sale, spare, and repair parts.

There are no restrictions on OM&S.

The Army GF follows the guidance within the September 2020 Office of the Assistant Secretary of the Army Financial Management & Comptroller Accountability & Audit Readiness Directorate *Financial Reporting Operating Materials & Supplies Desktop Procedures*, internal guidance for those Army organizations providing updated information for the reporting of OM&S balances in the Army GF financial statements as well as the condition of the materiel itself, in assigning OM&S to the respective categories above. Army GF reports OM&S in accordance with SFFAS 3.

Managers determine which items are more costly to repair than to replace. The value of these items, which include ammunition, are reported as excess, obsolete, and unserviceable and are valued at their estimated net realizable value, along with other items identified as excess, obsolete, or unserviceable and denoted as such within current OM&S excess, obsolete, and unserviceable business rules.

In FY 2020 the Army GF recorded prior period adjustments totaling $1.1 billion to its FY 2019 Net position, beginning balance and an additional $14.7 million to its FY 2020 Net position, representing the net value of OM&S reported in error as excess, obsolete and unserviceable, at a net realizable value of zero, which should have been classified as Held in Reserve for Future Use, with no revaluation allowance. The effect of this correction of an error is reflected in the line item, "Inventory and Related Property, net (Note 8)" on the Balance Sheets and as a beginning balance adjustment in the Statements of Changes in Net Position. Additional adjustments were also recorded to address other realignments and corrections pertaining to reporting of excess, obsolete, and unserviceable assets. Among these additional adjustments included the removal of the Allowance account as a revaluation offset to the reported Excess, Obsolete, and Unserviceable assets. See Note 1.AA and Note 27 for additional information.

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30	2020			
(Amounts in thousands)	Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes				
A. Land (see narrative)				
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 108,054,138	$ (49,751,536)	$ 58,302,602
C. Leasehold Improvements	Lease term	-	-	
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Various	178,287,996	(101,049,042)	77,238,954
F. Construction-in-Progress	N/A	12,442,995	N/A	12,442,995
G. Other	N/A	-	-	-
H. Total General PP&E		$ 299,286,847	$ (151,006,815)	$ 148,280,032

As of September 30	Restated 2019			
(Amounts in thousands)	Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes				
A. Land (see narrative)		N/A	N/A	N/A
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 100,114,415	$ (44,281,844)	$ 55,832,571
C. Leasehold Improvements	Lease term	24,384	(16,134)	8,250
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Various	208,024,389	(124,376,879)	83,647,510
F. Construction-in-Progress	N/A	2,045,220	N/A	2,045,220
G. Other	N/A	-	-	-
H. Total General PP&E		$ 310,710,126	$ (168,881,094)	$ 141,829,032

* Valuation method (where applicable) = Straight Line

As of September 30	2020
(Amounts in thousands)	
General PP&E, net, beginning of year	$ 144,167,355
Prior period adjustment – restatements (Note 1.AA, Note 27)	(2,338,323)
General PP&E, net, beginning of year, restated	141,829,032
Acquisitions	26,533,176
Depreciation	(16,855,704)
Disposals/Transfers/Revaluations	(3,226,472)
General PP&E, net, end of year	$ 148,280,032

General PP&E

The Army GF has no restrictions on the use or convertibility of General PP&E.

In FY 2019, the Army GF, adopted the Office of Undersecretary of Defense (OUSD) March 5, 2019 memorandum, *Application of Capitalization Thresholds for General Property, Plant and Equipment*, applying the current capitalization threshold of $250,000 retroactively to its entire population of Equipment, comprising an adjustment of $1.4 billion, representing the net book value of Equipment, to the beginning balance of FY 2019 Cumulative Results of Operations. The effect of this adjustment is reflected on line item “General Property, Plant and Equipment, net (Note 9)” of the Balance Sheet. See Note 1.AA and Note 27 for additional information.

As of September 30, 2020, the Army GF owned 11,559,336 acres of land and leased 8,245,323 acres for a total 19,804,659 acres in land rights. As of September 30, 2019, the Army GF reported 11,561,296 acres of land and leased 858,478 acres for a total 12,419,774 acres in land rights. The Army GF’s stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2020 Army GF Annual Financial Report.

During 4th Quarter, FY 2020, in progressive steps towards achieving supportable beginning balances for PP&E and in accordance with related initiatives across the Department of Defense, Army restated the FY 2019 net book value of real property assets that were previously erroneously reported. As a result, the restatement reflects a net $2.3 billion reduction in the Army GF's General Property, Plant, and Equipment, net line item on the Balance Sheet, the beginning balance of Cumulative Results of Operations on the Statements of Changes in Net Position, and Buildings, Structures, and Facilities line item on Note 9, *General Property, Plant and Equipment, Net*, and includes $3.1 billion Transfers-in without reimbursement in the FY 2020 Statements of Changes in Net Position.

Heritage Assets and Stewardship Land Information

The Army GF is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2020 due to limitations of the Army GF's financial and nonfinancial management processes and systems.

The Army GF 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 GF 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 GF, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheets as multi-use heritage assets (capitalized and depreciated). The Army GF is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2020 due to limitations of the Army GF's financial and nonfinancial management processes and systems.

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

Buildings and Structures

Buildings and structures, including multi-use heritage assets which are listed on, or eligible for listing on, the National Register of Historic Places in accordance with Section 110, *National Historical Preservation Act*.

Archaeological Sites

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

Museum Collection Items

Items that 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.

	As of Oct 1, 2019	Increase	Decrease	As of Sept 30, 2020
Buildings and Structures	34,545	-	15,448	19,097
Archaeological Sites	6,307	4,508	-	10,815
Museum Collection Items	607,689	-	23,220	584,469

The decrease in Army buildings and structures categorized as heritage assets is attributed to the reporting in FY 2019 of assets since classified as AWCF-related and other, non-Army GF assets. The increase in Army archaeological sites categorized as heritage assets is attributed to the identification of additional eligible sites.

NOTE 10. OTHER ASSETS

As of September 30	2020	2019
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 232,321	$ 175,405
B. Total Intragovernmental Other Assets	$ 232,321	$ 175,405
2. Other Assets with the Public		
A. Outstanding Contract Financing Payments	$ 138,088	$ 315,419
B. Advances and Prepayments	977,800	858,182
C. Total Nonfederal Other Assets	$ 1,115,888	$ 1,173,601
3. Total Other Assets	$ 1,348,209	$ 1,349,006

Advances and Prepayments

Advances and prepayments to both federal entities and with the public entities are made by the Army GF to cover certain periodic expenditures before those expenses are incurred, or for goods and services to provide for future benefits over a specified time period. They apply when it is generally accepted industry practice to pay for items in advance of the service being provided and the prepayment is authorized by Army GF.

Outstanding Contract Financing Payments

As defined within the *Federal Acquisition Regulation, Part 32, Contract Financing*, paragraph 32.001, a contract financing payment is an authorized Government disbursement of monies to a contractor prior to acceptance of supplies or services by the Government, and may include:

(i) Advance payments;
(ii) Performance-based payments;
(iii) Commercial advance and interim payments;
(iv) Progress payments based on cost;
(v) Progress payments based on a percentage or stage of completion; and
(vi) Interim payments under a cost reimbursement contract.

Contract financing payments include specific types of payments that convey certain rights to the Army GF 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 GF. The Army GF does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army GF is not obligated to make payment to the contractor until delivery and acceptance.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2020	2019
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ -	$ 1
B. Other	287,593	246,874
C. Total Intragovernmental Liabilities	$ 287,593	$ 246,875
2. Liabilities with the Public		
A. Accounts Payable from Canceled Appropriations	$ 1,056,681	$ 1,302,563
B. Military Retirement and Other Federal Employment Benefits	1,197,718	1,230,162
C. Environmental and Disposal Liabilities	25,868,869	23,752,920
D. Other Liabilities	5,328,053	4,493,046
E. Total Non-Federal Liabilities	$ 33,451,321	$ 30,778,691
3. Total Liabilities Not Covered by Budgetary Resources	$ 33,738,914	$ 31,025,566
4. Total Liabilities Covered by Budgetary Resources	$ 12,802,339	$ 12,425,902
5. Total Army GF Liabilities	$ 46,541,253	$ 43,451,468

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit). Army GF has no reported liabilities not requiring budgetary resources.

Intragovernmental Liabilities, Other, primarily consists of the unfunded *Federal Employees' Compensation Act* (FECA) liability $200.8 million and $74.9 million of other unfunded employment-related liabilities, as of September 30, 2020 and of the unfunded FECA liability $201.2 million and $24.6 million of other unfunded employment-related liabilities, as of September 30, 2019.

Accounts Payable represent amounts that are related to canceled appropriations. These amounts will require resources funded from future-year appropriations, which will be paid from funds available for obligation and outlay in the respective years.

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 of the actuarial FECA benefits liability of $1.2 billion as of September 30, 2020 and 2019. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Environmental Liabilities represent the Army GF's liability for existing and anticipated environmental cleanup and disposal (see Note 14, *Environmental and Disposal Liabilities*).

Nonfederal Other Liabilities consist of $4.0 billion in unfunded annual leave, $1.2 billion in contracted Army cadet scholarship liabilities and $0.1 billion in contingent legal liabilities as of September 30, 2020 and $3.5 billion in unfunded annual leave, $0.6 billion in contracted Army cadet scholarship liabilities and $0.4 billion of contingent legal liabilities as of September 30, 2019 (see Note 15, *Other Liabilities*).

Certain Environmental Liabilities, as well as Military Retirement and Other Federal Employment Benefits, contingent liabilities and Accounts Payable from Canceled Appropriations 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. DEBT

Not Applicable

NOTE 13. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2020		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,197,718	-	$ 1,197,718
B. Other	-	-	-
C. Total Other Benefits	$ 1,197,718	-	$ 1,197,718
2. Total Military Retirement and Other Federal Employment Benefits:	$ 1,197,718	-	$ 1,197,718

As of September 30	2019		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,230,162	$ -	$ 1,230,162
B. Other	-	-	-
C. Total Other Benefits	$ 1,230,162	$ -	$ 1,230,162
2. Total Military Retirement and Other Federal Employment Benefits:	$ 1,230,162	$ -	$ 1,230,162

The Military Retirement Fund is a defined benefit plan authorized by the *National Defense Authorization Act for FY 1984* to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The DoD Board of Actuaries approves the long-term economic assumptions for inflation, salary, and interest. The actuaries calculate the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System (BRS) is a new retirement benefit, merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan (TSP). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 were grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution.

Actuarial Cost Method

The DOL annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the U.S. Treasury's Yield Curve for U.S. Treasury Nominal Coupon Issues (TNC Yield Curve) to reflect the average duration of income payments and medical payments.

Assumptions

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPI-M). The actual rates for these factors for charge back year (CBY) 2019 were also used to adjust the methodology's historical payments to current year constant dollars. 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. COLA and CPI-M provided by the DOL 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:

2020 Discount Rates

For wage benefits:

2.414% in Year 1 and years thereafter.

For medical benefits:

2.303% 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 CPI-Ms were applied to the calculation of projected future benefits. The actual rates for these factors for the CBY 2020 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2020	N/A	N/A
2021	1.87%	3.21%
2022	2.12%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025	2.30%	3.94%

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 2020 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2020 projection to the average pattern for the projections of the most recent three years.

2019 Discount Rates

For wage benefits:

2.610% in Year 1 and years thereafter.

For medical benefits:

2.350% 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 CPI-Ms were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2019 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2019	N/A	N/A
2020	1.47%	2.86%
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024	2.21%	3.88%

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 2019 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2019 projection to the average pattern for the projections of the most recent three years.

Other Disclosures

DFAS Financial Reporting – Audited Financial Statements Division provides updated Army actuarial liabilities during the fourth quarter of each fiscal year. The Army GF portion of the total Army actuarial liability is calculated based on the percentage of its FECA expense in the total Army FECA expense.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2020	2019
(Amounts in thousands)		
1. Environmental Liabilities		
A. Accrued Environmental Restoration Liabilities		
i. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 2,896,806	$ 2,675,664
ii. Active Installations—Military Munitions Response Program (MMRP)	931,754	872,233
iii. Formerly Used Defense Sites—IRP and BD/DR	3,032,227	2,736,620
iv. Formerly Used Defense Sites--MMRP	7,748,486	7,735,403
B. Other Accrued Environmental Liabilities—Non-Base Realignment and Closure (BRAC)		
i. Environmental Corrective Action	898,359	801,720
ii. Environmental Closure Requirements	6,695,623	6,919,912
iii. Environmental Response at Operational Ranges	-	-
iv. Asbestos	2,972,059	1,927,523
C. Base Realignment and Closure Installations		
i. Installation Restoration Program	917,245	628,593
ii Military Munitions Response Program	779,512	659,937
iv. Environmental Corrective Action / Closure Requirements	363,610	330,454
2. Total Environmental Liabilities	$ 27,235,681	$ 25,288,059

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

The Army GF addresses cleanup of contamination resulting from previous waste disposal practices, leaks, spills, and other past activities. This cleanup requirement applies to releases of hazardous substances and wastes that create risk to public health and/or environment or risk caused by exposure to unexploded ordnance, discarded military munitions, and munitions constituents at sites other than operational ranges. The Army GF's E&DL consists of both event-driven and asset-driven liabilities. Event-driven liabilities address past releases of contamination to the environment that require future cleanup. Asset-driven liabilities include the environmental disposal costs incurred at the end of an asset's useful life. In FY 2020, Army GF transferred to the Army WCF E&DL costs related to landfills, storage tanks, piping, and open burn open detonation (OB/OD) units, based on the Office of the Under Secretary of Defense (OUSD) memorandum titled, *Real Property Financial Reporting Responsibilities Policy Update (FMP #19-05)*, March 15, 2019. The Army GF's E&DL are reported in three general categories:

A Accrued Environmental Restoration Liabilities [Active Installations and Formerly Used Defense Sites (FUDS)];
B Other Accrued Environmental Liabilities (Non-BRAC); and
C Base Realignment and Closure (BRAC) Installations.

The Army GF addresses event-driven liabilities for the Defense Environmental Restoration Program (DERP) requirements at Active Installations, BRAC, and FUDS (Lines 1.A and 1.C) as well as environmental restoration, closure-related compliance activities, or corrective action not covered by DERP (Line 1.B.i). The Army GF also addresses asset-driven liabilities for closure and disposal under Environmental Closure Requirements (1.B.ii) which includes: OB/OD areas, landfills, low level radioactive waste (LLRW), the decommissioning of deactivated nuclear reactors, buildings (asbestos, lead-based paint, other environmental issues), underground storage tanks (USTs), aboveground storage tanks (ASTs) and piping associated with storage tanks. For each category, the E&DL reflects the future work required to address legal and environmental requirements.

Applicable Laws and Regulations

This section provides the guidance, policies, laws, and regulations that govern the development and reporting of the environmental and disposal liabilities.

The DERP statute was established by Section 211 of the *Superfund Amendments and Reauthorization Act* (SARA) of 1986 codified in Title 10 of the United States Code (U.S.C.) 2700 et. seq. For Active Army installations, DERP eligibility requirements will determine whether liabilities are reported under line 1.A or 1.B.i. The Army GF 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 DoDI 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 clarified the requirement to report liabilities arising from asbestos-related cleanup.

In accordance with SFFAS 6, and FASAB Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment*, June 2, 2010, which provides clarification on determining and reporting disposal liabilities for general equipment, 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.

Applicable laws and regulations addressing environmental restoration and asset closure include:

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

- *Resource Conversation and Recovery Act* (RCRA)
- *Toxic Substances Control Act* (TSCA)
- *Low-Level Radioactive Waste Act*
- DoDI 4715.08, *Remediation of Environmental Contamination Outside the United States*
- *Asbestos Hazard Emergency Response Act* (AHERA)
- Army Regulation 50-7, *Army Reactor Program*
- U.S. Nuclear Regulatory Commission Regulations (NUREG) – (e.g. NUREG 1757 – *Consolidated Decommissioning Guidance* and NUREG CR6477 – *Revised Analyses of Decommissioning Reference Non-Fuel-Cycle Facilities*)

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods
The Army GF 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 software is the Army GF'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 GF relies upon the Air Force, which is the DoD 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 FS-level estimates include a review by federal or state regulatory agencies. For recurring actions, such as sites in a remedial operation or long-term management (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 projections 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 GF and Air Force have event-driven liabilities from previous activities that will require future environmental cleanup. Before being specifically identified the contaminants became comingled across multiple responsible parties. As a National Priority List site, CERCLA requires the DoD (Air Force and Army GF) to enter into a Federal Facility Agreement (FFA). The environmental cleanup sites were designated as under Air Force with the Army GF as the Potentially Responsible Party (PRP). As the Air Force conducts environmental site remediation, an apportioned allocation of the total cleanup costs incurred is assigned to Army GF. The Army GF will include all future apportioned costs paid to the Air Force as part of its environmental liability for JBCC.

The Army GF includes future program management requirements associated with DERP cleanup sites. Program management costs beyond the Future Years Defense Program (FYDP) are estimated by applying the average percentage of program management costs through the FYDP to the site-level requirements remaining after the FYDP. The procedure is based on the January 19, 2016 Deputy Assistant Secretary of Defense (Environment, Safety, and Occupational Health) memo, Revisions to the Knowledge-Based Corporate Reporting System (KBCRS) Defense Environmental Restoration Program (DERP).

The Headquarters Installation Information System (HQIIS) is the source of asset data used to develop the E&DL estimates for Army assets, except OB/OD units inventory which are developed using the Joint Ordnance Commanders Group report and supplemented by the Army's G-9 Environmental Quality annual data call.

Asset-driven liabilities for facility closures/disposal include the environmental costs associated with a building demolition. The environmental liability associated with facility closures are made up of the costs for asbestos and ORM. For asbestos, the costs include a cost for survey and a cost for potential abatement. ORM covers all other environmentally regulated materials that would need to be removed and properly disposed as part of the building closure and the cost for the environmental survey. Environmental closure liabilities for individual building demolition will vary depending on location, so environmental related building closure liabilities for ORM are reported in aggregate and adjusted for location and useful life determinations. The historical costs to support the estimating model is taken from various sites around CONUS and updated annually. The costs for the historical contracted demolitions are then averaged and a Unit Cost Factor (UCF) developed for asbestos and ORM. UCF are derived using professional judgment or historical costs, along with the assets inventory data to develop environmental closure liabilities.

Asbestos disposal costs are based on historical cost data from recent building demolitions and pre-demolition building survey 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, E&DL for asbestos abatement only includes facilities put into service prior to 1990. The liability is determined using the square footage of buildings put into service prior to 1990 multiplied by the asbestos abatement cost factor.

OB/OD are environmentally permitted disposal facilities. OB/OD areas/facilities are used as a common disposal method for munition stockpiles. These activities are necessary to destroy unserviceable, unstable, or unusable munitions and explosives. The Army utilizes RACER modeling software to capture closure requirements and determine the environmental liabilities. The reported environmental liability also includes post-closure requirements.

The Army uses RACER to estimate environmental disposal liabilities for aboveground and underground storage tanks and piping. The model is contained within the RACER. 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 subcategories for tanks with volume greater than 10,000 gallons and RACER cost estimates using area cost factors were used along with the inventory of tanks in each category to develop the reported E&DL. Cost estimates for piping uses the length of the piping as a factor in the E&DL determination.

The Army uses RACER to estimate environmental closure liabilities for landfills. Permitted landfills closure liabilities are estimated within RACER 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. The reported environmental liability also includes post-closure requirements.

The Army GF reports LLRW as a part of the asset-driven liabilities. LLRW are regulated under the Low-Level Radioactive Waste Act, and LLRW disposal is conducted in accordance with U.S. NRC regulations [i.e., Sections 61.2, 20.1003 and 20.2008 of Title 10, Code of Federal Regulations]. Engineering estimates, leveraging the regulation above, are used to develop the LLRW estimates.

The Army also has some highly specialized facilities that require unique closure requirements that do not fit the model above. The decommissioning of the Army's deactivated nuclear reactors require 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 that will be required to conduct the decommissioning and disposal. The estimates are based on numerous industry standards and fundamental assumptions that consider current regulations, radioactive waste disposal options, site restoration practices, and project contingencies. The closure liability for reactors is reported on Line 1.B.ii.

The Army GF estimates include future storage costs associated with recovered chemical warfare munitions before the assessment/destruction occurs, but does not include RCWM Program Support functions associated with the assessment/destruction of RCWM. E&DL associated with RCWM are included in the Army GF event-driven liabilities. The RCWM Program Support functions, which are supported by a separate appropriation, are used during the implementation of RCWM investigations or removal/remedial actions. The environmental liabilities for the actual destruction of the rounds are carried on the DoD financial statement

The Army GF does not recognize E&DL for operational ranges because the liability is not measurable due to the munitions rule. The munitions rule provides that munitions used for their intended purpose are not a solid waste; thus, as the munitions on the operational ranges are not solid waste they cannot by statute be a hazardous waste. A liability is not recognized as operational ranges do not meet the probable requirement of Federal Financial Accounting and Auditing Technical Release

2 since the Army GF does not intend to close its current inventory of operational ranges. In the event the decision is made to close a current operational range, the Army GF will perform a full environmental assessment and initiate a strategy and plan for cleanup.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General Property, Plant and Equipment (PP&E)

For General PP&E placed in service on or after October 1, 1997, costs are allocated to the periods benefiting from the operations of the General PP&E. Cleanup costs are allocated to future periods where the PP&E still has useful life and these cost are not included in the current liability reporting. The unrecognized costs amounted to $123 million at September 30, 2020 compared to the $262.5 million reported in September 30, 2019. The recognized amounts are included in the Environmental Closure Requirements (Line 1.B.ii) over the useful life of the asset.

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

The Army GF estimates are updated annually to reflect changes in previously unknown information, re-estimation 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 advancements in technology. Environmental liabilities may also change due to updated criteria and new ways of determining current categories on the financial statement.

All environmental liabilities as of September 30, 2020 and 2019 are stated in FY 2020 and 2019 dollars, respectively, as required by generally accepted accounting principles for federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

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

The environmental and disposal liabilities for the Army are accounting estimates, which require certain professional judgments and assumptions that are believed to be reasonable based upon information available to the Army at the time of estimation. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated. Environmental and disposal liabilities can be further impacted if the investigation of environmental sites discloses contamination levels different than known at the time of the estimates. The Army GF 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 Sheets. Friable asbestos mitigation estimates are based on historical costs of asbestos abatement during facility demolition.

The Army GF is investigating sites where PFAS containing materials may have been used, stored, or disposed. Depending on program eligibility, the future outflows of financial resources are reported on lines 1.A.i, 1.B.i, or 1.C.i. The Army GF is currently reporting requirements through the Decision Document, to include possible interim actions, as required by the probable and reasonably estimable provisions provided in FASAB Technical Release 2.

The Environmental liabilities for the Army's asset-driven liabilities are based on estimates, which are dependent on the accountable property system of record (APSR) and require certain technical judgments, historical cost information, and assumptions that are believed to be reasonable based upon information available at the time of calculating the estimates. Due to the dependencies on the APSRs, the asset-driven liability methodologies assume that the APSRs are accurate and the data used from these systems are the most up to date. Discrepancies, inaccuracies, and incompleteness of APSR data may cause the environmental liabilities for assets to be reported inaccurately on the Army's financial statement. The Army GF is also uncertain regarding the costs for cleanup associated with general and military equipment. At this juncture, the Army GF is still defining valuation methods to estimate general and military equipment disposal liabilities.

NOTE 15. OTHER LIABILITIES

As of September 30	2020		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Advances from Others	$ 31,950	$ -	$ 31,950
B. Deposit Funds and Suspense Account Liabilities	51,331	-	51,331
C. Disbursing Officer Cash	539,713	-	539,713
D. Judgment Fund Liabilities	11,898	-	11,898
E. FECA Reimbursement to the Department of Labor	91,830	109,000	200,830
F. Custodial Liabilities	-	5,378	5,378
G. Employer Contribution and Payroll Taxes Payable	198,571	-	198,571
H. Other Liabilities	74,874	-	74,874
I. Total Intragovernmental Other Liabilities	$ 1,000,167	$ 114,378	$ 1,114,545
2. With the Public			
A. Accrued Funded Payroll and Benefits	$ 2,825,871	$ -	$ 2,825,871
B. Advances from Others	374,484	-	374,484
C. Deposit Funds and Suspense Accounts	916,337	-	916,337
D. Non-environmental Disposal Liabilities			
i. Conventional Munitions Disposal	-	5,974	5,974
E. Accrued Unfunded Annual Leave	4,044,683	-	4,044,683
F. Contract Holdbacks	205,943	-	205,943
G. Employer Contribution and Payroll Taxes Payable	383,404	-	383,404
H. Contingent Liabilities	35,992	79,566	115,558
I. Other Liabilities	506,133	655,592	1,161,725
J. Total Nonfederal Other Liabilities	$ 9,292,847	$ 741,132	$ 10,033,979
3. Total Other Liabilities	$ 10,293,014	$ 855,510	$ 11,148,524

As of September 30	2019		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Advances from Others	$ 6,048	$ -	$ 6,048
B. Deposit Funds and Suspense Account Liabilities	157,348	-	157,348
C. Disbursing Officer Cash	565,921	-	565,921
D. Judgment Fund Liabilities	21,091	-	21,091
E. FECA Reimbursement to the Department of Labor	91,194	110,032	201,226
F. Custodial Liabilities	3,147	216	3,363
G. Employer Contribution and Payroll Taxes Payable	146,439	-	146,439
H. Other Liabilities	24,606	-	24,606
I. Total Intragovernmental Other Liabilities	$ 1,015,794	$ 110,248	$ 1,126,042
2. With the Public			
A. Accrued Funded Payroll and Benefits	$ 2,299,446	$ -	$ 2,299,446
B. Advances from Others	619,381	-	619,381
C. Deposit Funds and Suspense Accounts	896,198	-	896,198
D. Non-environmental Disposal Liabilities		-	
i. Conventional Munitions Disposal	-	5,974	5,974
E. Accrued Unfunded Annual Leave	3,513,307	-	3,513,307
F. Contract Holdbacks	174,231	-	174,231
G. Employer Contribution and Payroll Taxes Payable	269,106	-	269,106
H. Contingent Liabilities	101,689	253,677	355,366
I. Other Liabilities	(10,086)	618,399	608,313
J. Total Nonfederal Other Liabilities	$ 7,863,272	$ 878,050	$ 8,741,322
3. Total Other Liabilities	$ 8,879,066	$ 988,298	$ 9,867,364

Intragovernmental Other Liabilities and Other Liabilities with the Public

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

Employer Contributions and Payroll Taxes Payable, a portion of which may also be classified as nonfederal, represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Intragovernmental Other Liabilities

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 Officer 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; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgment Fund Liabilities, see Note 17, *Commitments and Contingencies*.

Federal Employees' Compensation Act (FECA) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in the subsequent two fiscal years and unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, Military Retirement and Other Federal Employment Benefits, for the estimated FECA actuarial liability.

Custodial Liabilities represents liabilities for non-entity collections reported as custodial revenues in which the Army GF is acting on behalf of another Federal entity.

Other Liabilities primarily consists of unemployment compensation liabilities.

Other Liabilities with the Public

Accrued funded payroll and benefits with the Public represents the estimated amount of liability for salaries, wages, and funded annual and sick leave that has been earned but are as of yet unpaid.

Non-Environmental Disposal Liability Military Equipment (Non-Nuclear) is a part of the liability related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear. Disposal measurements involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item.

Accrued unfunded annual leave represents the amount recorded by the Army GF for unpaid Annual Leave earned that the employee is entitled to upon separation and that will be funded by future years' budgetary resources.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance.

Contingent Liabilities include the accrual for various legal actions for which the Army Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss measurable.

Other Liabilities consist primarily of the accrued liability for contract Reserve Officers' Training Corps (ROTC) cadet scholarships, as well as other miscellaneous accruals. Current liabilities were abnormal in FY 2019 due to a reclassification of liabilities previously reported as with the public to federal.

NOTE 16. LEASES

Entity as Lessee	2020 Asset Category		
As of September 30	Land and Buildings	Other	Total
(Amounts in thousands)			
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2021	$ 35,816	$ -	$ 35,816
2022	35,851	-	35,851
2023	35,887	-	35,887
2024	35,923	-	35,923
2025	35,959	-	35,959
After 5 Years	180,335	-	180,335
Total Intragovernmental Future Lease Payments Due	$ 359,771	$ -	$ 359,771
2. Operating Leases with the Public			
Future Payments Due			
Fiscal Year			
2021	$ 163,681	$ 1,158	$ 164,839
2022	128,576	969	129,545
2023	95,529	962	96,491
2024	63,185	765	63,950
2025	27,698	570	28,268
After 5 Years	41,142	46	41,188
Total Future Lease Payments Due	$ 519,811	$ 4,470	$ 524,281
3. Total Future Lease Payments Due	$ 879,582	$ 4,470	$ 884,052

As of September 30, 2020, the Army GF has various non-cancelable operating leases. Many of these leases contain clauses to reflect inflation and renewal options. The Army GF has no assets under capital lease.

Entity as Lessor	
Operating Leases with the Public	
(Amounts in thousands)	
Fiscal Year	
2021	$ 14,402
2022	11,350
2023	8,692
2024	6,287
2025	4,930
After 5 Years	22,954
Total Future Lease Payments	$ 68,615

Entity as Lessee	2019 Asset Category		
As of September 30	Land and Buildings	Other	Total
(Amounts in thousands)			
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2020	$ 35,805	$ -	$ 35,805
2021	36,413	-	36,413
2022	37,032	-	37,032
2023	37,662	-	37,662
2024	38,302	-	38,302
After 5 Years	201,503	-	201,503
Total Intragovernmental Future Lease Payments Due	$ 386,717	$ -	$ 386,717

Entity as Lessee	2019 Asset Category		
As of September 30	Land and Buildings	Other	Total
2. Operating Leases with the Public			
Future Payments Due			
Fiscal Year			
2020	$ 159,249	$ 867	$ 160,116
2021	124,213	696	124,909
2022	91,945	506	92,451
2023	59,682	501	60,183
2024	29,280	437	29,717
After 5 Years	24,687	555	25,242
Total Future Lease Payments Due	$ 489,056	$ 3,562	$ 492,618
3. Total Future Lease Payments Due	$ 875,773	$ 3,562	$ 879,335

Entity as Lessor	
Operating Leases with the Public	
(Amounts in thousands)	
Fiscal Year	
2020	$ 12,646
2021	9,461
2022	6,913
2023	5,176
2024	4,234
After 5 Years	19,562
Total Future Lease Payments	$ 57,992

Army GF has a small volume of operating leases as the lessor for easements. Private companies and individuals lease easements are managed by US Army Corps of Engineers to operate restaurants, cell towers and other business on Army GF Installations.

NOTE 17. COMMITMENTS AND CONTINGENCIES

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

Summary of Legal Contingent Liabilities As of September 30, 2020			
		Estimated Range of Loss	
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 115,558	$ 31,200	$ 115,558
Reasonably Possible	N/A	$ 380,580	$ 539,400

Summary of Legal Contingent Liabilities As of September 30, 2019			
		Estimated Range of Loss	
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 355,366	$ 226,165	$ 299,140
Reasonably Possible	N/A	$ 403,950	$ 868,505

The Army GF has accrued contingent liabilities for legal actions when the 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 GF reports contingent liabilities in Note 15, *Other Liabilities*.

The Army GF has other contingent liabilities for which the possibility of loss is considered reasonably possible. These liabilities are not accrued in the Army GF's financial statements. As of September 30, 2020, the Army GF had $1.6 billion in claims considered reasonably possible. As of September 30, 2019, the Army GF had $1.9 billion in claims considered reasonably possible.

As of September 30, 2020, the Army has cases with claim amounts totaling approximately $178 million for which the loss is undetermined, however there is a reasonably possible outcome for a loss. As of September 30, 2019, the Army has cases with claim amounts totaling approximately $1.05 billion for which the loss is undetermined. Army determined that the historical payout percentage for similar cases is less than 1%.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

As of September 30	2020		2019	
(Amounts in thousands)	Total Funds From Dedicated Collections		Total Funds From Dedicated Collections	
Balance Sheets				
1. Assets				
A. Fund balance with Treasury	$	110,411	$	68,934
B. Investments		359		1,137
C. Accounts and interest receivable		(155)		3
D. Other assets		-		(2)
E. Total assets	$	110,615	$	70,072
2. Liabilities and Net Position				
A. Accounts payable and other liabilities		36,646		6,375
B. Total liabilities	$	36,646	$	6,375
C. Cumulative results of operations		73,969		63,697
D. Total Liabilities and Net Position	$	110,615	$	70,072
For the years ended September 30				
(Amounts in thousands)				
Statements of Net Cost				
1. Program costs	$	13,100	$	1,083
2. Less earned revenue		(18,282)		(5,487)
3. Net program costs	$	(5,182)	$	(4,404)
4. Less earned revenues not attributable to programs		-		-
5. Net Cost of Operations	$	(5,182)	$	(4,404)
Statements of Changes In Net Position				
1. Net position beginning of the period	$	63,697	$	59,859
2. Budgetary financing sources		6,364		961
3. Other financing sources		(1,274)		(1,527)
4. Less: net cost of operations		(5,182)		(4,404)
5. Change in net position	$	10,272	$	3,838
6. Net position end of period	$	73,969	$	63,697

The net position end of period as of September 30, 2019 reflects a reclassification of $55,000 of donations related to the Army Gift Fund which had incorrectly been reported as interest revenue – distributed offsetting receipts and therefore included under Net position end of period – All Other Funds. Due to rounding inconsistencies, Net position end of period for FY 2019 has been corrected to $63,697 to reflect the Net position beginning of period balance and the net impact of total activity reported for FY 2020.

In accordance with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Army GF's policy is to display a combined presentation of the non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections with all other funds.

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. As a result of updated analysis, FY 2020 narrative references were updated to read easier while FY 2019 references to the Tomb of the Unknowns, National Military Cemeteries, and Royalties for Military Insignia were removed due to not meeting SFFAS 43 criteria. The Army GF has identified the following such funds and their related statutory citations:

021X5095 – Wildlife Conservation, Military Reservations, Army. 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% of the sales of products from its forest after reimbursement of Army GF appropriations for the costs of production. Title 16 U.S.C. 670b provides authority for this fund.

021X5098 – Restoration, Rocky Mountain Arsenal, Army. Funds are received from private industry for the cleanup of contaminated areas of Rocky Mountain Arsenal. Public Law (PL) 99-661, Section 1367, provides the authority for this explicit use.

021X5285 – Department of Defense, Forest Products Program, Army. Funds are received from the sale of forestry products produced on land owned or leased by the Army. Title 10 U.S.C. 2665 provides authority for this fund.

021X5286 – National Science Center, Army. 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.

021X5752 – Department of Defense Korean War Commemoration Fund, Army. Funds are used to support the commemorative program related to the 60th anniversary of the Korean War as authorized under PL 111-383, Section 574.

021X8063 – 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. A Joint Resolution of the 74th Congress dated May 23, 1935 is the statutory citation that provides authority for the use of this fund (49 Stat. 287).

021X8927 – Department of the Army General Gift Fund. Funds received from private parties and estates that are used for various purposes. Title 10 U.S.C. 2601 establishes the authority governing the use of this fund.

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NOTE 19. GENERAL DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENTS OF NET COST

Other Information Regarding Costs

The Statements of Net Cost (SNC) represent the net cost of programs and organizations of the Army GF 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.

Schedule of Cost and Revenue by Strategic Goal

For the year ended September 30	2020	2019
(Amounts in thousands)	Consolidated	Consolidated
Strategic Goals		
1. Readiness		
A. Gross costs	$ 145,964,164	$ 147,709,974
B. Less: earned revenue	(13,988,018)	(13,349,007)
C. Total net readiness costs	$ 131,976,146	$ 134,360,967
2. Modernization		
A. Gross costs	$ 42,507,971	$ 39,251,117
B. Less: earned revenue	(9,938,353)	(8,771,671)
C. Total net modernization costs	$ 32,569,618	$ 30,479,446
3. Alliance and partnership		
A. Gross costs	$ 2,771,584	$ 5,954,647
B. Less: earned revenue	(143,898)	(204,257)
C. Total net alliance and partnership costs	$ 2,627,686	$ 5,750,390
4. People and families		
A. Gross costs	$ 3,874,887	$ 4,604,530
B. Less: earned revenue	(843,282)	(852,535)
C. Total net people and families costs	$ 3,031,605	$ 3,751,995
Other Goals		
A. Gross costs	$ 727,367	$ 1,708,418
B. Less: earned revenue	399,655	-
C. Total net costs	$ 1,127,022	$ 1,708,418
Intra-entity elimination costs	15,991,150	16,113,973
Less: intra-entity elimination earned revenue	(15,991,150)	(16,113,973)
Consolidated Goals		
A. Gross costs	$ 179,854,823	$ 183,114,713
B. Less: earned revenue	(8,522,746)	(7,063,497)
C. Total net costs	$ 171,332,077	$ 176,051,216
(Gain)/loss on pension, ORB, or OPEB assumption changes (Note 15)	-	-
Net strategic goals, including assumption changes	171,332,077	176,051,216
Net cost of operations	$ 171,332,077	$ 176,051,216

Note: Intra-entity elimination totals reflect revenue/expense activity between Army GF's sub-entities (Army Active, Army Reserve, and Army National Guard) and reported within the above goals.

NOTE 20. DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

Information Related to the Consolidated Statements of Changes in Net Position

Other Financing Sources, Other

Other Financing Sources, Other primarily consist of gains and losses that resulted from revaluations, disposals and other adjustments recognized to address differences between the Army GF's nonintegrated feeder systems with DoD's financial reporting system.

Appropriations Received

The FY 2020 Appropriations Received line item on the SCNP should not and will not agree with the Appropriations line item on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The $2,917 million difference in FY 2020 and $864 thousand difference in FY 2019 Appropriations (Appropriations, SBR of $179,571 less Appropriations, ScNP of $178,707) is due to additional resources included in the Appropriations line item on the SBR.

For the Year Ended September 30, 2020 *(Amounts in millions)*		
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		**Total**
1. Appropriations, Statement of Budgetary Resources	$	182,918
2. Appropriations received, Statement of Changes in Net Position	$	180,001
3. Total reconciling amount	$	2,917
4. Items reported as reductions to appropriations, Statement of Budgetary Resources		
A. Permanent reductions	$	(1,707)
5. Items reported as additions to appropriations, Statement of Budgetary Resources		
A. Transfers		4,599
6. Items not reported as appropriations received on the Statement of Changes in Net Position		
A. Dedicated appropriations and earmarked receipts	$	25
7. Total reconciling items	$	2,917

NOTE 21. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

Net Adjustments to Unobligated Balances, Brought Forward

Net adjustments to FY 2020 unobligated balance brought forward increased by $9,815 million over the FY 2019 end of year total primarily due to recoveries of prior year unpaid obligations.

Undelivered Orders at the End of the Period

Undelivered Orders presented in the SBR include Undelivered Orders-Unpaid for both direct and reimbursable funds.

For the years ended September 30		2020		2019
(Amounts in thousands)				
1. Intragovernmental:				
A. Unpaid	$	42,674,849	$	36,360,050
B. Prepaid/advanced		614,988		502,029
C. Total intragovernmental	$	43,289,837	$	36,862,079
2. Nonfederal:				
A. Unpaid	$	78,744,608	$	73,062,723
B. Prepaid/advanced		1,115,887		1,173,601
C. Total nonfederal	$	79,860,495	$	74,236,324
3. Total budgetary resources obligated for undelivered orders at the end of the period	$	123,150,332	$	111,098,403

Permanent Indefinite Appropriations

The following permanent indefinite appropriations cover a wide variety of purposes to help the Army GF complete their mission:

- Department of the Army General Gift Fund (10 U.S.C. §2601(c)(1))
- Department of Defense General Gift Fund (10 U.S.C. §2601)
- Forest Program (10 U.S.C. §2665)
- Wildlife Conservation (16 U.S.C. §§670-670f)
- Ainsworth Bequest (31 U.S.C. §1321)
- Rocky Mountain Arsenal, Restoration (United States Statutes at Large, Volume 100, page 4003, section 1367 (100 Stat. 4003 §1367))
- Medicare-Eligible Retiree Health Fund Contribution, Army (10 U.S.C. §1116)
- Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (10 U.S.C. §1116)
- Department of Defense Vietnam War Commemoration Fund, Defense (Public Law 110-181, 122 Stat. 141 §598)

Legal Arrangements Affecting the Use of Unobligated Balances

The Army GF has no legal arrangements that affect the use of unobligated balances of budget authority.

Explanation of Differences between the FY 2019 SBR and the Budget of the U.S. Government

(Amounts in thousands)	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offering Receipts	Net Agency Outlays	Explanation for reconciling differences
Combined Statements of Budgetary Resources	$ 249,473,000	$ 217,202,000	$ 288,000	$ 164,700,000	
Reconciling difference	$ 9,612,000	$ -	$ -	$ -	Less: schedule P, obligations “upward adjustments,” expired accounts (included within SBR line 2190, New obligations and upward adjustments (Note 1)
Reconciling difference	$ 8,355,000	$ -	$ -	$ -	Less: SF 133 line 2413 - Expired unobligated balance, end of year (Note 2)
Reconciling difference	$ -	$ -	$ 288,000	$ -	Less: distributed offsetting receipts (Note 3)
Reconciling difference (unidentified)	$ (19,000)	$ (5,000)	$ -	$ 7,000	
Total	$ 231,487,000	$ 217,197,000	$ -	$ 164,707,000	
Budget of the U.S. Government	$ 231,487,000	$ 217,197,000	$ -	$ 164,707,000	
Difference	$ -	$ -	$ -	$ -	

The corresponding *Budget of the U.S. Government* with the actual amounts for FY 2020 will be available at a later date from OMB at *https://www.whitehouse.gov/omb/budget*.

Note 1: Per OMB Circular No. A-11, paragraph 130 11, upward adjustments of obligations to expired appropriation accounts are subtracted from expired unobligated balances as reported on line 2403, Unobligated Balance, Unapportioned: Other, a component of total budgetary resources as reported on SBR line 2500 (under Status of Budgetary Resources); and consequently, must also be excluded from line 1910 (also total budgetary resources).

Note 2: Per OMB Circular No. A-136, section II 4 9 34, paragraph 3 “…expired unobligated balances are reported in the SBR and SF-133, but not in the Budget (of the U.S. Government)”.

Note 3: The *FY 2021 Appendix to the Budget of the U.S. Government, Detailed Budget Estimates*, does not report distributed offsetting receipts for FY 2019 at the Army GF level.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

Not Applicable

NOTE 23. FIDUCIARY ACTIVITIES

For the years ended September 30	2020	2019
(Amounts in thousands)		
Schedule of fiduciary activity		
1. Fiduciary net assets, beginning of year	$ 9,008	$ 13,216
2. Contributions	51,050	42,568
3. Distributions to and on behalf of beneficiaries	(55,787)	(51,962)
4. Increase/(decrease) in fiduciary net assets	$ (4,737)	$ (9,394)
5. Fiduciary net assets, end of period	$ 4,271	$ 3,822
Schedule of Fiduciary Net Assets		
Fiduciary assets		
1. Fund balance with Treasury	$ 4,271	$ 3,822
2. Total fiduciary Net Assets	$ 4,271	$ 3,822

Fiduciary activities are those 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 Army GF has a fiduciary duty to the Savings Deposit Program in which the Army GF participates. PL 89-538 authorizes DoD, which includes Army GF, 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 GF collects the savings and allotments of Soldiers, and the collections and accrued earned interest are transferred to the U.S. Department of the Navy, the Navy program's executive agent. These fiduciary assets are not assets of the Army GF and are not recognized on its Balance Sheets. Detail on contributions and distributions on behalf of beneficiaries are provided by the U.S. Treasury.

The fiduciary activity amount noted above is provided by the U.S. Treasury.

Note, in October 2019 Army GF learned that the overall FY 2019 net disbursements reported by the executive agent were overstated by approximately $5.2 million, thereby understating Army GF's overall fiduciary net assets as reported under the Savings Deposit Program. An adjustment was recorded in FY 2020 to correct overall net assets and to agree with corresponding collections and disbursements as reported by U.S. Treasury. As these fiduciary assets are not assets of the Army GF, and are not consolidated within its financial statements, no prior period restatement is necessary.

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

For the year ended September 30	2020		
(Amounts in thousands)	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ 41,634,467	$ 129,697,611	$ 171,332,078
Components of net cost that are not part of net outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (16,855,704)	$ (16,855,704)
3. Property, plant, and equipment disposal & revaluation	-	716	716
4. Other	(116,624)	(950,260)	(1,066,884)
5. Increase/(decrease) in assets:			
A. Accounts Receivable	121,637	(99,884)	21,753
B. Investments	(778)	-	(778)
C. Other assets	56,916	(83,917)	(27,001)
6. (Increase)/decrease in liabilities:			
A. Accounts payable	(334,434)	440,988	106,554
B. Salaries and benefits	(52,093)	(640,724)	(692,817)
C. Environmental and disposal liabilities	-	(1,947,622)	(1,947,622)
D. Other Liabilities (unfunded leave, unfunded FECA, actuarial FECA)	63,590	(619,490)	(555,900)
7. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(801,490)	-	(801,490)
B. Other imputed financing (Judgment Fund)	(123,768)	-	(123,768)
8. Total components of net cost that are not part of net outlays	$ (1,187,044)	$ (20,755,897)	$ (21,942,941)
Components of net outlays that are not part of Net Cost:			
9. Acquisition of capital assets	-	26,533,176	26,533,176
10. Acquisition of inventory	-	16,636	16,636
11. Other	173,383	(3,629)	169,754
12. Total components of net outlays that are not part of net cost	$ 173,383	26,546,183	26,719,566
13. Other temporary timing differences	-	$ 23,461	$ 23,461
14. Net outlays	$ 40,620,806	135,511,358	176,132,164
15. Agency outlays, net, Statement of Budgetary Resources			$ 176,132,164
16. Reconciling difference			$ -

For the year ended September 30	2019		
(Amounts in thousands)	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ 36,826,006	$ 139,225,210	$ 176,051,216
Components of net cost that are not part of net outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (20,935,775)	$ (20,935,775)
3. Property, plant, and equipment disposal & revaluation	-	266	266
4. Other	(178,240)	51,124	(127,116)
5. Increase/(decrease) in assets:			
A. Accounts Receivable	(1,009,458)	224,775	(784,683)
B. Investments	1	-	1
C. Other assets	(366,707)	(1,165,096)	(1,531,803)
6. (Increase)/decrease in liabilities:			
A. Accounts payable	1,712,633	(4,164,379)	(2,451,746)
B. Salaries and benefits	(15,877)	150,290	134,413
C. Environmental and disposal liabilities	-	(4,569,166)	(4,569,166)
D. Other Liabilities (unfunded leave, unfunded FECA, actuarial FECA)	142,354	801,858	944,212
7. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(1,022,983)	-	(1,022,983)
B. Transfers out (in) without reimbursement	(1,738,851)	-	(1,738,851)
C. Other imputed financing (Judgment Fund)	(92,194)	-	(92,194)
8. Total components of net cost that are not part of net outlays	$ (2,569,322)	$ (29,606,103)	$ (32,175,425)
Components of net outlays that are not part of Net Cost:			
9. Acquisition of capital assets	-	21,391,112	21,391,112
10. Other	(108,083)	2,074	(106,009)
11. Total components of net outlays that are not part of net cost	$ (108,083)	21,393,186	21,285,103
12. Other temporary timing differences	-	$ (172,706)	$ (172,706)
13. Net outlays	$ 34,148,601	130,839,587	164,988,188
14. Agency outlays, net, Statement of Budgetary Resources			$ 164,988,188
15. Reconciling difference			$ -

Other Imputed Financing (Judgment Fund) represents the amount of imputed financial sources received by Army GF to cover imputed costs under the Judgment Fund.

Other Components of Net Cost That Are Not Part of Net Outlays include, for Intragovernmental, Cost of Goods Sold; and for With the Public, primarily exchange related losses.

Other Components of Net Outlays that are Not Part of Net Cost include miscellaneous interest and donated revenue.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

Military Housing Privatization Initiative (MHPI)

The *National Defense Authorization Act* for FY 1996, contains the authorities for the Military Housing Privatization Initiative (MHPI). This Act includes a series of authorities that allow Army to work with the private sector to build, renovate and sustain military housing. The goals of the program are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers. Other statutory authorities for this initiative include 10 U.S.C. 2873, 10 U.S.C. 2875, and 10 U.S.C. 2878.

Within the MHPI program, the lease hold interest of local family housing portfolios at 44 Army installations were transferred to a unique Limited Liability Company (LLC) (34 projects), with joint ownership between Army and the private company. The private entity manages the LLC, as they are the majority owner within each of the LLCs. All of the MHPI agreements were initiated from 1999 to 2009, with the expected life of the agreements being 50 years plus a 25-year extension option. The contractual terms of these agreements as well as the termination clauses are varied between each of the LLC agreements.

The total risk associated with these agreements are the total initial investment (funding and net book value of the assets at the time of transfer) of these projects plus the three commercial loan guarantees associated with three of the MHPI agreements. The LLC operates as its own entity, outside of Army, so there are no other known risks. All assets revert back to the Army upon termination of the leasehold interest at no-cost to either party (Army and partner).

Funding

The MHPI agreements required an initial investment of cash and assets valued at $1.9 billion and $2.1 billion respectively, and reported within the DoD Family Housing Improvement (97X0834) and DoD Military Unaccompanied Housing Improvement (97X0836) Funds. There were also three loan guarantees for three of the projects in the amount of $30.4 million that are managed by DoD.

The following table represents the aggregated contributions by the Army and DoD to the LLC through September 30, 2020:

Army Contributions*	
Funding contributions to DoD MHPI program	$1.9 B
Real property contributions to the LLCs (value of Real Property Assets (RPA) conveyed, per Office of Management and Budget (OMB) scoring documents)	$2.1 B
Army direct payments as required by Pub. L. 15-232	
§ 606 (5% BAH) for FY 2020.**	$30.8 M
Army basic allowance for house (BAH) under § 403(b)(3)(A)(i) of title 37 to members living in privatized housing for FY 2020. The number of units of military unaccompanied housing units upon which these estimated payments are made is 67,000.	$1.3 B
DoD Contributions*	
Direct Cash Contributions	$0.0
Differential Lease Payments	$0.0
Direct Loans Disbursed	$0.0

*The financial amounts represented above are presented in the DoD's consolidated financial statement and their respective note disclosures and are not presented within the Army's financial statements.
**Invoices for FY20 Payback have not all been finalized

The following table represents the aggregated contributions by the Private Partner to the LLC through September 30, 2020:

Contributions by Private Partners	
Direct cash contributions at financial closing *	$165.9 M
Bonds/Loans contributed	$0.0
Real property and land contributions	$0.0

*$52 million of Private Partner Equity has been returned to one of the Private Partner owners, owner of Corvias Military Living, from 2016 through 2019.

Risk of Loss

The total risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer) of these projects plus the commercial loan guarantees associated with three of the MHPI agreements. The LLC operates as its own entity, outside of Army, so there are no other known risks. All assets revert back to the Army upon termination of the leasehold interest at no-cost.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

The Army's Nonappropriated Fund Instrumentalities (NAFIs) are fiscal entities supported in whole or in part by nonappropriated funds (NAFs). For the most part, NAFs are generated from sales and user fees. The Army's NAFIs are governed by sections of Title 10. The Army's NAFIs primarily consists of the Army exchanges and morale, welfare, and recreation (MWR) entities. The NAFIs are intended to enhance the quality of life of members of the uniformed services, retired members, and dependents of such members, and to support military readiness, recruitment, and retention.

The Army has an advisory group for its NAFIs. The group ensures the NAFI is responsive to authorized patrons and to the purposes for which the NAFI was created. Additionally, the NAFIs are subject to financial reporting requirements and financial audits conducted by independent public accounting firms. Therefore, while the Army GF does not control NAFIs nor are they considered related parties, Army NAFI financial activity is not included in the Army GF financial statements.

The Rand Army Research Center (the Arroyo Center) is the U.S. Army's sole federally funded research and development center (FFRDC) for studies and analysis. As an FFRDC, the Arroyo Center enables the Army to maintain a strategic relationship with an independent, nonprofit source of high-quality, objective analysis that can sustain deep expertise in domains of direct relevance to perennial Army concerns to meet research or development needs that cannot be met as effectively by existing government or contractor resources. Funding for FFRDC work is provided through the DoD's contract with the parent organization that operates each FFRDC. DoD *Federal Acquisition Regulation* (FAR) Part 35.017 provides federal policy for the establishment and use of FFRDCs.

DoD FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the university or private-sector nonprofit parent organization that operates each FFRDC (Analytical Perspectives, FY 2019 *Budget of the U.S. Government*, p. 104-105).

Congress restricts the amount of support that the DoD may receive through a limitation that it sets annually on the staff years of technical effort that may be funded (Analytical Perspectives, p. 230-235, including Tables 17-2, *Federal Investment Budget Authority and Outlays*, and 18-1, *Total Federal R&D Funding by Agency at the Bureau or Account Level*).

The Army GF receives significant benefits from the work of the Arroyo Center, which is critical to national security. The Army GF's oversight and management of the Arroyo Center are stipulated by Army Regulation 5-21.3. The regulation establishes a governing board of Army leaders known as the Arroyo Center Policy Committee (ACPC), co-chaired by the Vice Chief of Staff of the Army and the Assistant Secretary of the Army (Acquisition, Logistics and Technology). The ACPC provides overall guidance, reviews the annual research plan, and approves individual projects. While the Army GF does not control the Arroyo Center, nor is it considered a related party, the Army GF must agree that it will conduct its business in a manner befitting its special relationship with the Army GF, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. An FFRDC may be used only for work that is within its purpose, mission, and general scope of effort, as established within the sponsoring agreement.

NOTE 27. RESTATEMENTS

Army GF recorded net prior period adjustments for corrections of errors totaling $1.2 billion to its FY 2019 Consolidated Statements of Changes in Net Position, Beginning Balance comprising $2.3 billion related to real property, offset partially by $1.1 billion related to OM&S. An additional $14.7 million adjustment was recorded to its FY 2020 Consolidated Statements of Changes in Net Position, Beginning Balance, for corrections of errors related to OM&S. Refer to Note 8 and Note 9 for additional detail.

NOTE 28. COVID-19 ACTIVITY

As of September 30, 2020, the Army GF has received a total $1.3 billion in budgetary resources under the CARES Act (P.L. 116-136). Total funding received the respective appropriations, together with obligations and outlays to date, are the follows:

For the Year Ended September 30	2020		
(Amounts in thousands)	Budgetary Resources	Obligations	Outlays
Military Personnel, Army	$ 89,438	$ 89,438	$ 89,438
Operation and Maintenance (O&M), Army	888,380	888,348	498,534
National Guard Personnel, Army	69,587	68,681	56,041
O&M, National Guard, Army	64,564	62,533	12,296
O&M, Reserve, Army	36,000	35,942	4,559
Research, Test, Development & Evaluation, Army	65,292	38,809	27,846
Other Procurement, Army	61,458	56,399	4,351
Totals	**$ 1,274,719**	**$ 1,240,150**	**$ 693,065**

As of September 30, 2020, Army GF recognized approximately $700 million in COVID-19 related expenses.

NOTE 29. SUBSEQUENT EVENTS

The Army GF does not have subsequent events as of November 9, 2020.

U.S.ARMY

Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2020 & September 30, 2019
(Excludes Military Family Housing)

(Amounts in millions)	Current Fiscal Year (CFY) 2020			Prior Fiscal Year (PFY) 2019		
Property Type	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)
Category 1	$332,650	$46,245	14%	$265,888	$35,565	13%
Category 2	$50,268	$9,841	20%	$41,551	$8,393	20%
Category 3	$19,992	$5,771	29%	$13,715	$3,865	28%

Military Family Housing – Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2020 & September 30, 2019
(Military Family Housing Only)

(Amounts in millions)	Current Fiscal Year (CFY) 2020			Prior Fiscal Year (PFY) 2019		
Property Type	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)
Category 1	$9,857	$2,098	21%	$7,046	$625	9%
Category 2	$597	$164	27%	$495	$158	32%
Category 3	$399	$155	39%	$268	$88	33%

Narrative Statement

Per DoD Financial Management Regulation 7000.14-R (December 2016), Volume 6B, Chapter 12; Para 120303, the Army's deferred maintenance estimates for FY 2020 and FY 2019 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. Deferred maintenance estimates are based on real property inventory, with no differentiation between non-capitalized or fully depreciated PP&E. 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 ISR 4th Quarter 2020 and 2019 or Q-ratings obtained by application of business rules described below. For FY 2020 and 2019, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x plant replacement value (PRV).

Q-ratings are determined by the Installation Status Report (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 or privatized. 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 of all ownership interests 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. A Disposal Completion Date is associated with the asset.
  4. A Disposal 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.
  3. A Disposal 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, 2020
(Amounts in thousands)

Major Categories	FY 2019 DM&R	FY 2020 OP-30/PB-45/ PB-61 Amounts	Adjustments	FY 2020 Totals
Aircraft	-	61,858	-	61,858
Automotive Equipment	-	16,024	-	16,024
Combat Vehicles	284,614	91,073	-	91,073
Construction Equipment	-	324	-	324
Electronics and Communications Systems	106,436	222,523	-	222,523
General Purpose Equipment	60,393	4,149	-	4,149
Missiles	25,286	76,526	-	76,526
Ordnance Weapons and Munitions	21,629	17,403	-	17,403
Other	9,155	62,915	-	62,915
Ships	-	4,734	-	4,734
Grand Total	**$ 507,513**	**$ 557,529**	**-**	**$ 557,529**

The OP-30 from the FY 2020 Budget of the U.S. Government 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 sub-activity 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, 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

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2020

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 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 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, 2020 and 2019

Amounts in thousands	Military Personnel	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,314,737	$ 13,222,945	$ 13,423,495	$ 4,908,471
Appropriations (discretionary and mandatory)	62,872,621	81,047,806	24,279,531	12,690,912
Spending Authority from offsetting collections (discretionary and mandatory)	1,259,156	8,711,483	1,773,113	17,433,868
Total Budgetary Resources	$ 68,446,514	$ 102,982,234	$ 39,476,139	$ 35,033,251
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$ 66,942,477	$ 92,898,738	$ 29,880,151	$ 29,440,228
Unobligated balance, end of year:				
Apportioned, unexpired accounts	130,059	5,549,415	8,743,438	5,083,452
Exempt from apportionment, unexpired accounts	-	36,562	-	-
Unapportioned, unexpired accounts	-	11,546	2,126	(6)
Unexpired unobligated balance, end of year	130,059	5,597,523	8,745,564	5,083,446
Expired unobligated balance, end of year	1,373,977	4,485,974	850,424	509,577
Unobligated balance, end of year (total)	1,504,036	10,083,497	9,595,988	5,593,023
Total Budgetary Resources	$ 68,446,513	$ 102,982,235	$ 39,476,139	$ 35,033,251
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)	61,983,094	74,447,691	24,731,009	13,266,445
Distributed offsetting receipts (-)	-	(92,767)	-	-
Agency Outlays, net (discretionary and mandatory)	$ 61,983,094	$ 74,354,924	$ 24,731,009	$ 13,266,445

Department of Defense – Department of the Army

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2020 and 2019

Amounts in thousands	Family Housing & Military Construction	2020 Combined	2019 Combined
Budgetary Resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 6,215,410	$ 42,085,058	$ 46,546,123
Appropriations (discretionary and mandatory)	2,027,386	182,918,256	179,571,348
Spending Authority from offsetting collections (discretionary and mandatory)	5,770,425	34,948,045	23,355,275
Total Budgetary Resources	$ 14,013,221	$ 259,951,359	$ 249,472,746
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	$ 8,487,949	$ 227,649,543	$ 217,202,293
Unobligated balance, end of year:			
Apportioned, unexpired accounts	5,258,669	24,765,033	23,853,220
Exempt from apportionment, unexpired accounts	-	36,562	25,583
Unapportioned, unexpired accounts	21,582	35,248	36,608
Unexpired unobligated balance, end of year	5,280,251	24,836,843	23,915,411
Expired unobligated balance, end of year	245,021	7,464,973	8,355,042
Unobligated balance, end of year (total)	5,525,272	32,301,816	32,270,453
Total Budgetary Resources	$ 14,013,221	$ 259,951,359	249,472,746
Outlays, net:			
Outlays, net (total) (discretionary and mandatory)	1,796,691	176,224,930	164,699,952
Distributed offsetting receipts (-)	-	(92,767)	288,236
Agency Outlays, net (discretionary and mandatory)	$ 1,796,691	$ 176,132,163	$ 164,988,188

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, and the U.S. generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board 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.

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

November 10, 2020

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditors' Report on the Department of the Army Working Capital Fund Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FI-0038.000, Report No. DODIG-2021-022)

We contracted with the independent public accounting firm of KPMG LLP (KPMG) to audit the Department of the Army (Army) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required KPMG to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the Army's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Updated April 2020. KPMG's Independent Auditors' Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army Working Capital Fund's Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army Working Capital Fund's FY 2020 and FY 2019 Financial Statements and related notes.

KPMG's report discusses 13 material weaknesses related to the Army's internal control over financial reporting.* Specifically, KPMG's report describes the following material weaknesses.

- The Army and its service providers did not develop and implement processes and controls to prepare complete and accurate populations for beginning balances on the consolidated financial statements.
- The Army did not design, document, and implement controls over inventory valuation; inventory existence and completeness; inventory held for repair and work in process; and inventory gains, losses, and other costs.
- The Army did not design, document, and implement controls to provide a complete population and accurate valuation of assets to be reported in the General Property, Plant, and Equipment account.
- The Army did not consistently design, document, and implement internal controls and processes to accurately estimate its environmental and disposal liabilities.
- The Army and its service providers did not properly design or consistently operate controls to verify that earned revenue, accounts receivable, collections, and unfilled customer order balances recorded in the financial statements were complete, accurate, valid, and supported by appropriate documentation.
- The Army and its service providers did not have sufficient supporting documentation readily available to demonstrate that the beginning balances, activity, and ending balances for Fund Balance With Treasury; accounts receivable; inventory; General Property, Plant, and Equipment; accounts payable; environmental and disposal liabilities; other liabilities; revenue; cost; budgetary activity; and other transactions were properly reported on the consolidated financial statements.
- The Army and its service providers did not fully implement sufficient and effective information technology controls to protect financial systems and

* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

related financial data, including access controls, segregation of duties, configuration management, security management, and job processing.

- The Army and its service providers did not properly design and implement controls over manual journal entries and other adjustments to ensure that adjustments to the general ledger were complete, accurate, valid, and approved.

- The Army did not fully develop, document, and implement accrual estimation methodologies to verify that the balances on the consolidated financial statements reflected accrual transactions. Specifically, the Army did not record all estimates or validate that existing estimation methodologies were reasonable.

- The Army and its service providers did not effectively design and implement internal controls over financial reporting to ensure information was fairly presented in accordance with Generally Accepted Accounting Principles and to prevent, or detect and correct, misstatements in the consolidated financial statements and note disclosures.

- The Army and its service provider did not develop, document, and implement internal controls that allowed the Army to reconcile its Fund Balance With Treasury balance from the general ledger systems to the U.S. Treasury.

- The Army did not implement a reconciliation process to validate that information was transferred completely and accurately between feeder systems and from feeder systems to the accounting system of record.

- The Army did not properly design and implement entity-level controls to establish a control system that allowed the Army to produce reliable financial reporting.

KPMG's report also discusses two instances of noncompliance with applicable laws and regulations. Specifically, KPMG's report describes instances in which the Army's financial management systems did not substantially comply with the Federal Financial Management Improvement Act and the Federal Managers' Financial Integrity Act.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed them with KPMG representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Army Working Capital Fund's FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 10, 2020, report and the conclusions expressed within the report.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

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

Attachment:
As stated

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary of the Army and
Inspector General of the Department of the Defense

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States (U.S.) Department of the Army (Army) Working Capital Fund (WCF), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin Number (No.) 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements. Also, Army WCF valued a significant portion of inventory using deemed cost as of October 1, 2018. However, deemed cost is not an acceptable valuation method for the opening balance of inventory until Army WCF makes an unreserved assertion that its inventory is presented fairly in accordance with U.S. generally accepted accounting principles.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these consolidated financial statements.

Emphasis of Matter

As discussed in Note 9 to the consolidated financial statements, Army WCF implemented the Office of the Under Secretary of Defense (Comptroller) change in accounting policy for assigning real property and changed its capitalization threshold for general equipment during the year ended September 30, 2020. Our disclaimer of opinion is not modified with respect to this matter.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Army's *Annual Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (MD&A) related to the Army WCF and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to such information in accordance with auditing standards generally accepted in the United States of America because of the lack of evidential matter. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged to audit the basic consolidated financial statements as a whole. The following information is presented in the Army's *Annual Financial Report* for purposes of additional analysis and is not a required part of the Army WCF's basic consolidated financial statements: Message from the Secretary of the Army; Message from the Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller); the Army General Fund Financial Section; and the Army General Fund information in the MD&A. Such information has not been subjected to the procedures applied in our engagement to audit the Army WCF's basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In connection with our engagement to audit the consolidated financial statements as of and for the year ended September 30, 2020, we considered the Army WCF's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army WCF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control 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 and correct, misstatements on a timely basis. 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 entity's financial statements will not be prevented, or detected and corrected, 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. We consider the deficiencies described in Exhibit I as items to be material weaknesses.

Compliance and Other Matters

In connection with our engagement to audit the Army WCF's consolidated financial statements as of and for the year ended September 30, 2020, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03, and which is described in Exhibit II.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit II, in which the Army WCF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Management's Responses to Findings

Management's responses to the findings identified in our engagement are described in a separate letter. Management's responses were not subjected to the procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Army WCF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 10, 2020

A. Beginning Year Balances

Management has undergone significant efforts to become auditable; however, management and its service providers did not develop and implement processes and controls to prepare complete and accurate populations for the beginning balances on the consolidated financial statements.

The above condition primarily resulted because management and its service providers did not maintain sufficient and appropriate detailed transactions and historical supporting documentation, monitor the design and operating effectiveness of the internal control system, and fully implement corrective actions to remediate the deficiencies.

The criteria are Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* and OMB No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Develop and implement processes and controls to prepare complete and accurate populations at the transaction-level for beginning balance sheet and statement of budgetary resource balances.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the beginning balance sheet and statement of budgetary resource balances.
- Monitor the design and operating effectiveness of the internal control system as part of the normal course of operations.
- Focus resources on implementing corrective actions.

B. Inventory

Management did not consistently design, document, and implement controls over inventory as follows:

Inventory Valuation

- Management valued a significant portion of inventory using deemed cost as of October 1, 2018; however, deemed cost is not an acceptable valuation method for the opening balance of inventory until management makes an unreserved assertion that its inventory was presented fairly in accordance with U.S. generally accepted accounting principles.
- Controls over inventory movement transactions were not effective to prevent errors in the calculation of moving average cost. Specifically, controls did not effectively prevent the incorrect use of movement transactions, such as receipts without a purchase order, batch transfers, and manual price adjustments; and management did not consistently operate controls to demonstrate that sufficient, appropriate supporting documentation for the valuation of inventory was properly maintained and readily available for inspection. In addition, management did not design and implement controls to consistently value at moving average cost its inventory held by certain contractors.
- Management did not sufficiently design controls to monitor moving average cost transactions and calculations to identify and resolve transactions that incorrectly impacted the moving average cost calculation, moving average costs that were inconsistent across plants, and moving average costs that fluctuated significantly during the year.
- Management did not fully design and implement policies and controls to identify, appropriately account for, and report excess, obsolete, and unserviceable inventory. Additionally, management did not fully establish policies and controls over its methodologies, assumptions, data, and reports used to identify excess, obsolete, and unserviceable inventory or consistently maintain documentation to support its analysis and controls. Management also did not consistently recognize excess inventory at net realizable value.

Inventory Existence and Completeness

- Management did not effectively design and implement reconciliations between the accounting system and warehouse management systems, resolve differences between such systems, document the reconciliations including how differences were resolved, and maintain reconciliation documentation. In addition, management did not consistently execute controls over inventory receipt and issuance transactions as receipt and issuance documentation did not consistently demonstrate the accuracy of relevant inventory attributes (identification number, condition, and description) in the warehouse management systems.
- Management did not effectively design and consistently implement inventory cycle count controls, including controls over inventory adjustments, across all warehouse locations. Controls did not sufficiently address the definition of items to be counted, support for not counting all inventory, frequency of counts, blind counts, resolving count differences, resolving differences between warehouse management and accounting systems, segregation of duties, monitoring count execution and results, and documentation demonstrating execution of all controls.
- Management did not effectively design and consistently operate controls to monitor open stock transport orders (i.e., inter-plant transfers) and adjust the inventory records for stock transport orders that are no longer valid. Additionally, management did not design and implement controls over criteria and reports used to monitor open stock transport orders.

- Management did not effectively design and implement controls to maintain accurate warehouse system information in the accounting system. In addition, management did not consistently document performance of monitoring controls over the accuracy of inventory ownership data to verify that inventory excludes inventory held for other entities.
- Management did not obtain assurance or establish compensating controls for the controls over Army WCF inventory held in Defense Logistics Agency warehouses, including controls related to data transmissions to the accounting system, inventory receipts, storage, stock readiness, issuances, shipment, and inventory counts.
- Management did not have a fully documented understanding of contractors' information, locations, processes, and controls over inventory held at all contractor sites. In addition, management did not effectively design and implement monitoring and reconciliation controls over inventory held at contractors as management's records did not always agree to the contractors' records, included non-Army owned items held at a contractor, and included inventory for contracts that had closed but the inventory no longer existed.

Inventory Held for Repair and Work In Process

- Management did not fully design, implement, and document controls over the appropriate accounting for inventory held for repair, including the calculation of estimated repair costs, and as well as the assumptions and underlying data used in the calculation.
- Management did not design and implement controls to monitor work in process projects to identify and adjust for completed projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value, expense repair costs in excess of serviceable value, and maintain data to support all projects. Additionally, management did not design and implement controls to properly account for and support project repair costs.

Inventory Gains, Losses, and Other Costs

- Management did not design and implement controls to monitor gains, losses, costs of goods sold, and other costs resulting from inventory transactions to determine that the transactions were appropriate, accurate, and recognized in the correct accounting period based on the underlying business event.

The above conditions primarily resulted because of the following:

- Management did not perform a complete risk assessment to identify financial statement risks and fully establish policies and controls to address such risks.
- Management did not prioritize and timely implement planned corrective actions.
- Management did not consistently assign sufficient resources to certain controls that have significant volumes of activity and communicate policies and assigned responsibilities.
- Management did not perform appropriate enforcement and monitoring of Army's and its service providers' controls to determine that transactions are properly recorded and supporting documentation is consistently maintained and readily available for inspection.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*

- Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 3: *Accounting for Inventory and Related Property*, and SFFAS 7: *Accounting for Revenue and Other Financing Sources*
- The Department of Defense's Financial Management Regulation (FMR) and DoD Manual 4140.01, Volume 11 DoD Supply Chain Management Procedures: *Inventory Accountability and Special Management and Handling*
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management:

- Complete risk assessments to identify financial statement risks and design, document, and implement policies and controls to verify that inventory, gains, losses, costs of goods sold and other costs are properly and timely recorded in the accounting system. In addition, assign sufficient resources to perform controls and communicate the policies and assigned responsibilities. Furthermore, enforce and monitor Army's and its service providers' controls to determine that transactions are properly recorded and supporting documentation is consistently maintained and readily available for inspection.
- Record deemed cost adjustments when management is ready to make an unreserved assertion and design and implement controls to consistently apply deemed cost adjustments.
- Design, document, implement, and monitor the effectiveness of controls over inventory movement transactions, including receipts without a purchase order, batch transfers, manual price adjustments, and controls over the valuation of inventory held by contractors. Consistently operate controls to demonstrate that sufficient, appropriate supporting documentation for the valuation of inventory is properly maintained and readily available for inspection.
- Design, document, and implement monitoring policies and controls over moving average cost transactions and calculations to identify and resolve transactions that incorrectly impact the moving average cost calculation, moving average costs that were inconsistent across plants and moving average costs that fluctuated significantly during the year.
- Design, document, and implement policies and controls over methodologies, assumptions, data, and reports used to identify and recognize excess, obsolete or unserviceable inventory at net realizable value.
- Complete the design and implementation of reconciliations between the accounting system and warehouse management systems to include resolving differences between such systems and maintaining reconciliation documentation. In addition, enforce proper and timely execution of controls over recording inventory receipt and issuance transactions in the warehouse management and accounting systems.
- Implement consistent cycle count policies and controls across all locations to address the definition of items to be counted, support for not counting all inventory, frequency of counts, blind counts, resolving count differences, resolving differences between warehouse management and accounting systems, segregation of duties, monitoring count execution and results, and documentation demonstrating execution of all controls.

- Design, document, and implement monitoring policies and controls over open stock transport orders (i.e., inter-plant transfers) to adjust the inventory records for stock transport orders that are no longer valid and over criteria and reports used to monitor open stock transport orders.
- Design and implement controls to maintain accurate warehouse system information in the accounting system and consistently document performance of monitoring controls over the accuracy of inventory ownership data.
- Monitor Army's service providers and design, document and implement compensating controls when service provider controls are not assessed or are ineffective.
- Document contractors' information, locations, processes, and controls over inventory held at all contractor sites. Design and implement monitoring and reconciliation controls over inventory held at contractors, including valuation of contractor-held inventory.
- Design, document, and implement controls over the appropriate accounting for inventory held for repair, including the calculation of estimated repair costs and the assumptions and underlying data used in the calculation.
- Design, document, and implement policies and controls to identify and adjust for completed work in process projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value, expense repair costs in excess of serviceable value, maintain data to support all projects, and appropriately account for and support repair costs.

C. General Property, Plant & Equipment

Management did not consistently design, document, and implement controls over general property, plant and equipment as follows:

- Management is in the process of developing a deemed cost methodology for valuation of opening property, plant and equipment balances; however, management did not complete all steps to make an unreserved assertion and did not provide sufficient appropriate supporting documentation for historical cost valuation.
- Management did not design and consistently implement controls to properly report ownership of real property in the financial statements and accurately adjust the real property assets' carrying value for ownership changes.
- Management did not consistently design and implement controls over record retention and key data elements (e.g., ownership, cost, operational status, useful life, and activation date) to verify that data elements were supported and were completely and accurately recorded into the property systems.
- Management did not effectively design and implement controls over the recording of disposals and impairments of general equipment and real property. In addition, management did not design its real property physical inventory processes to include performing procedures to verify that real property balances were complete.
- Management did not fully research and resolve reconciliation differences between the property system and the accounting system.
- Management did not effectively design and implement controls to record construction-in-progress project costs or to timely research and resolve costs accumulated in the construction-in-progress clearing accounts.

The above conditions primarily resulted because management did not identify all relevant financial reporting risks to enable management to establish controls and procedures to respond to the financial reporting risks and objectives. In addition, management did not consistently communicate the operational status or other triggering events affecting key data elements of property, plant and equipment. Management also did not fully develop and communicate record retention and property, plant and equipment policies and consistently monitor compliance with such policies. Furthermore, management did not assign sufficient resources to perform certain responsibilities.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment,* SFFAS 44: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use,* and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD FMR
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management:

- Complete all necessary steps to make an unreserved assertion for property, plant and equipment, and communicate and enforce policies and procedures to retain supporting documentation for property, plant, and equipment amounts.
- Design and implement controls to report ownership of real property assets reported in the financial statements and properly record ownership changes.
- Design and implement controls over record retention and key data elements to determine that property, plant and equipment financial information is completely and accurately recorded in the property systems.
- Design and implement controls to timely record disposals and impairments and include performing floor-to-book procedures to verify that real property balances are complete.
- Design and implement controls to research and resolve differences between the property system and the accounting system.
- Design, document, and implement controls to determine the appropriate accounting treatment of costs related to construction-in-progress projects and timely resolve costs accumulated in the construction-in-progress clearing accounts.
- Enhance record retention and property, plant and equipment policies, provide training to educate responsible personnel on such policies, and monitor compliance with such policies.

D. Environmental and Disposal Liabilities

Management did not consistently design, document, and implement controls and processes over environmental and disposal liabilities to:

- Identify changes to the listing of the real property assets with an associated estimated future environmental cleanup cost from the period the listing is prepared through year-end (roll-forward period), determine completeness of real property listing, identify and estimate future environmental disposal costs for general equipment, and perform reconciliations of populations to sources.
- Determine if event-driven liabilities (e.g., contamination released into the environment) at Army WCF installations should be transferred from Army General Fund.
- Determine that all obligated contracted costs are excluded from the costs to complete estimate used to determine the environmental and disposal liabilities and are included in the unliquidated obligation query to determine the costs that reduce the environmental and disposal liability.
- Determine that the assumptions and inputs are reasonable and in accordance with industry standards, the correct remediation effort is used, all necessary activities are included, cost and schedule estimates are reasonable and accurate, contingency is included to address uncertainty, the calculations are accurate, and the estimate is supported.
- Review each estimate, including assumptions and inputs, at a sufficient level of precision to identify misstatements in the estimate, confirm consistency with the guidance, and maintain documentation evidencing the review steps taken and completion of the review.
- Evidence review of the asset-driven estimate methodologies and guidance and support the rationale for the asset category codes that form the population of the assets with an environmental and disposal cost at the end of the assets' useful life.
- Determine the completeness of landfills as either event-driven or asset-driven (e.g., environmental closure at the end of an asset's useful life) liabilities.
- Review and approve quarterly input call received from the field used to determine the quarterly environmental and disposal liability reporting and useful life calculations for the asset driven liability estimates.
- Perform retrospective review to determine the reasonableness of the estimation methodologies, and the assumptions and data used in the methodologies.
- Review the manual compilation of the information and sources used to prepare the quarterly journal entries and maintain sufficient documentation to support the entries.

The above conditions primarily resulted because management did not perform a complete risk assessment to identify financial statement risks, fully establish policies and controls to address such risks, provide sufficient guidance and training to personnel, and timely implement planned corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Environment*
- FASAB SFFAS 5*: Accounting for Liabilities of The Federal Government,* SFFAS 6*: Accounting for Property, Plant, and Equipment,* SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards*

Board, Interpretation of Federal Financial Accounting Standards 9: *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities,* and Federal Financial Accounting Technical Release 18: *Implementation Guidance for Establishing Opening Balances*

- GAO's Cost Estimating and Assessment Guide
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management:

- Complete risk assessments to identify environmental and disposal liability risks and fully establish policies and controls to address such risks, provide sufficient guidance and training to personnel performing environmental and disposal liability responsibilities and timely implement planned corrective actions.
- Design and implement controls and processes to:
  - Identify changes in real property assets with an associated estimated future environmental cleanup cost from interim through year-end and determine completeness of real property listing.
  - Identify and estimate future environmental disposal costs for general equipment.
  - Perform reconciliations of the population to the source and retain evidence of the review.
  - Determine if event-driven liabilities should be transferred to Army General Fund.
  - Identify landfills as either event-driven or asset-driven liabilities.
  - Document review of the asset-driven estimate methodologies and guidance and support the rationale for the for the asset category codes that determine the assets with an environmental and disposal cost at the end of the assets' useful life.
  - Review and approve quarterly input call received from the field used to determine the quarterly environmental and disposal liability reporting and useful life calculations for the asset driven liability estimates.
  - Establish supporting documentation requirements and maintain documentation to be readily available for inspection.
- Perform a review of the asset-driven estimates to determine the assumptions and inputs are reasonable and in accordance with industry standards, the correct remediation effort is used, all necessary activities are included, cost and schedule estimates are reasonable and accurate, contingency is included to address uncertainty, the calculations are accurate, and the estimate is supported.
- Design and implement controls to review each estimate, including assumptions and inputs, at a sufficient level of precision to identify misstatements in the estimate, confirm consistency with the guidance, and maintain documentation evidencing the review steps taken and completion of the review.

- Perform retrospective review to determine the reasonableness of the estimation methodologies, and the assumptions and data used in the methodologies.
- Perform an analysis and implement controls to determine if contingency assumptions are valid and in accordance with industry standards.
- Design and implement controls and processes to determine that all obligations incurred to reduce the environmental contamination that are excluded from the estimated future environmental cleanup liability are included in the system query, and to review the manual compilation of the information and sources used to prepare the quarterly journal entries and maintain sufficient documentation to support the entries.

E. Revenue

Management and its service providers did not properly design or consistently operate controls to verify that earned revenue, accounts receivable, collections, and unfilled customer order balances recorded in the financial statements are complete, accurate, valid, and supported by appropriate documentation as follows:

- Management did not have appropriate policies and controls over the inputs used in the revenue recognition formula. Policies and controls either did not exist or were inconsistently operated to verify that labor rates, labor hours, material price, material quantity, planned costs, cost recovery rates, and other costs used to determine revenue were complete and accurate.
- Management and its service providers did not effectively operate controls to verify that revenue, accounts receivable, collections, and unfilled customer order supporting documentation, such as funded amount and actual cost (e.g., support for quantity shipped, material price, labor rates and other costs used to determine revenue) documentation, were consistently maintained and readily available for inspection.
- Management did not develop, document, and implement processes and controls to properly record and present in the financial statements a revenue allowance for potential returns, allowances, price redeterminations, or other reasons in accordance with the accounting standards.
- Management and its service providers did not consistently develop, document, implement, and operate controls to determine that unfilled customer order, collection, supply turn-in, and revenue transactions were recorded in the proper account, in the proper accounting period, or at the correct amount. In addition, management did not implement a process and controls to consistently adjust customer orders for price changes, communicate the related order changes to customers, and retain documentation for such communication.
- Management did not fully design and operate controls to timely identify and adjust aged, closed, and invalid unfilled customer order and account receivable balances. Furthermore, management did not adhere to Army's internal policies and procedures for performing the controls.
- Management did not properly design and implement the accounting system posting logic controls for revenue transactions related to customer orders with an advance, price updates for unfilled customer orders, and certain credit memos. In addition, management did not properly design and document the unfilled customer order, revenue, and accounts receivable reconciliations between financial systems to determine that transactions are complete and accurate.

The above conditions primarily resulted because of the following:

- Management did not perform a complete risk assessment over revenue, accounts receivable, collections, and unfilled customer order process areas to identify financial statement risks and fully establish policies and controls to address such risks.
- Management and its service providers did not properly design and document Army's accounting policies, procedures, controls, and posting logic to respond to Army's financial reporting risk and objectives.
- Management and its service providers did not perform appropriate enforcement and monitoring of Army's and its service providers' controls over revenue, accounts receivable, collections, and unfilled customer orders to verify that the balances are complete, accurate, valid, and supported by appropriate supporting documentation that is readily available for inspection.

- Management and its service providers did not timely implement planned corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB *SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular A-11: *Preparation, Submission and Execution of the Budget*
- Treasury Financial Manual
- DoD FMR

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Design, document, and implement policies and controls to address financial reporting risks and verify that labor rates, labor hours, material price, material quantity, planned costs, cost recovery rates and other costs used to determine revenue are consistently approved and accurately and timely recorded in the accounting system.
- Perform appropriate enforcement and monitoring of controls to verify that transactions are properly recorded and that revenue, accounts receivable, collections and unfilled customer orders supporting documentation is consistently maintained and readily available for inspection.
- Develop, document, and implement policies and controls to address risk points relevant to meet the financial reporting requirements and properly record and present, in the financial statements, a provision to be recorded and used for returns, allowances, price redeterminations, or other reasons.
- Develop, document, implement, and consistently operate cut-off procedures and controls to verify that unfilled customer orders and revenue transactions are recorded in the correct accounting period, at the correct amount, and adjusted for price changes that cross fiscal years.
- Work with the Office of the Under Secretary of Defense (Comptroller) to implement guidance regarding appropriate proprietary and budgetary accounting for supply turn-in transactions based on OMB guidance; and develop, document and implement policies and posting logic controls to be consistent with OMB guidance and accounting standards.
- Enhance the controls policies and timeline to timely record adjustments to accounts receivable and unfilled customer orders for inclusion in the year-end financial statements; and perform enforcement and monitoring to verify compliance with the controls policies and controls.
- Design and implement the accounting system posting logic controls for transactions related to customer orders with advance, customer orders with price updates, and credit memos to be consistent with the accounting standards and U.S. Standard General Ledger.
- Enhance the design and document the unfilled customer order, revenue, collections, and accounts receivable reconciliations between financial systems to verify that transactions are complete and accurate.

F. Evidential Matter

Management and its service providers did not always have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for fund balance with treasury, accounts receivable, inventory, general property, plant and equipment, accounts payable, environmental and disposal liabilities, other liabilities, revenue, cost, budgetary, and other transactions were properly reported on the consolidated financial statements. Management and its service providers did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the request or transactions recorded in the general ledger used to prepare the consolidated financial statements, and (c) was inappropriately reviewed and approved or the review and approval was not documented by management.

Management and its service providers relied on information produced by the financial and feeder systems to support certain transactions and balances on the consolidated financial statements; however, management and its service providers did not have effective information technology controls over such systems (discussed further in Condition G - Information Technology Controls), and therefore, did not provide reliable evidential matter.

The above conditions primarily resulted because of the following:

- Management and its service providers did not fully perform a risk assessment and did not demonstrate a full understanding of its processes, policies, and procedures over record retention.
- Management and its service providers did not assign resources to timely locate and provide supporting documentation.
- Management and its service providers did not design and implement business processes and controls and monitor performance of such controls to maintain evidential matter and evidence of supervisory review.
- Management and its service providers did not implement corrective actions timely.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular Number A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD FMR

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur or records in the general ledger may not represent complete, accurate, or valid transactions, potentially leading to a material misstatement in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Perform and document a thorough risk assessment, and work with its service providers to design, document, and implement procedures and controls to maintain evidential matter.

- Assign the necessary resources to locate and provide evidential matter in a timely manner.
- Update policies and procedures to define the key evidential matter that is required to support financial statement amounts and performance of controls, require evidential matter to agree with the general ledger detail, and have evidential matter readily available for inspection.
- Focus resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, and contingency planning controls.

G. Information Technology Controls

Management and its service providers continued to make progress in addressing prior year Information Technology (IT) deficiencies within their systems. However, management and its service providers did not fully implement sufficient and effective IT controls to protect the financial systems and related financial data. In addition, management did not implement compensating controls to address its service providers IT controls that were not effectively designed, implemented, or operated. The conditions could affect management's and the service providers' ability to provide timely financial data that is complete, valid, and accurate. Our specific findings are summarized as follows:

- **Access Controls**. Management and its service providers did not consistently design and implement operating system, database, and application level access controls around the authorization, provisioning, monitoring, recertifying, and deactivation of end users, privileged users, temporarily elevated access, and certain administration user profiles. Management and its service providers did not consistently conduct and document periodic reviews of user accounts on at least an annual basis, to include removal of access for terminated or transferred employees and contractors, and to determine the need for continued and appropriate access based on job responsibilities, least privilege security principles, and user inactivity. In addition, management and its service providers did not consistently design, document, and implement operating system, database, and application audit logging controls, including the identification, tracking, evaluation, and response procedures for identified discrepancies. Further, management and its service providers did not consistently implement a periodic review of application, database, and operating system users' accounts.
- **Segregation of Duties**. Management and its service providers did not consistently design policies and controls to identify, define, evaluate, restrict, and document duties and privileges that should be segregated. In addition, management and its service providers did not consistently segregate duties and restrict access to the financial systems by following established segregation of duties risk rule sets that were based on least privilege considerations. Furthermore, management and its service providers did not consistently monitor segregation of duties and the use of incompatible access privileges that preclude system developers from updating production environments.
- **Configuration Management**. Management and its service providers did not fully document and implement operating system, database, and application configuration change management policies and controls, to include timely installation of critical patch updates and proper configuration of production settings to prevent unauthorized changes from being made in the production environment. In addition, management and its service providers did not consistently maintain evidence to support the identification, tracking, testing, review, or approval of operating system, database, and application changes and patches before migration into the production environment.
- **Security Management**. Management and its service providers did not consistently design and implement formal vulnerability management and assessment programs controls for the operating system, database, and application layers. In addition, management and its service providers did not consistently track all known vulnerabilities and associated remediation activities. Management and its service providers also did not perform periodic monitoring of password security and configuration settings at the application, operating system, and database layers.
- **Job Processing**. Management did not fully document processes and controls over monitoring the transferring of data between certain feeder systems.

The above conditions primarily resulted because management and its service providers did not fully identify and address risks, develop and implement policies and controls, assign sufficient resources to certain responsibilities, provide sufficient oversight and monitoring of the control environment, and timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53: *Security and Privacy Controls for Federal Information Systems and Organizations*, *Revision 4 and 5* and NIST 800-92: *Guide to Computer Security Log Management*
- DoD policies and guidance
- Army policies and guidance
- Defense Information Systems Agency (DISA) policies and guidance

As a result, the weaknesses posed increased risks to the completeness, accuracy, validity, confidentiality, and availability of the systems and their financial data.

Recommendations:

We recommend that management strengthen its IT controls for the operating system, database, and application layers of its system environments as follows:

- Identify risk, and implement policies and controls to address the risks to protect the accuracy, integrity, validity, confidentiality, and availability of the systems and financial data.
- Prioritize corrective actions to design, document, implement and effectively operate policies and controls for access, segregation of duties, configuration management, and security management at the operating, database, and application layers.
- Assign sufficient resources to implement the corrective actions, and perform and document the IT controls.
- Provide oversight and monitor the IT control environment.
- Direct its service providers to strengthen controls of service provider IT control environment or implement compensating controls at Army.

H. General Ledger Adjustments

Management and its service providers continued to make progress in implementing processes and controls over manual journal entries; however, management needs to continue improving controls over manual journal entries and other adjustments to the general ledger as follows:

- Management and its service provider did not fully develop, design, and implement controls to define criteria to identify all manual journal entries, demonstrate that all manual journal entries are covered by journal entry or accounting process controls, generate a complete journal entry log from the accounting system, demonstrate that all needed manual journal entries were entered into the accounting system, and review the month-end journal entry checklist.
- Management and its service provider did not properly design and implement controls over certain accounting and reporting processes to properly support manual and automated journal entries recorded in the accounting and financial reporting systems.
- Management and its service providers did not consistently research and investigate the root cause of variances that management recorded to resolve differences between the Department of the Treasury's records and Army's records, budgetary to proprietary relationship imbalances, and financial statement tie-point account relationship differences.
- Management did not fully develop, design, and implement appropriate segregation of duties controls within the accounting system as it was not configured to require a separate preparer and reviewer for each manual journal entry processed in the accounting system.

The above conditions primarily resulted because of the following:

- Management and its service provider have not completed, but are in the process of implementing corrective action plans to reduce the total number and dollar value of journal entries recorded in the accounting and financial reporting systems, research and resolve the root cause of the variances that are adjusted with a journal entry, research and resolve aged balances, correct posting logic and other system configurations, and monitor recording of recurring journal entries.
- Management and its service provider did not fully complete risk assessment procedures to identify and respond to journal entry risks.
- Management and its service provider did not timely implement an automated workflow approval process within the accounting system, and a control to compare journal entries posted from the accounting system to a list of standard manual journal entries.
- Management and its service providers did not have the documentation readily available, and did not have policies requiring and defining key supporting documentation for certain journal entries.

The criteria is GAO *Standards for Internal Control in the Federal Government*.

As a result of the deficiencies noted above, the potential exists that unapproved, inaccurate, invalid, duplicate, or incomplete manual journal entries are executed in the accounting and financial reporting systems, potentially causing a material misstatement in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Perform a complete risk assessment and respond to risks to include developing, documenting, and implementing policies and controls to define criteria to identify all manual journal entries, demonstrate that all manual journal entries are covered by journal entry or accounting process controls, generate a complete journal entry log, review prior month's journal entry activity, demonstrate that all needed manual journal entries were entered into the accounting system, determine that the reversing entries are completely and accurate recorded, and review the month-end journal entry checklist.
- Design and implement controls to properly review and support manual and automated journal entries recorded in the accounting and financial reporting systems, maintain such documentation so it is readily available for review, and monitor such controls.
- Complete the process of implementing corrective action plans to reduce the total number and dollar value of journal entries recorded in the accounting and financial reporting systems, research and resolve the root cause of the variances that are adjusted with a journal entry, research and resolve aged balances, correct posting logic and other system configurations, and monitor recording of recurring journal entries.
- Consistently maintain and operate controls established to require segregation of preparer and reviewer duties in the accounting system.

I. Accruals

Management did not fully develop, document, and implement accrual estimation methodologies to verify that the balances on the consolidated financial statements reflect accrual transactions. Specifically, management did not record all estimates or validate that existing estimation methodologies are reasonable as follows:

- **Goods and services.** Management did not fully design and implement controls to identify and record accruals for certain goods or services as of year-end and appropriately classify accruals as intragovernmental versus the public. Additionally, management did not fully design and implement controls to determine data elements, such as period of performance and amount, used in the accrual methodology were properly recorded. Management did not perform a look-back analysis to determine that the methodology and assumptions provide a reasonable estimate. Finally, management did not fully design and implement controls to determine that goods and service transactions were valid and recorded in the proper period.
- **Civilian payroll.** Management did not design and implement the quarterly reconciliation process to account for accrued leave through the end of the accounting period. In addition, management did not effectively implement a look-back analysis of its labor accrual to assess the accuracy of the payroll accrual amount at year end, or provide leave liability reports to support the accrued leave liability balance at year end. Furthermore, management did not design and implement policies and controls over the methodology and assumptions used to determine and account for liabilities and related costs for employee compensation lost due to job-related injuries.

The above conditions primarily resulted because management did not timely implement planned corrective actions and did not fully understand the level of precision of the controls needed for accruals to be properly identified and recorded.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Environment*
- FASAB SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- DoD FMR
- FFMIA
- Public Law, Title 5, United States Code, Section, 8147: *Employees' Compensation Fund*

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management:

- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record accruals, properly classify accruals as intragovernmental versus the public, determine data elements used in the methodologies are accurately recorded, and implement corrective actions timely.

- Perform a look-back analysis to determine that the methodologies and assumptions are valid, complete, and accurate.
- Evaluate and update posting logic configuration to properly record the accruals as either “accounts payable – intragovernmental” or “accounts payable – non-federal transactions”, as appropriate.
- Design and implement the quarterly reconciliation process to account for accrued leave through the end of the accounting period, and monitor execution of the reconciliation.

J. Financial Reporting

Management and its service providers did not effectively design and implement controls over financial reporting related to the following:

- Management and its service providers did not consistently perform management review controls over the financial reporting process as management did not fully reconcile and support the reconciliation of net costs of operations to net outlays or accurately prepare contingent liability data reports used to prepare the financial statements and note disclosures. Furthermore, management did not include all of the required disclosures for deferred maintenance, repairs for general equipment, and heritage assets.
- Management did not configure certain financial systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not design and implement controls to analyze all financial processes to determine that transactions were recorded consistent with USSGL requirements and accounting standards, or document the analysis completed.
- Management and its service providers did not effectively design and implement controls for intragovernmental transactions as they did not record the trading partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. In addition, management did not effectively reconcile with their trading partners, and support adjustments made to reconcile with trading partners.
- Management did not fully design and operate the joint reconciliation program review to timely identify and adjust aged, closed, and invalid undelivered order, unfilled customer order, accounts receivable, and accounts payable balances. Furthermore, management did not adhere to Army's internal policies and procedures for performing the joint reconciliation program.
- Management did not effectively implement its policies and controls to properly record and support new obligation, upward or downward adjustment, cost, contract financing payment, and accounts payable transactions.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process to understand and document all financial reporting risks, and fully establish policies and controls to verify that the financial statements and note disclosures are properly prepared.
- Management did not implement planned corrective actions timely.
- The financial systems and processes were not designed to capture all relevant data elements at the detailed transaction level for identifying trading partner activity, and management did not assign sufficient resources to timely research all trading partner differences.
- Management did not assign sufficient resources to perform control responsibilities, provide sufficient guidance and training to personnel, and consistently monitor and enforce performance of control responsibilities.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS No. 1: *Accounting for Selected Assets and Liabilities*, SFFAS 3: *Accounting for Inventory and Related Property*, SFFAS No. 5: *Accounting for Liabilities of the Federal Government*, SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, SFFAS 29: *Heritage Assets and Stewardship Land,* and SFFAS 53: *Budget and Accrual Reconciliation*
- OMB Circular Number A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, Circular Number A-136: *Financial Reporting Requirements*, and OMB Circular A-11: *Preparation, Submission and Execution of the Budget*
- Treasury Financial Manual
- DoD FMR
- FFMIA
- U.S.C. Title 31, Subtitle II, Chapter 15, Subchapter I, Section 1501: *Documentary evidence requirement for Government obligations*
- Army policies and guidance
- DoD policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements and note disclosures.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Complete risk assessments to identify financial statement risks and design, document, and implement policies and controls to verify that the financial statements and note disclosures are properly prepared and supported, including the reconciliation of net costs of operations to net outlays, contingent liability data reports, deferred maintenance, and heritage asset disclosures.
- Design and implement controls to determine that the posting logic library is complete and accurate, review system posting models to verify they are consistent with the USSGL guidance and the accounting standards, resolve any non-compliant posting models, and maintain documentation evidencing completion of such controls.
- Configure the accounting system to require individual transactions to include the trading partner information to enable management and its service provider to report, reconcile, and eliminate intragovernmental balances. In addition, complete a risk assessment process and develop, document, and implement policies and controls over the trading partner reconciliations and adjustments.
- Enhance the joint reconciliation program policies and timeline to timely record adjustments to undelivered order, unfilled customer order, accounts receivable, and accounts payable balances for inclusion in the year-end financial statements.

- Develop, implement, and monitor controls over properly recording and supporting new obligation, upward or downward adjustment, cost, contract financing payments, and accounts payable transactions.
- Assign sufficient resources to perform financial reporting controls, provide guidance and training to personnel, and consistently monitor and enforce performance of control responsibilities.

K. Fund Balance with Treasury (FBwT)

Management and its service provider continued to make progress in implementing processes and controls over FBwT; however, management needs to continue improving controls over FBwT as follows:

- Management and its service provider did not sufficiently document controls performed over the reliability of data used for the FBwT reconciliations. Additionally, management and its service provider did not fully research disbursement and collection reconciling differences, and consistently resolve such differences by management's required due dates.
- Management and its service provider did not provide sufficient supporting documentation for certain disbursement and collection transactions, and timely reconcile unsupported journal entries recorded prior to availability of transaction-level data so that Army's general ledger equals the balance reported by the Department of the Treasury. In addition, management did not design and implement controls for intragovernmental and nonfederal trading partner amounts in FBwT journal entries.
- Management and its service provider did not fully reconcile the suspense amounts in certain clearing accounts, and had Army suspense transactions co-mingled with other Department of Defense organizations. In addition, management and its service provider did not effectively design and implement controls to complete a suspense analysis to identify, quantify, and determine the financial statement impact of suspense transactions for year-end financial reporting.

The above conditions primarily resulted because management and its service provider process a large volume of FBwT transactions through various financial systems and did not identify all of the relevant risks; design and implement policies, procedures, and controls to address such risks; monitor performance of controls; and timely implement all planned corrective actions over the FBwT reconciliation process.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*
- OMB Circular A-11: *Preparation*, *Submission and Execution of the Budget*
- Treasury Financial Manual
- DoD FMR
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Document controls performed over the reliability of data used for the FBwT reconciliations, and maintain such documentation so that it is readily available for inspection.
- Dedicate the necessary resources to timely research and resolve FBwT reconciliation differences, and enhance accounting policies and controls to minimize the number of reconciliation differences.

- Design, implement, and monitor controls to determine that supporting documentation for collections and disbursements is consistently maintained and readily available for inspection, support adjustments to balance Army's records to Department of the Treasury records, and support intragovernmental and nonfederal trading partner amounts in FBwT journal entries.
- Design and implement policies and controls to timely monitor and resolve suspense and clearing account transactions, work with Army General Fund and other defense organizations to research and resolve the commingled suspense amounts, and accelerate analysis of the suspense transactions for year-end financial reporting.

L. Completeness

Management continued to make progress in implementing processes and controls to validate that financial transactions are completely and accurately reported in the consolidated financial statements; however, management needs to improve the processes and controls as follows:

- Management did not fully implement reconciliation processes to validate that information is transferred completely and accurately between feeder systems, and from feeder systems to the accounting system.
- Management did not research and resolve system reconciliation differences in a timely manner, and retain sufficient reconciliation documentation.

The above conditions primarily resulted because management and its service provider did not perform a risk assessment process for certain reconciliations, and did not fully establish and monitor the execution of policies and procedures over certain feeder system reconciliations. Additionally, management did not assign the necessary resources to perform all reconciliations, and did not fully implement planned corrective actions over systems reconciliations.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- DoD FMR
- Army policies and guidance
- DoD policies and guidance

Without adequate controls over the entry of information at the point of initiation and the reconciliation of information between systems, the risk exists that the consolidated financial statements are potentially incomplete or inaccurate.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Document a risk assessment for all reconciliations, enhance system reconciliation policies and procedures and implement system reconciliation controls, including controls over data used in the reconciliation to respond to the identified risks.
- Assign the necessary resources to perform all system reconciliations, and implement corrective action plans to reconcile transactional data between systems.
- Design a process to monitor and enforce the timely completion of system reconciliations, resolution of errors or differences, and maintaining supporting documentation so it is readily available for inspection.

M. Entity Level Controls

Management did not properly design and implement entity level controls, including the control activities described in previous sections of Exhibit I, to establish a control system that will produce reliable financial reporting. Specifically:

Control Environment. Management did not fully design and implement an effective control environment. For example, management did not:

- Consistently develop policies to establish and implement controls across its control environment, and did not develop and maintain sufficient documentation of the control system.
- Consistently assign appropriate personnel to achieve the entity's financial reporting objectives; demonstrate management evaluated performance, hold individuals accountable for their control responsibilities, and establish succession and contingency plans for key financial roles.
- Identify, design, and implement test plans for monitoring control activities related to entity level controls.
- Effectively design and implement monitoring and enforcement controls over the completion and retention of documentation for financial disclosure program, ethics training, Financial Management certifications, and continuing education requirements.

Risk Assessment. Management did not fully design and implement a risk assessment process. For example, management did not:

- Define measurable risk tolerance for each objective in the risk profile for reporting organizations, or define risk objectives and tolerances for certain financial process areas.
- Complete the development of its risk assessment process, including consideration of risks associated with prior year findings and identifying and responding to changes to support designing an effective control system.

Information and Communication. Management did not fully design and implement its information and communication processes. For example, management did not:

- Fully design and implement controls over the completeness and accuracy of financial data and supporting documentation.
- Effectively obtain and communicate quality information down and across internal and external reporting lines.

Monitoring. Management continued its progress in implementation of its process for monitoring and evaluating controls, and identifying and remediating control deficiencies in certain areas identified in prior financial statement audits; however, management did not:

- Include evaluating service organizations controls as a part of the OMB Circular Number A-123 Internal Control Assessment. In addition, management did not identify and evaluate all key service provider controls and Army controls to address the complimentary user entity controls noted by the service organizations. Additionally, management did not determine that the service organization examinations did not cover all key controls, the description of controls was insufficient, and testing results did not include information to determine certain controls were sufficiently tested. Finally, management did not implement controls to address control deficiencies at service organizations or perform assessments for service organizations that did not have an examination.

- Effectively monitor and evaluate entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

The above conditions primarily resulted because management did not identify all relevant risk points and consistently perform risk assessment procedures for various processes, disseminate quality information on a timely basis across the entity, design a proper control environment to respond to risks, and consistently monitor the control environment.

The criteria is GAO *Standards for Internal Control in the Federal Government*.

Without the proper level of entity-wide controls in place and operating effectively, the risk exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have control deficiencies over financial reporting.

Recommendations:

We recommend that management:

- Continue to develop and implement control procedures across its control environment, including maintenance of documentation readily available to support the control system.
- Prepare and implement a control catalog and test plans that documents and tests entity and process level controls that respond to financial statement risks.
- Assign appropriate resources to control responsibilities, provide training to personnel, complete and document performance evaluations, hold individuals accountable for their control responsibilities, and develop succession and contingency plans for key financial roles.
- Implement uniform tracking and monitoring process for the financial disclosure program, ethics training, Financial Management certifications, and continuing education requirements, and maintain documentation of such so that it is readily available for inspection.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas.
- Develop, document, and implement controls over the completeness and accuracy of financial data and supporting documentation.
- Communicate policies, procedures, and quality information across the entity.
- Evaluate service organization controls as a part of the OMB Circular Number A-123 Internal Control Assessment, obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports, and implement controls to address control deficiencies at service organizations.

- Continue efforts to develop and complete the control evaluation program covering the entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Continue efforts to develop and implement corrective action plans related to control deficiencies.

Exhibit II – Compliance and Other Matters

A. Federal Financial Management Improvement Act of 1996 (FFMIA)

The United States (U.S.) Department of the Army's (Army) Working Capital Fund (WCF) financial systems did not substantially comply with the following FFMIA requirements:

- **Federal Financial Management Systems Requirements.** As discussed in Exhibit I – Material Weaknesses – G. Information Technology Controls, management did not implement sufficient and effective information technology controls to protect the financial accounting, reporting, and feeder systems data. As a result, Army WCF did not substantially comply with the federal financial management systems requirements.
- **Federal Accounting Standards.** As discussed in Exhibit I – Material Weaknesses, the Army WCF's controls were not properly designed, implemented, and operating effectively, which affected the management's ability to prepare the consolidated financial statements, and support the amounts reported on the consolidated financial statements in accordance with the federal accounting standards. As a result, the Army WCF did not substantially comply with the federal accounting standards requirements.
- **U.S. Standard General Ledger.** Management did not configure certain financial systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not fully analyze all financial processes to determine transactions are recorded consistent with USSGL requirements or document the analysis completed.

The Army WCF did not substantially meet FFMIA requirements because of the reasons discussed in Exhibit I – Material Weaknesses, and did not fully perform a risk assessment and remediate deficiencies identified in previous years. In addition, management had not completed its analysis to demonstrate that the accounting system posting logic is consistent with the USSGL.

The criteria are as follows:

- FFMIA
- OMB Circular Number A-123, Appendix A: *Management of Reporting and Data Integrity Risk* and Appendix D: *Compliance with the Federal Financial Management Improvement Act*
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*
- Army policies and procedures

As a result of the deficiencies noted above, the financial systems did not substantially comply with FFMIA, and the risk exists that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations:

We recommend that management:

- Perform a complete risk assessment and implement the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial system and federal accounting standard requirements.
- Complete and document an analysis of all financial processes to determine transactions are recorded consistent with USSGL guidance

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B. Federal Managers' Financial Integrity Act (FMFIA)

Management performed a control assessment as required under the FMFIA; however, management's assessment did not substantially comply with FMFIA and the related OMB Circular Number A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB A-123), requirements as follows:

- Management did not fully design and implement a framework and process to comply with the requirements, including the requirements to develop and execute a data quality plan that includes evaluation of the effectiveness of entity level controls. In addition, management did not document their defined scope and materiality of the significant financial reports and the key processes supporting material line items on the significant financial reports.
- The internal control evaluation program did not consistently document assigned resources for the program, financial statement risks and assertions covered, testing procedures performed, extent of sampling performed, testing results, corrective action plans to respond to deficiencies identified, and evidence of management review of the program. Additionally, management did not plan for and test information technology controls as part of the internal control evaluation program.

The above conditions resulted because management did not perform sufficient risk assessment and prioritize implementation of all FMFIA and OMB A-123 requirements when designing their evaluation over internal controls. In addition, management did not provide detailed guidance and training to individuals performing the internal control evaluation, hold such individuals accountable for effectively performing and documenting the internal control evaluation, and timely remediate deficiencies identified in previous years.

The criteria are as follows:

- FMFIA
- GAO *Standards for Internal Control in the Federal Government*
- OMB A-123

The Army WCF did not substantially comply with FMFIA and the related OMB A-123 requirements, which may lead to not identifying the appropriate risks and key controls, and not detecting control or compliance deficiencies. The risk of not detecting and correcting deficiencies could cause material misstatements to the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Implement an enterprise risk management approach over the evaluation of internal controls, as defined by OMB A-123.
- Develop and execute a data quality plan that includes evaluation of the effectiveness of entity level controls, as required by OMB A-123.
- Document the defined scope to include the significant financial reports and the key processes supporting material line items on the significant financial reports.

- Expand and communicate policies on documenting financial statement risks and assertions, testing procedures, sampling, testing results, corrective action plans, and management review of the internal control evaluation program.
- Assign resources to complete the internal control evaluation program, provide training to such individuals, and hold such individuals responsible for effectively performing and documenting the internal control evaluation.
- Perform and document the internal control evaluation program to include the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FOI

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2020 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the draft audit report. We concur with the findings described in the report and have ongoing corrective actions being implemented to remediate the material weaknesses and instances of non-compliance.

2. The Army will continue to collaborate internally and externally with all stakeholders to implement the systems, processes, and internal controls necessary to achieve accurate financial statements prepared in accordance with generally accepted accounting principles. This will not only result in an unmodified audit opinion, but more importantly, will improve the quality and timeliness of the data used to efficiently and effectively manage the Department's resources.

3. Our strategy is to establish an auditable balance sheet first and then build off that success with the other financial statements. We have prioritized and focused our remediation efforts on the following areas: Information Technology controls, Fund Balance with Treasury, Inventory, Real Property, General Equipment, Accruals, and Environmental Liabilities. We are committed to resolving our material weaknesses, improving all aspects of operations and financial management, and being champions of fiscal stewardship for the resources provided to us by the Congress and the American taxpayer.

Wesley C. Miller
Deputy Assistant Secretary of the Army
(Financial Operations and Information)

Department of Defense – Army Working Capital Fund

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2020 and 2019

(Amounts in Thousands)	2020 Consolidated	Restated 2019 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,302,046	$ 1,894,594
Accounts Receivable, Net (Note 6)	241,270	210,940
Total Intragovernmental Assets	1,543,316	2,105,534
Cash and Other Monetary Assets (Note 4)	20,312	10,811
Accounts Receivable, Net (Note 6)	13,042	19,704
Inventory and Related Property, Net (Note 8)	19,768,995	17,801,203
General Property, Plant and Equipment, Net (Note 9)	2,281,176	1,389,529
Other Assets (Note 10)	135,277	109,344
TOTAL ASSETS	$ 23,762,118	$ 21,436,125
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable	148,776	37,955
Other Liabilities (Note 15 & 17)	54,950	163,443
Total Intragovernmental Liabilities	203,726	201,398
Accounts Payable	286,916	342,929
Military Retirement and Other Federal Employment Benefits (Note 13)	178,521	254,670
Environmental and Disposal Liabilities (Note 14)	501,729	291,098
Other Liabilities (Note 15 & 17)	340,052	372,479
TOTAL LIABILITIES	$ 1,510,944	$ 1,462,574
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET POSITION		
Unexpended Appropriations – Other Funds	$ 143,626	$ 140,421
Cumulative Results of Operations – Other Funds	22,107,548	19,833,130
TOTAL NET POSITION	$ 22,251,174	$ 19,973,551
TOTAL LIABILITIES AND NET POSITION	$ 23,762,118	$ 21,436,125

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

Department of Defense – Army Working Capital Fund

CONSOLIDATED STATEMENTS OF NET COST (UNAUDITED)

For the Years Ended September 30, 2020 and 2019

(Amounts in Thousands)	2020 Consolidated	2019 Consolidated
Program Costs		
Gross Costs	$ 16,030,126	$ 19,511,277
Operations, Readiness & Support	16,030,126	19,511,277
(Less: Earned Revenue)	(16,362,501)	(16,844,994)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(332,375)	2,666,283
Net Program Costs Including Assumption Changes	$ (332,375)	$ 2,666,283
Net Cost of Operations (Note 19)	$ (332,375)	$ 2,666,283

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

Department of Defense – Army Working Capital Fund

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (UNAUDITED)

For the Years Ended September 30, 2020 and 2019

(Amounts in Thousands)	2020 Consolidated	Restated 2019 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 140,421	$ 128,378
Budgetary Financing Sources:		
Appropriations transferred-in/out	839,802	264,365
Appropriations used	(836,597)	(252,322)
Total Budgetary Financing Sources	3,205	12,043
Total Unexpended Appropriations	143,626	140,421
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	19,833,130	22,260,534
Prior Period Adjustment (Note 20)		
Changes in Accounting Principles (+/-)	(22,110)	
Correction of Errors (+/-)		(25,367)
Beginning Balance, as adjusted	19,811,020	22,235,167
Budgetary Financing Sources:		
Appropriations used	836,597	252,322
Nonexchange revenue	2	(1)
Transfers-in/out without reimbursement (+/-)	-	(50,000)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	949,649	(53,538)
Imputed financing from costs absorbed by others	147,292	167,688
Other (+/-) (Note 20)	30,613	(52,225)
Total Financing Sources	1,964,153	264,246
Net Cost of Operations (+/-)	(332,375)	2,666,283
Net Change	2,296,528	(2,402,037)
Cumulative Results of Operations	22,107,548	19,833,130
Net Position	$ 22,251,174	$ 19,973,551

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

Department of Defense – Army Working Capital Fund

COMBINED STATEMENTS OF BUDGETARY RESOURCES (UNAUDITED)

For the Years Ended September 30, 2020 and 2019

(Amounts in Thousands)	2020 Combined	2019 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,831,857	$ 3,933,498
Appropriations (discretionary and mandatory)	489,743	264,365
Contract Authority (discretionary and mandatory)	8,624,792	8,854,632
Spending Authority from offsetting collections (discretionary and mandatory)	4,871,695	4,703,517
Total Budgetary Resources	$ 18,818,087	$ 17,756,012
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 14,562,782	$ 14,223,499
Unobligated balance, end of year:		
Apportioned, unexpired accounts	4,255,305	3,532,513
Unexpired unobligated balance, end of year	4,255,305	3,532,513
Unobligated balance, end of year (total)	4,255,305	3,532,513
Total Budgetary Resources	$ 18,818,087	$ 17,756,012
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	1,432,350	378,969
Agency Outlays, net (discretionary and mandatory)	$ 1,432,350	$ 378,969

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

NOTES TO THE FINANCIAL STATEMENTS – WORKING CAPITAL FUND

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A Reporting Entity

The United States Department of the Army's ("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 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.

In support of the Army's overarching mission discussed above, the mission and purpose of the Army Working Capital Fund (WCF) is to provide Army General Fund (GF) and other DoD entities, the supplies, equipment and ordnance necessary to protect, sustain, and reconstitute forces. The Army WCF reporting entity and related financial statements includes two activity groups: SMA and IO. The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The IO activity group provides the Army an organic industrial capability to conduct depot level maintenance, repair and upgrade; manufacture munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DoD.

1.B. Basis of Presentation and Accounting

The Army WCF's financial statements have been prepared to report the financial position and results of operations of the United States (U.S.) Department of the Army 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 records of the Army WCF in accordance with and to the extent possible, U.S. generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board and the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The Army WCF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position and Combined Statements of Budgetary Resources, in accordance with OMB financial statement reporting guidelines. Accounting standards also allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Army WCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army WCF business areas. The Army WCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems.

1.C. Appropriations and Funds

The Army WCF received its initial cash corpus through an appropriation from Congress to finance initial operations. The Army WCF provides goods and services 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. The Army WCF uses contract authority which permits obligations to be incurred in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. While reimbursable authority may be subject to apportionment by the Office of Management & Budget, recovered (deobligated) contract/reimbursable authority is subject to automatic reapportionment. In addition, Congress may appropriate funds to finance specific programs within the working capital fund.

1.D. Basis of Accounting

The Army WCF's financial statements and supporting trial balances are compiled from the underlying proprietary and budgetary financial data of the Army WCF. The Army WCF records financial transactions on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned, and costs/expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds may be recognized in advance of the proprietary accruals. Budgetary basis of accounting facilitates compliance with legal requirements and controls over the use of Federal funds. Under the budgetary basis of accounting, Army WCF records budgetary authority when authorized through legislation or agreements with customers and records new obligations when the Army WCF signs a contract for goods or services or take other actions that requires Army WCF to make payments to other entities. In addition, Army WCF records outlays when disbursements are made and receipts when received.

1.E. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements. Significant estimates that affect Army WCF financial statements include, but are not limited to, estimates for E&DL, the valuation of some classes of inventory, payroll and benefit accruals, goods and services accruals, and useful lives of property, plant, and equipment. Actual results may differ from those estimates; therefore estimates are adjusted to reflect actuals during the period they become available.

1.F Revenues and Other Financing Sources

The Army WCF earns revenue as a result of costs incurred for goods and services provided to the Army GF, other federal agencies, and to the public. Army WCF utilizes full-cost pricing, as defined in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, for services provided as required by OMB Circular No. A-25, *User Charge*s.

The Army WCF revenue is primarily the result of exchange transactions, which arises when the Army WCF provides goods and services to the public or to another government entity for a price. The Industrial Operations business area recognizes revenue according to the percentage-of-completion method. The SMA business area recognizes revenue when inventory is sold and issued to customers.

1.G. Recognition of Expenses

The Army WCF recognizes costs at the time the expense is incurred, or benefit received, regardless of whether an invoice has been received. Cost is the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce goods or to perform services. The costs that apply to the Army WCF operations in that period are recognized as either cost of goods sold or operating expenses in that period.

1.H. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual, Part 2 – Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. 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 WCF cannot accurately identify intragovernmental transactions by customer because there are some instances when Army WCF systems do not track buyer and seller data at the transaction level. DoD entities and other federal entities who sell to the Army WCF ("Sellers") provide summary balances for revenue, accounts receivable, and unearned revenue to the Army WCF. In most cases, the Army WCF adjusts the reciprocal account balances (i.e. expenses, accounts payable, and liabilities for advances and prepayments) to agree with the seller's details which allows intragovernmental balances to be eliminated at the consolidated DoD level. The Army

WCF is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable the Army WCF to correctly report, reconcile, and eliminate intragovernmental balances.

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; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under the Federal Employees' Compensation Act; and (3) losses in certain litigation proceedings. Consistent with SFFAS No. 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

The Army WCF's proportionate share of public debt is not included in the financial statements. The federal government does not apportion debt and its related costs to federal agencies.

1.I. Transactions with Foreign Governments and International Organizations

The Army WCF is responsible for implementing individual Foreign Military Sales cases and the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations as approved by the Department of State under the provisions of the *Arms Export Control Act of 1976*. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

1.J. Nonentity Assets

Nonentity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for nonentity assets. An example of a nonentity asset is the portion of Fund Balance with Treasury (FBwT) that consists of deposit and receipt funds. For additional information, see Note 2, *Nonentity Assets*.

1.K. Fund Balance with Treasury

The Army WCF maintains its monetary resources of collections and disbursements 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 WCF. 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 WCF FBWT is reviewed and adjusted to agree with the U.S. Treasury accounts. For additional information, see Note 3, *Fund Balance with Treasury*.

1.L. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army WCF including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. There are no restrictions on cash. For additional information, see Note 4, *Cash and Other Monetary Assets*.

1.M. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history by aging category. In addition, any claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in

Appendix 10 of the *Treasury Financial Manual*, Volume I, Part 2, Chapter 4700. For additional information, see Note 6, *Accounts Receivable*.

The Army WCF records interest receivable as nonentity assets. Nonentity assets are not available for use in the Department's normal operations. For additional information, see Note 2, *Nonentity Assets*.

1.N. Direct Loans and Loan Guarantees

Not Applicable

1.O. Inventories and Related Property

On October 1, 2018, the Army WCF adjusted the value of certain inventory from moving average cost to deemed cost. However, the Army WCF use of deemed cost was not in accordance with SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* because Army did not make an unreserved assertion that its inventory is presented fairly in accordance with U.S. generally accepted accounting principles. The Army WCF is implementing corrective actions to be able to make an unreserved assertion for inventory beginning balances in the future.

The Army WCF Inventory and Related Property is categorized into the following categories:

Inventory Held for Sale – This includes both consumable, non-reparable as well as repairable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method for inventory recorded after considering the deemed cost adjustment as of October 1, 2018 that is discussed above.

Inventory Held for Repair – This includes 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, the 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. Army WCF values inventory held for repair using the direct method. SFFAS No. 3 and Interpretation 7 require that inventory held for repair and resale reflects the accumulation of capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Raw Material – This includes material to be used in the Industrial Operations mission. Raw material is valued using the moving average cost method.

Excess, Obsolete, and Unserviceable (EOU) – Excess inventory is inventory that exceeds management requirements to meet the Army WCF mission. Obsolete inventory is inventory that is no longer useful because of obsolescence. Unserviceable inventory is damaged inventory that is non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account.

Work in Process – Work in Process balances include (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost to repair) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

Operating Materiel and Supplies (OM&S) includes stocked items to be used for equipment and facilities maintenance at the Industrial Operations sites. OM&S is valued at the moving average cost method. Prior to FY 2019, these items were expensed upon goods receipt and not reported on the Balance Sheets. There are no restrictions on the use of OM&S. For additional information, see Note 8, *Inventory and Related Property*.

1.P. Investments and Related Interest

The Army Working Capital Fund does not currently have Investments in U.S. Treasury Securities.

1.Q. General Property, Plant and Equipment

General Property, Plant and Equipment (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 Army WCF capitalization threshold. The Army WCF 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 Army WCF depreciates all General PP&E, other than Construction-in-Progress, on a straight-line basis over the estimated useful life. The Army WCF has not adopted SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, except for land and land rights. The Army WCF is not reporting any land values. However, the number of acres are reported for land. The Army WCF is currently reporting known acquisition costs for Buildings, Structures, and Facilities; General Equipment; Software; Construction-In-Progress; and Leasehold Improvements.

The Army's General PP&E capitalization threshold is $250 thousand. With the exception of General Equipment, the $250 thousand capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. For General Equipment the capitalization threshold was applied retroactively. All other Army WCF General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels of $100 thousand except for real property, which is $20 thousand, and are carried at their remaining net book value. For additional information, see Note 9, *General Property, Plant and Equipment*.

1.R. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the 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. The Army WCF reports leases that do not meet the capital lease criteria as an operating lease and expenses lease payments when they become payable. The future minimum operating lease payments are based on amounts obtained from existing leases, General Services Administration (GSA) bills, and inter-service support agreements. For additional information, see Note 16, *Leases*.

1.S. Other Assets

Other assets include those amounts, such as civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Army WCF's Balance Sheets. The Army WCF reports payments made in advance of the receipt of goods and services as an asset on the Balance Sheets. The Army WCF recognizes an expense or asset when the related goods and services are received.

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* (FAR), 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.

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. For additional information, see Note 10, *Other Assets*.

1.T. 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 WCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

The Army WCF discloses contingent losses 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 and disclosures for the Army WCF arises from pending or threatened litigation or claims and assessments due to events such as aircraft, vessel, and vehicle accidents; property or environmental damages; and contract disputes.

For additional information, see Note 17, *Commitments and Contingencies*.

1.U. Environmental and Disposal Liabilities

E&DL are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with SFFAS 5, non-environmental disposal liabilities are recognized when management decides to dispose of an asset.

Interpretation of SFFAS No. 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6* (Interpretation No. 9), requires component entities that report General PP&E should also recognize the associated E&DL cleanup costs. For additional information, see Note 14, *Environmental and Disposal Liabilities*.

1.V. Accrued Leave

The Army WCF reports liabilities for accrued compensatory and annual leave for civilians when earned by the employee. The liabilities are based on current pay rates. Sick leave is expensed when used and no liability is recognized because employees do not vest in these benefits.

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 transfers in and out of assets that were not reimbursed.

1.X. Treaties for Use of Foreign Bases

Not Applicable

1.Y. Fiduciary Activities

Not Applicable

1.Z. Military Retirement and Other Federal Employment Benefits

The Army WCF's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army WCF 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. Assumptions related to Military Retirement and Other Federal Employment Benefits are detailed in Note 13, *Military Retirement and Other Federal Employment Benefits*.

1.AA. Subsequent Events

Not Applicable

1.BB. Standardized Notes to the Financial Statements

Beginning in FY 2020, the DoD Agency-wide Footnotes and its stand-alone Components' Footnotes have the same Footnote structure in the notes to the financial statements included in their respective annual financial statements. For Footnotes not applicable to a Component because it does not have such transactions, or has such transactions that are immaterial to the financial statements, the Footnote number and name is included but is marked as "Not Applicable." The shared Footnote structure provides efficiency in the preparation of the DoD Agency-wide financial statements and consistency among the DoD Agency-wide and stand-alone Component annual financial statements.

1.CC. Tax Exempt Status

As an agency of the federal government, the Army WCF is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

NOTE 2. NONENTITY ASSETS

As of September 30	2020	2019
(Amounts in thousands)		
1. Nonfederal Assets		
A. Accounts Receivable	$ 5	$ 4
B. Total Nonfederal Assets	5	4
2. Total Nonentity Assets	5	4
3. Total Entity Assets	23,762,113	21,436,121
4. Total Assets	$ 23,762,118	$ 21,436,125

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

Information Related to Nonentity Assets

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

Nonentity Nonfederal Accounts Receivable are interest receivables. Collections related to these receivables will be returned to the U.S. Treasury as miscellaneous receipts.

NOTE 3. FUND BALANCE WITH TREASURY

Status of Fund Balance with Treasury

As of September 30	2020	2019
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 4,255,305	$ 3,532,513
2. Obligated Balance not yet Disbursed	9,507,154	9,059,278
3. Non-FBWT Budgetary Accounts		
A. Unfilled Customer Orders without Advance	(6,003,428)	(5,917,727)
B. Contract Authority	(6,172,613)	(4,529,016)
C. Receivable and Other	(284,372)	(250,454)
D. Total Non-FBWT Budgetary Accounts	(12,460,413)	(10,697,197)
4. Total FBWT	$ 1,302,046	$ 1,894,594

The Treasury records cash receipts and disbursements on the Army WCF's behalf. Funds are available only for the purposes for which the funds were appropriated. The Army WCF's Fund Balances with Treasury consists of both revolving and appropriated funds.

Status of Fund Balance with Treasury Definitions

The Status of Fund Balance with Treasury (FBWT) table displays the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheets reflects 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 yet been obligated. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations.

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

Non-FBWT Budgetary Accounts offset unobligated balances and obligated balance not yet disbursed in the reconciliation between budgetary resources and FBWT. For the Army WCF these include unfilled customer orders without advance, reimbursements and other income earned-receivable, and contract authority.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies. The Army WCF did not receive allocation transfers from other federal agencies for execution on their behalf.

The FBWT reported in the financial statements has been adjusted to reflect the Army WCF's balance as reported by Treasury. The difference between FBWT in the Army WCF's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the Army WCF's general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the Army WCF's general ledger accounts.

NOTE 4. CASH AND OTHER MONETARY ASSETS

As of September 30	2020	2019
(Amounts in thousands)		
1. Cash	$ 20,312	$ 10,811
2. Total Cash, Foreign Currency, & Other Monetary Assets	$ 20,312	$ 10,811

Cash includes collections on hand that were not deposited during the accounting period.

NOTE 5. INVESTMENTS AND RELATED INTEREST

Not Applicable

NOTE 6. ACCOUNTS RECEIVABLE, NET

As of September 30	2020		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 241,600	$ (330)	$ 241,270
2. Nonfederal Receivables (From the Public)	$ 13,729	$ (687)	$ 13,042
3. Total Accounts Receivable	$ 255,329	$ (1,017)	$ 254,312

As of September 30	2019		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 210,940	N/A	$ 210,940
2. Nonfederal Receivables (From the Public)	$ 19,902	$ (198)	$ 19,704
3. Total Accounts Receivable	$ 230,842	$ (198)	$ 230,644

Accounts receivable represent the Army WCF's claim for payment from other entities. Allowances for uncollectible accounts are based upon an analysis of aging of accounts receivable, a debtor's ability to pay and payment history by aging category. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700. For FY 2020 and FY 2019, the Army WCF recognized $819 thousand and $151 thousand in bad debt expense (respectively).

NOTE 7. DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

Not Applicable

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

As of September 30	2020	2019
(Amounts in thousands)		
1. Inventory, Net	$ 19,764,211	$ 17,798,977
2. Operating Materiel & Supplies, Net	4,784	2,226
2. Total	$ 19,768,995	$ 17,801,203

Inventory, Net

As of September 30	2020			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 11,346,765	$ -	$ 11,346,765	MAC
B. Inventory Held for Repair	5,642,415	-	5,642,415	MAC
C. Raw Materiel	1,415,585	-	1,415,585	MAC
D. Excess, Obsolete, and Unserviceable Inventory	401,333	(401,333)	-	NRV
E. Work In Process	1,359,446	-	1,359,446	*SP/AC
F. Total Inventory, Net	$ 20,165,544	$ (401,333)	$ 19,764,211	

As of September 30	2019			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 10,356,590	$ -	$ 10,356,590	MAC
B. Inventory Held for Repair	5,256,129	-	5,256,129	MAC
C. Raw Materiel	1,234,123	-	1,234,123	MAC
D. Excess, Obsolete, and Unserviceable Inventory	228,681	(228,681)	-	NRV
E. Work In Process	952,135	-	952,135	*SP/AC
F. Total Inventory, Net	$ 18,027,658	$ (228,681)	$ 17,798,977	

Legend for Valuation Methods:
MAC = Moving Average Cost NRV = Net Realizable Value *SP/AC = Standard Price /Actual Cost
**WIP value reflects the standard price of the inventory item less the cost of required repairs*

Operating Materiel and Supplies, Net

As of September 30	2020			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. OM&S Categories				
A. OM&S Held for Sale	$ 4,784	$ -	$ 4,784	MAC
B. Total Inventory, Net	$ 4,784	$ -	$ 4,784	

As of September 30	2019			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. OM&S Categories				
A. OM&S Held for Sale	$ 2,226	$ -	$ 2,226	MAC
B. Total Inventory, Net	$ 2,226	$ -	$ 2,226	

Legend for Valuation Methods:
MAC = Moving Average Cost

Inventory

The Army WCF Inventory and Related Property is categorized into the following categories:

Inventory Held for Sale includes both consumable, non-reparable as well as repairable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method.

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 than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the 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. Army WCF values inventory held for repair using the direct method. SFFAS No. 3 and Interpretation 7 require that inventory held for repair and resale reflect all capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Excess, Obsolete, and Unserviceable (EOU) Inventory includes excess inventory that exceeds management requirements to meet the Army WCF mission; obsolete inventory, which is inventory that is no longer useful; and unserviceable inventory which is damaged, non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account. The Army WCF's FY 20 $401.3 million carrying value of EOU is offset by a $401.3 million allowance balance to reflect no net realizable value.

Raw Material includes material to be used in the IO's mission. Raw material is valued using the moving average cost method.

Work in Process balances includes (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost of repairs) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

There are restrictions on the use, sale, and disposition of inventory classified as war reserve, which includes petroleum products, subsistence items, spare parts, and medical materiel. These reserves are set aside for use during times of war.

Operating Materiel and Supplies

Operating Materiel and Supplies (OM&S) includes stocked items to be used for equipment and facilities maintenance at the Industrial Operations sites. Prior to FY 2019, these items were expensed upon goods receipt and not reported on the Balance Sheets. OM&S is valued at the moving average cost method. There are no restrictions on the use of OM&S.

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30	2020				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 3,700,267	$ (2,111,593)	$ 1,588,674
B. Software	S/L	5	1,686,362	(1,545,915)	140,447
C. General Equipment	S/L	5 or 10	1,566,946	(1,289,235)	277,711
D. Construction-in-Progress	N/A	N/A	274,177	N/A	274,177
E. Leasehold Improvements	S/L	10	668	(501)	167
F. Total General PP&E			$ 7,228,420	$ (4,947,244)	$ 2,281,176

As of September 30	Restated 2019				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 2,392,438	$ (1,720,252)	$ 672,186
B. Software	S/L	5	1,651,969	(1,469,582)	182,387
C. General Equipment	S/L	5 or 10	1,850,915	(1,559,568)	291,347
D. Construction-in-Progress	N/A	N/A	243,375	N/A	243,375
E. Leasehold Improvements	S/L	10	668	(434)	234
F. Total General PP&E			$ 6,139,365	$ (4,749,836)	$ 1,389,529

S/L = Straight Line NA = Not Applicable
*Service lives may be 20, 35, 40, or 45 years

The Army WCF's General PP&E is comprised of buildings, structures, and facilities; software, general equipment, construction-in-progress, leasehold improvements, and other PP&E.

The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage-of completion only for construction of real property, alteration, or repair. Progress payments based on percentage or stage of completion are reported as construction-in-progress.

In accordance with SFFAS 50, paragraph 40.f.i, the Army WCF excludes land and land rights from its reported property, plant and equipment balances. Instead, the Army WCF discloses acreage information and expenses acquisitions. As of FY 2020 and FY 2019, the Army WCF reports 207,369 acres of land and leased 18 acres of land for a total of 207,387 acres in land rights. There have been no acquisitions or disposals during the fiscal year.

During FY 2020, in accordance with the Office of the Under Secretary of Defense (Comptroller) Memorandum, "Application of Capitalization Threshold for General Property, Plant, and Equipment (FPM# 19-01)", the Army WCF retroactively applied the capitalization threshold of $250 thousand to all general equipment, which is a change from previous threshold amounts. As such, the Army WCF decreased the gross acquisition cost by $335.8 million and accumulated depreciation by $313.7 million of general equipment, resulting in a decrease of the net book value (acquisition cost less accumulated depreciation) of general equipment balances by $22.1 million. See Note 20, *Disclosures related to the Statements of Changes in Net Position*, for more information.

In addition, the Army WCF implemented the Office of the Under Secretary of Defense (Comptroller) Memorandum, "Real Property Financial Reporting Responsibilities Policy Update (FMP# 19-05)", which was effective October 1, 2019 and requires the financial reporting of real property to be the responsibility of the installation host instead of the previous policy that was based on the entity who uses 90% or more of the physical capacity of the asset and who is also responsible for the sustainment requirements. As a result, the Army WCF transferred in $1.5 billion of gross acquisition cost and $468.3 million of accumulated depreciation of real property from other defense organizations. The Army WCF also transferred out $136.7 million of gross acquisition cost and $102.6 million of accumulated depreciation to other defense organizations.

During 4th Quarter, FY 2020, in progressive steps towards achieving supportable beginning balances for General PP&E and in accordance with related initiatives across the Department of Defense, Army restated the FY 2019 net book value of real property assets that were previously erroneously reported. The restatement reflects a net $25.3 million reduction in the Army WCF's FY 2019 General PP&E, Net line item on the Balance Sheet and in the 2019 "Buildings, Structures, and Facilities" balance in the table above. In addition, because the error occurred in a prior period, the cumulative results of operations and the Army WCF's net position are also restated. See Note 28, *Restatements*, for more information.

Table 9B. Heritage Assets

For the Period Ended September 30	2020			
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	5,185	-	(235)	4,950

Heritage Assets

The Army WCF 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 WCF relies upon heritage assets such as historic buildings, for daily use in conducting mission activities. These buildings and structures are included on the Balance Sheets as multi-use heritage assets (capitalized and depreciated).

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2020 Army WCF Annual Financial Report.

SFFAS No. 29, *Heritage Assets and Stewardship Land*, issued by FASAB, requires note disclosures for these types of assets. The Army policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Buildings and Structures

Buildings and Structures, including multi-use heritage assets, are listed on, or eligible for listing on, the National Register of Historic Places in accordance with Section 110, National Historical Preservation Act. The Army WCF reported 4,950 and 5,185 heritage buildings and structures as of September 30, 2020 and 2019, respectively.

Table 9C. Stewardship Land

Stewardship land is land and land rights owned by the Department, but not acquired for, or in connection with items of General PP&E. The Army WCF's stewardship land consists mainly of mission-essential land that was acquired for or in connection with items of General PP&E. As a result, stewardship land is not presented separately.

NOTE 10. OTHER ASSETS

As of September 30	2020	2019
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Other Assets	$ -	$ -
B. Total Intragovernmental Other Assets	$ -	$ -
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 135,267	$ 109,334
B. Advances and Prepayments	10	10
C. Total Nonfederal Other Assets	$ 135,277	$ 109,344
3. Total Other Assets	$ 135,277	$ 109,344

Information Related to Other Assets

Outstanding Contract Financing Payments are a separate classification of advances and prepayments and reflect contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets.

Advances and prepayments are made by the Army WCF to cover certain periodic expenditures before those expenses are incurred, or for goods and services to provide for future benefits over a specified time period. Advances and prepayments are recorded when it is generally accepted industry practice to pay for items in advance of the service being provided and the prepayment is authorized.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2020	2019
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Other	$ 29,948	$ 41,668
B. Total Intragovernmental Liabilities	$ 29,948	$ 41,668
2. Nonfederal Liabilities		
A. Military Retirement and Other Federal Employment Benefits	178,521	254,670
B. Environmental and Disposal Liabilities	501,729	291,098
C. Other Liabilities	-	-
D. Total Nonfederal Liabilities	$ 680,250	$ 545,768
3. Total Liabilities Not Covered by Budgetary Resources	$ 710,198	$ 587,436
4. Total Liabilities Covered by Budgetary Resources	$ 800,746	$ 875,138
5. Total Liabilities	$ 1,510,944	$ 1,462,574

Liabilities not covered by budgetary resources represent amounts owed without available budgetary authority to cover them. Intragovernmental Liabilities, Other, are unfunded *Federal Employees' Compensation Act* (FECA) liabilities the Army WCF owes to the Department of Labor (DOL) for payments made by DOL to Army beneficiaries totaling $29.9 million as of September 30, 2020. As of September 30, 2019, unfunded FECA liabilities were $41.7 million.

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 of the actuarial FECA benefits liability of $178.5 million as of September 30, 2020 and $254.7 million as of September 30, 2019. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

E&DL consists of the liabilities associated with the Army WCF that include disposal liabilities for operational assets. E&DL are not covered by Army WCF budgetary resources because all expenditures are funded by the Army GF. See Note 14, *Environmental and Disposal Liabilities*, for additional details and disclosures.

NOTE 12. DEBT

Not Applicable

NOTE 13. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2020	
(Amounts in thousands)	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 178,521	$ 178,521
B. Total Other Benefits	$ 178,521	$ 178,521
2. Total Military Retirement and Other Federal Employment Benefits:	$ 178,521	$ 178,521

As of September 30	2019	
(Amounts in thousands)	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 254,670	$ 254,670
B. Total Other Benefits	$ 254,670	$ 254,670
2. Total Military Retirement and Other Federal Employment Benefits:	$ 254,670	$ 254,670

SFFAS 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*, requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits. This standard also provides guidance for selecting the discount rate and valuation date used in estimating these liabilities.

The Federal Employment Compensation Act actuarial 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. The DOL selects the Cost of Living Adjustment (COLA) factors, Consumer Price Index Medical (CPI-M) factors, and discount rates by averaging the COLA rates, CPI-M factors, and discount rate estimates to reflect historical trends.

FECA actuarial liabilities are computed for employee compensation benefits as mandated by the FECA. The DOL provides updated Army actuarial liability 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. For FY 2020, the Army WCF recorded a $76 million reduction in expenses associated with the future costs of FECA. During FY 2019, an increase of $512 thousand in FECA related costs were realized. The Army WCF estimated its portion of actuarial liability based on a percentage of the Army's liability.

In FY 2020, the methodology for billable projected liabilities was revised to include, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2019 methodology used a traditional paid loss development method with the FECA Case Reserve Model run concurrently to, among other things, test the validity of the FECA Case Reserve Model.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPI-Ms) were applied to the calculation of projected future benefits.

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years, respectively. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.

The FY 2020 and FY 2019 methodologies for averaging the COLA rates used OMB-provided rates for the current and prior four years; the FY 2020 methodology also considered updated information for the current year that was provided by program staff. The FY 2020 and FY 2019 methodologies for averaging CPI-M rates used OMB-provided rates for the current and prior four years; the FY 2020 methodology also considered updated information for the current year that program staff obtained from the Bureau of Labor Statistics public releases for CPI.

The actual rates for these factors for the charge back year (CBY) 2020 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPI-Ms used in the projections for various CBY were as follows:

CBY	COLA	CPI-M
2020	N/A	N/A
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025	2.30%	3.94%

[and thereafter]

The compensation COLAs and CPI-Ms used in the projections for FY 2019 were as follows:

CBY	COLA	CPI-M
2019	N/A	N/A
2020	1.47%	2.86%
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024	2.21%	3.88%

[and thereafter]

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 FY 2020 and FY 2019, respectively. Interest rate assumptions utilized for FY 2020 discounting were as follows:

Discount Rates

For wage benefits:

2.414% in Year 1 and years thereafter;

For medical benefits:

2.303% in Year 1 and years thereafter.

Interest rate assumptions utilized for FY 2019 discounting were as follows:

Discount Rates

For wage benefits:

2.610% in Year 1 and years thereafter;

For medical benefits:

2.350% in Year 1 and years thereafter;

To test the reliability of the model, comparisons were made 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. The model has been stable and has projected the actual payments by agency reasonably well.

The DOL Office of Inspector General issued in July 2020 a report that found that most Office of Workers' Compensation Programs (OWCP) programs are experiencing or expecting delays and resource management issues as a result of increasing claims and social distancing mandates brought on by the COVID-19 pandemic. In general, there have been downward trends in the number of open claims and closed claims and payments; based on the average of the prior five chargeback CBYs, the number of open claims has decreased about 7 percent, the number of closed claims has decreased about 16 percent, and payments have decreased an estimated 19 percent. Federal employees who contract COVID-19 while in the performance of their federal duties are entitled to workers' compensation coverage pursuant to FECA, which could affect future claims and payments.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2020	2019
(Amounts in thousands)		
1. Environmental Liabilities – Non-Federal		
A. Accrued Environmental Restoration Liabilities	-	-
B. Other Accrued Environmental Liabilities – Non-BRAC	-	-
1. Environmental Corrective Action	-	-
2. Environmental Closure Requirements	110,282	45,136
3. Environmental Response at Operational Ranges	-	-
4. Asbestos	391,447	245,962
C. Base Realignment and Closure Installations	-	-
D. Environmental Disposal for Military Equipment/Weapons Programs	-	-
E. Chemical Weapons Disposal Program	-	-
2. Total Environmental and Disposal Liabilities	$ 501,729	$ 291,098

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

The Army WCF report for E&DL consists of only asset-driven liabilities (closure and disposal) for PP&E. Event-driven liabilities caused by the release of contamination to the environment that require future cleanup are all covered under the Army General Fund (GF). Asset-driven liabilities are the environmental closure and disposal costs incurred at the end of the asset's useful life. In FY20 Army GF transferred to the Army WCF, E&DL costs related to landfills, tanks, piping, and open burn open detonation (OB/OD) units. The Army WCF current AWCF E&DL is reported in the following categories:

1.B.2 Environmental Closure Requirements
1.B.4 Asbestos

The Army WCF E&DL addresses asset-driven disposal liabilities for operational assets such as buildings (asbestos, lead based paint, and other regulated materials (ORM)), underground storage tanks (USTs), aboveground storage tanks (ASTs), piping associated with storage tanks, landfills, and OB/OD.

For each category, the E&DL reflects the cost of estimated future work required to address legal and environmental requirements. The Army does not report a 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.

Applicable Laws and Regulations

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 clarified the requirement to report liabilities arising from asbestos-related cleanup.

In accordance with SFFAS 6, and FASAB Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment*, June 2, 2010, which provides clarification on determining and reporting disposal liabilities for general equipment, cleanup costs that occur when equipment operations cease shall be estimated when the associated asset is placed in service and a portion of the estimated total cleanup costs shall be recognized as an expense during each period that the asset is in operation.

Applicable laws and regulations addressing cleanup requirements include:

- *Toxic Substances Control Act* (TSCA)
- *Resource Conservation and Recovery Act* (RCRA)
- *Asbestos Hazard Emergency Response Act* (AHERA)

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

Headquarters Installation Information System (HQIIS) is the source of asset data used to develop the E&DL estimates. The only exception is Open Burn/Open Detonation (OB/OD) units inventory which are developed using the Joint Ordnance Commanders Group report and supplemented by the G-9 Annual Environmental Quality data survey.

Asset-driven liabilities for facility closures/disposal include the environmental costs associated with building demolition. The environmental liability associated with facility closures are made up of the costs for asbestos and ORM. For asbestos, the costs include a cost for survey and a cost for potential abatement. ORM covers all other environmentally regulated materials that would need to be removed and properly disposed as part of the building closure and the cost for the environmental survey. Environmental closure liabilities for individual building demolition will vary depending on location, so environmental related building closure liabilities for ORM are reported in aggregate and adjusted for location and useful life determinations. The historical costs to support the estimating model is taken from various sites around CONUS and updated annually. The costs for the historical contracted demolitions are then averaged and a Unit Cost Factor (UCF) developed for asbestos and ORM. UCFs are derived using professional judgment and historical costs, along with the assets inventory data to develop environmental closure liabilities.

Asbestos disposal costs are based on historical cost data from recent building demolitions and pre-demolition building survey to develop cost factors for asbestos survey and abatement. The methodology is based on the September 30, 2015 Assistant Secretary of Defense (Energy, Installation and Environment) memo entitled, *Strategy for Environmental & Disposal Liabilities Audit Readiness*. In 1990, the U.S. Environmental Protection Agency (USEPA) provided the final regulatory ban on the use of asbestos-containing materials in construction. Therefore, E&DL for asbestos abatement only includes facilities put into service prior to 1990. The liability is determined using the square footage of buildings put into service prior to 1990 multiplied by the asbestos abatement cost factor.

The Army WCF uses independently validated models to estimate environmental disposal liabilities for aboveground and underground storage tanks and piping. The model is contained within the Remedial Action Cost Engineering Requirements (RACER). 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 subcategories for tanks with volume greater than 10,000 gallons and RACER cost estimates using area cost factors were used along with the inventory of tanks in each category to develop the reported E&DL. Cost estimates for piping uses the length of the piping as a factor in the E&DL determination.

The Army WCF uses RACER modeling software to estimate environmental closure liabilities for landfills. Permitted landfills closure liabilities are estimated within RACER 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. The reported environmental liability also includes post-closure requirements.

OB/OD areas/facilities are environmentally permitted disposal facilities and are used as a common disposal method for munition stockpiles. These activities are necessary to destroy unserviceable, unstable, or unusable munitions and explosives. The Army WCF utilizes RACER to capture closure requirements and determine the environmental liabilities. The reported environmental liability also includes post-closure requirements.

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, costs are allocated to the periods benefiting from the operations of the General PP&E. Cleanup costs are allocated to future periods where the PP&E still has useful life and these cost are not included in the current liability reporting. The unrecognized costs amounted to $3.3 million at September 30, 2020 compared to the $4.9 million reported at September 30, 2019. The recognized amounts are included in the Environmental Closure Requirements over the useful life of the asset.

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

The Army WCF estimates are updated annually to reflect changes in previously unknown information, re-estimation 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 advancements in technology. Environmental liabilities may also change due to updated criteria, new ways of determining current categories on the financial statements, and determining whether Army WCF has event driven liabilities.

All environmental liabilities as of September 30, 2020 and 2019 are stated in FY 2020 and 2019 dollars, respectively, as required by generally accepted accounting principles. Future inflation could cause actual costs to be substantially higher than the recorded liability.

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

The E&DL for the Army WCF are based on accounting estimates, which require certain professional 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.

The Army WCF 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 estimate. Friable asbestos mitigation estimates are based on historical costs of asbestos abatement during facility demolition.

The E&DL for some of the Army's WCF asset-driven liabilities are based on estimates, which are dependent on the accountable property system of record (APSR) and require certain technical judgments, historical cost information, and assumptions that are believed to be reasonable based upon information available at the time of calculating the estimates. Due to the dependencies on the APSR, the asset-driven liability methodologies assume that the APSR is accurate and the data used from these systems are the most up to date. Discrepancies, inaccuracies, and incompleteness of APSR data may cause the environmental liabilities for assets to be reported inaccurately on the Army's financial statement. The Army WCF is also uncertain regarding the costs for cleanup associated with general equipment. Currently, the Army WCF is still defining valuation methods to estimate general equipment disposal liabilities for the Army WCF.

NOTE 15. OTHER LIABILITIES

As of September 30	2020		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	$ 4,049	$ -	$ 4,049
B. FECA Reimbursement to the Department of Labor	13,688	16,261	29,949
C. Custodial Liabilities	5	-	5
D. Employer Contribution and Payroll Taxes Payable	20,947	-	20,947
E. Other Liabilities	-	-	-
F. Total Intragovernmental Other Liabilities	$ 38,689	$ 16,261	$ 54,950
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 208,292	$ -	$ 208,292
B. Advances from Others	102,282	-	102,282
C. Deposit Funds and Suspense Accounts	20,312	-	20,312
D. Contract Holdbacks	250	-	250
E. Employer Contribution and Payroll Taxes Payable	8,916	-	8,916
F. Contingent Liabilities	-	-	-
G. Other Liabilities	-	-	-
H. Total Nonfederal Other Liabilities	$ 340,052	$ -	$ 340,052
3. Total Other Liabilities	$ 378,741	$ 16,261	$ 395,002

As of September 30	2019		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	$ 19,029	$ -	$ 19,029
B. FECA Reimbursement to the Department of Labor	18,897	22,770	41,667
C. Custodial Liabilities	4	-	4
D. Employer Contribution and Payroll Taxes Payable	15,705	-	15,705
E. Other Liabilities	87,038	-	87,038
F. Total Intragovernmental Other Liabilities	$ 140,673	$ 22,770	$ 163,443
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 178,171	$ -	$ 178,171
B. Advances from Others	91,502	-	91,502
C. Deposit Funds and Suspense Accounts	10,811	-	10,811
D. Contract Holdbacks	49	-	49
E. Employer Contribution and Payroll Taxes Payable	7,342	-	7,342
F. Contingent Liabilities	-	-	-
G. Other Liabilities	84,604	-	84,604
H. Total Nonfederal Other Liabilities	$ 372,479	$ -	$ 372,479
3. Total Other Liabilities	$ 513,152	$ 22,770	$ 535,922

Intragovernmental Liabilities

Advances from Others

Advances from Others represent liabilities for collections received from the customer to cover Army WCF's future expenses incurred or assets acquired related to fulfillment and delivery of the respective goods or services.

FECA Reimbursement to the Department of Labor

FECA Reimbursement to the DOL represents liabilities due under the *Federal Employee Compensation Act*. Billed amounts payable in FY 2019 and FY 2020 and unbilled amounts for both incurred and estimated accrual amounts are included. See Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Custodial Liabilities

Custodial Liabilities represent liabilities for collections reported as non-exchange revenues for which the Army WCF is acting on behalf of another Federal entity. Army WCF collects interest payments, penalties, and administrative fees from both individuals and organizations that are remitted to U.S. Treasury.

Employer Contributions and Payroll Taxes Payable

Employer Contributions and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to the Army WCF eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary.

The life insurance program, Federal Employee Group Life Insurance (FEGLI) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (FEHB) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. OPM, as the administrating agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. The Army WCF has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer contributions are submitted to OPM. Additional information may be found on OPM’s website.

Intragovernmental Other Liabilities

FY 2019 Intragovernmental Other Liabilities primarily consisted of service accruals. Beginning in 4th quarter, FY 2020, these balances are included in the accounts payable balance.

Nonfederal Liabilities

Accrued Funded Payroll and Benefits

Accrued funded payroll and benefits represents the estimated amount of liability for salaries, wages, and funded annual leave that has been earned but not yet paid.

Advances from Others

Advances from Others represent liabilities for collections received from the customer to cover Army WCF’s future expenses incurred or assets acquired related to fulfillment and delivery of the respective goods or services.

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.

Contract Holdbacks

Contract holdbacks consist of amounts withheld from payments to contractors to assure compliance with contract terms, usually expressed as a percentage in the respective contract provisions.

Employer Contribution and Payroll Taxes Payable

Employer contribution and payroll taxes payable represents the employer portion of payroll taxes and benefit contributions for health benefits, life insurance, Social Security, Medicare and other retirement benefits, including the Army WCF’s contribution to the Thrift Savings Plan.

Other Liabilities

FY 2019 Intragovernmental Other Liabilities primarily consisted of service accruals. Beginning in 4th quarter, FY 2020, these balances are included in the accounts payable balance.

NOTE 16. LEASES

Operating Leases

As of September 30 (Amounts in thousands)	2020 Land and Buildings	Equipment	GSA Vehicles	Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2021	-	210	13,895	14,105
2022	-	212	13,950	14,162
2023	-	215	14,030	14,245
2024	-	217	14,104	14,321
2025	-	218	14,192	14,410
After 5 years	-	219	21,948	22,167
Total Intragovernmental Future Lease Payments Due	$ -	$ 1,291	$ 92,119	$ 93,410
2. Nonfederal Operating Leases				
Future Payments Due Fiscal Year:				
2021	8	-	5,236	5,244
2022	8	-	5,230	5,238
2023	8	-	5,280	5,288
2024	9	-	5,303	5,312
2025	9	-	5,303	5,312
After 5 years	137	-	5,303	5,440
Total Nonfederal Future Lease Payments Due	$ 179	$ -	$ 31,655	$ 31,834
3. Total Future Lease Payments	$ 179	$ 1,291	$ 123,774	$ 125,244

As of September 30 (Amounts in thousands)	2019 Land and Buildings	Equipment	GSA Vehicles	Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2020	-	64	12,993	13,057
2021	-	65	13,112	13,177
2022	-	66	13,189	13,255
2023	-	68	13,263	13,331
2024	-	69	13,352	13,421
After 5 years	-	69	13,707	13,776
Total Intragovernmental Future Lease Payments Due	$ -	$ 401	$ 79,616	$ 80,017
2. Nonfederal Operating Leases				
Future Payments Due Fiscal Year:				
2020	7	60	-	67
2021	7	60	-	67
2022	8	-	-	8
2023	8	-	-	8
2024	8	-	-	8
After 5 years	49	-	-	49
Total Intragovernmental Future Lease Payments Due	$ 87	$ 120	$ -	$ 207
3. Total Future Lease Payments	$ 87	$ 521	$ 79,616	$ 80,224

The future operating lease amounts presented include estimates for motor vehicles, land and buildings, and equipment. The motor vehicle estimates are based upon current FY 2020 annualized activity levels for motor vehicles obtained for indefinite assignment under the GSA Interagency Fleet Management System (IFMS) program (Federal Property Management Regulation Section 101-39.204). The land lease includes 2.13 acres of land to construct, operate, and maintain railroad track/facilities. The lease renews yearly with options until June 30, 2036. The lease restricts usage to only railway related activities.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Nature of Contingency

The Army WCF is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the Treasury Judgment Fund. In most cases, the Army WCF does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the *Contracts Disputes Act* or the *No FEAR Act*.

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote.

Army WCF has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army WCF's financial statements. As of September 30, 2020, the Army WCF had an estimated range of loss from $900 thousand to $12 million related to employee compensation and vendor contract disputes considered reasonably possible and no claims considered probable. As of September 30, 2019, the Army WCF had an estimated range of loss from $2.2 million to $10.0 million related to employee compensation and vendor contract disputes considered reasonably possible and no claims considered probable. Estimates for litigations, claims, and assessments align with the legal representation letter and the related *Management Schedule of Information*.

Summary of Legal Contingent Liabilities						
As of September 30, 2020			Estimated Range of Loss			
(Amounts in thousands)	Accrued Liabilities		Lower End		Upper End	
Reasonable Possible	$		$	900	$	12,000

Summary of Legal Contingent Liabilities						
As of September 30, 2019			Estimated Range of Loss			
(Amounts in thousands)	Accrued Liabilities		Lower End		Upper End	
Reasonable Possible	$		$	2,200	$	10,000

As of September 30, 2020 and September 30, 2019, legal claims existed for which the estimated loss amount or the range of loss could not be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect the Army WCF's financial position or results of operation.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

Not Applicable

NOTE 19. GENERAL DISCLOSURES RELATED TO THE STATEMENTS OF NET COST

Table 19. Costs and Exchange Revenue by Business Area Major Program

For the Period Ended September 30	2020			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2020 Consolidated
1. Program Costs				
A. Gross Costs	$ 5,708,958	$ 12,217,592	$ (1,896,424)	$ 16,030,126
Operations, Readiness & Support	5,708,958	12,217,592	(1,896,424)	16,030,126
B. (Less: Earned Revenue)	(5,139,204)	(13,120,540)	1,897,243	(16,362,501)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	569,754	(902,948)	819	(332,375)
D. Net Program Costs Including Assumption Changes	569,754	(902,948)	819	(332,375)
2. Net Cost of Operations	$ 569,754	$ (902,948)	$ 819	$ (332,375)

For the Period Ended September 30	2019			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2019 Consolidated
1. Program Costs				
A. Gross Costs	$ 5,557,495	$ 15,932,449	$ (1,978,667)	$ 19,511,277
Operations, Readiness & Support	5,557,495	15,932,449	(1,978,667)	19,511,277
B. (Less: Earned Revenue)	(4,755,092)	(14,068,720)	1,978,818	(16,844,994)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	802,403	1,863,729	151	2,666,283
D. Net Program Costs Including Assumption Changes	802,403	1,863,729	151	2,666,283
2. Net Cost of Operations	$ 802,403	$ 1,863,729	$ 151	$ 2,666,283

Information Related to the Statements of Net Cost

The Statements of Net Cost (SNC) represents the net cost of programs and organizations of the Army WCF that are supported by spending authority, appropriations, or other resources. 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. Earned Revenue totaling $16.36 billion is presented net of ($1.84) billion in material returns for FY 2020. Earned Revenue for FY 2019 is $16.84 billion and presented net of ($2.3) billion in material returns.

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

Information Related to the Statements of Changes in Net Position

Other Financing Sources, Other on the Statements of Changes in Net Position primarily 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.

During FY 2020, in accordance with the Office of the Under Secretary of Defense (Comptroller) Memorandum, “Application of Capitalization Threshold for General Property, Plant, and Equipment (FPM# 19-01)”, the Army WCF retroactively applied the capitalization threshold of $250 thousand to all general equipment, which is a change from previous thresholds amounts. As such, the Army WCF decreased the gross acquisition cost by $335.8 million and accumulated depreciation by $313.7 million of general equipment, resulting in a decrease of the net book value (acquisition cost less accumulated depreciation) of general equipment balances by $22.1 million. The impact of this adjustment is reflected on the “Changes in Accounting Principles” Prior Period Adjustment line on the Statement of Changes in Net Position.

During FY 2020, in progressive steps towards achieving supportable beginning balances for General PP&E and in accordance with related initiatives across the Department of Defense, Army restated the FY 2019 net book value of real property assets that were previously erroneously reported. The impact of the change is also reflected in the Army WCF’s cumulative results of operation and related net position. The restatement reflects a net $25.3 million reduction in the Army WCF's Buildings, Structures, and Facilities.

See Note 28, *Restatements,* for more information.

NOTE 21. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance brought forward, October 1 represents the total of Recoveries of prior year unpaid obligations and Other changes in unobligated balance, previously reported separately within the Combined Statements of Budgetary Resources, and together impacting the Obligated balance, end of the prior year and brought forward, October 1, as reported.

During FY 2020, as a result of ongoing audit readiness initiatives, the Army WCF removed prior year unsupported budgetary balances from its Statement of Budgetary Resources. Because the erroneous balances were offsetting, there was no net impact to the "Unobligated Balance from Prior Year Budget Authority, net" line of the report. As a result, the prior year did not require restatement.

Terms of Borrowing Authority Used

The Army WCF has no borrowing authority.

Undelivered Orders at the End of the Period

For the Years Ended September 30	2020		2019	
(Amounts in thousands)				
1. Intragovernmental:				
A. Unpaid	$	2,983,294	$	819,341
B. Prepaid/Advanced		-		-
C. Total Intragovernmental	$	2,983,294	$	819,341
2. Nonfederal:				
A. Unpaid	$	5,753,337	$	7,403,141
B. Prepaid/Advanced		135,277		109,344
C. Total Nonfederal	$	5,888,614	$	7,512,485
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	8,871,908	$	8,331,826

Intra-entity Transactions

The Army WCF SBR includes intra-entity transactions because the statements are presented as combined.

Legal Arrangements Affecting the Use of Unobligated Balances

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

Explanation of Differences between the SBR and the Budget of the U.S. Government

There are no material differences between the prior year amounts reported on the Army WCF SBR and actual FY 2019 amounts on the Budget of the U.S. Government. The Budget of the U.S. Government with the actual amounts for FY 2020 will be available at a later date at OMB website *https://www.whitehouse.gov/omb/budget.*

Contributed Capital

The Army WCF does not have contributed capital.

Other Information Related to the Statements of Budgetary Resources

During the 4th quarter of FY 2020, in response to the COVID-19 Pandemic, the IO and SMA groups received an additional $100.0 million and $492.1 million, respectively, in appropriation and unobligated balance transfers. These funds were required to cover the Army WCF for losses associated with customer modifications to scheduled deployments, cancelled training events, and reduced demand for depot operations linked to Army's COVID-19 response, and consequently lower revenue.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

Not Applicable

NOTE 23. FIDUCIARY ACTIVITIES

Not Applicable

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Army WCF's Net Cost of Operations, reported on an accrual basis, and Net Outlays, reported on a budgetary basis. To account for this difference in reporting, the combined presentation of Net Outlays is reconciled, in part, by the change in permanent accounts (i.e. 1310, 2110 etc.) reported on line 2 through 15, gross of eliminations.

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

Components of Net Cost that are not part of Net Outlays, Other include the cost of goods sold, gains and losses related to activity and other costs that do not require the use of budgetary resources.

For the Year Ended September 30	2020		
(Amounts in thousands)	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ (7,771,818)	$ 7,439,443	$ (332,375)
Components of Net Cost That are Not Part of Net Outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (244,688)	$ (244,688)
3. Property, plant, and equipment disposal & revaluation	-	(1,433,603)	(1,433,603)
4. Year-end credit reform subsidy re-estimates	-	-	-
5. Unrealized valuation loss/(gain) on investments	-	-	-
6. Other	(172,854)	(4,926,227)	(5,099,081)
7. Increase/(decrease) in assets:			
7a. Accounts Receivable	33,588	(6,662)	26,926
7b. Loans Receivable	-	-	-
7c. Investments	-	-	-
7d. Other assets	10,163	35,434	45,597
8. (Increase)/decrease in liabilities:			
8a. Accounts payable	(192,267)	45,032	(147,235)
8b. Salaries and benefits	(5,243)	(31,694)	(36,937)
8c. Insurance guarantee program liabilities	-	-	-
8d. Environmental and disposal liabilities	-	(210,631)	(210,631)
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	181,758	160,752	342,510
9. Other financing sources:			
9a. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(147,292)	-	(147,292)
9b. Transfers out (in) without reimbursement	-	-	-
9c. Other imputed financing	-	-	-
10. Total Components of Net Cost That Are Not Part of Net Outlays Not Part of Net Outlays	$ (292,147)	$ (6,612,287)	$ (6,904,434)
Components of Net Outlays That Are Not Part of Net Cost			
11. Effect of prior year agencies credit reform subsidy re-estimates	-	-	-
12. Acquisition of capital assets	-	3,055,814	3,055,814
13. Acquisition of inventory	2,083,639	3,205,120	5,288,759
14. Acquisition of other assets	-	-	-
15. Other	(1)	-	(1)
16. Total Components of Net Outlays that are Not Part of Net Cost	$ 2,083,638	$ 6.260,934	$ 8,344,572
17. Other Temporary Timing Differences	-	-	-
18. Net Outlays	$ (5,980,327)	$ 7,088,090	$ 1,107,763
19. Agency Outlays, Net, Statement of Budgetary Resources			$ 1,432,350
20. Reconciling Difference			$ (324,587)

For the Year Ended September 30	2019					
(Amounts in thousands)	Intragovernmental		With the Public		Total	
1. Net Cost of Operations (SNC)	$	(8,228,274)	$	10,894,557	$	2,666,283
Components of Net Cost That are Not Part of Net Outlays:						
2. Property, plant, and equipment depreciation	$	-	$	(214,731)	$	(214,731)
3. Property, plant, and equipment disposal & revaluation		-		(1,311,239)		(1,311,239)
4. Year-end credit reform subsidy re-estimates		-		-		-
5. Unrealized valuation loss/(gain) on investments		-		-		-
6. Other		(153,379)		(7,767,874)		(7,921,253)
7. Increase/(decrease) in assets:						
7a. Accounts Receivable		(203,156)		(3,788)		(206,944)
7b. Loans Receivable		-		-		-
7c. Investments		-		-		-
7d. Other assets		(8,749)		43,849		35,100
8. (Increase)/decrease in liabilities:						
8a. Accounts payable		200,433		(266,174)		(65,741)
8b. Salaries and benefits		(1,885)		(12,793)		(14,678)
8c. Insurance guarantee program liabilities		-		-		-
8d. Environmental and disposal liabilities		-		(291,098)		(291,098)
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)		(57,584)		(473)		(58,057)
9. Other financing sources:						
9a. Federal employee retirement benefit costs paid by OPM and Imputed to the agency		(167,688)		-		(167,688)
9b. Transfers out (in) without reimbursement		-		-		-
9c. Other imputed financing		-		-		-
10. Total Components of Net Cost That Are Not Part of Net Outlays Not Part of Net Outlays	$	(392,008)	$	(9,824,321)	$	(10,216,329)
Components of Net Outlays That Are Not Part of Net Cost						
11. Effect of prior year agencies credit reform subsidy re-estimates		-		-		-
12. Acquisition of capital assets		5		2,977,595		2,977,600
13. Acquisition of inventory		2,294,729		2,795,191		5,089,920
14. Acquisition of other assets		-		-		-
15. Other		-		-		-
16. Total Components of Net Outlays that are Not Part of Net Cost	$	2,294,734	$	5,772,786	$	8,067,520
17. Other Temporary Timing Differences		-		-		-
18. Net Outlays	$	(6,325,548)	$	6,843,022	$	517,474
19. Agency Outlays, Net, Statement of Budgetary Resources					$	378,969
20. Reconciling Difference					$	138,505

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships are defined as "risk- sharing arrangements or transactions lasting more than five years between public and private sector entities." SFFAS 49, *Public-Private Partnerships* establish disclosure requirements. The Army has assessed its agreements and has not identified any Public-Private Partnerships to date.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

Not Applicable

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

Not Applicable

NOTE 28. RESTATEMENTS

During 4th Quarter, FY 2020, in progressive steps towards achieving supportable beginning balances for General PP&E and in accordance with related initiatives across the Department of Defense, Army restated the FY 2019 net book value of real property assets on the Balance Sheet. These balances were previously erroneously reported by the Army WCF. The impact of the change is also reflected in the Army WCF's cumulative results of operation and related net position. The restatement reflects a net $25.3 million reduction in the Army WCF's Buildings Structures & Facilities.

NOTE 29. COVID-19 ACTIVITY

The COVID-19 pandemic has resulted in shifts in mission and priorities across the Department. As a result, demand declined below initial targets, directly impacting earned revenue and cash availability. During the 4th quarter of FY 2020, the IO and SMA groups received an additional $100.0 million and $492.1 million, respectively, in appropriation and unobligated balance transfers. These funds were required to cover the Army WCF for losses associated with customer modifications to scheduled deployments, cancelled training events, and reduced demand for depot operations linked to Army WCF's COVID-19 response, and consequently lower revenue. These funds have been fully expended.

See Note 13, *Military Retirement and Other Federal Employment Benefits*, and Note 21, *Disclosures Related to the Statements of Budgetary Resource*s, for more discussion on the impact of COVID-19.

NOTE 30. SUBSEQUENT EVENTS

The Army WCF does not have subsequent events as of November 9, 2020.

NOTE 31. RECLASSIFICATION OF BALANCE SHEETS, STATEMENTS OF NET COST, AND STATEMENTS OF CHANGES IN NET POSITION FOR COMPILATION IN THE U.S. GOVERNMENT-WIDE FINANCIAL REPORT

Not Applicable

Department of Defense — Army Working Capital Fund

SCHEDULE OF DISAGGREGATED BUDGETARY RESOURCES

For the Periods Ended September 30, 2020 and 2019

Amounts in thousands	Industrial Operations	Supply Management Activities	Component	2020 Combined	2019 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,403,512	$ 428,345	$ -	$ 4,831,857	$ 3,933,498
Appropriations (discretionary and mandatory)	295,467	194,276	-	489,743	264,365
Contract Authority (discretionary and mandatory)	77,424	8,547,368	-	8,624,792	8,854,632
Spending Authority from offsetting collections (discretionary and mandatory)	4,871,695	-	-	4,871,695	4,703,517
Total Budgetary Resources	$ 9,648,098	$ 9,169,989	$ -	$ 18,818,087	$ 17,756,012
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 5,468,730	$ 9,094,052	$ -	$ 14,562,782	$ 14,223,499
Unobligated balance, end of year:					
Apportioned, unexpired accounts	4,179,368	75,937	-	4,255,305	3,532,513
Unexpired unobligated balance, end of year	4,179,368	75,937	-	4,255,305	3,532,513
Unobligated balance, end of year (total)	4,179,368	75,937	-	4,255,305	3,532,513
Total Budgetary Resources	$ 9,648,098	$ 9,169,989	$ -	$ 18,818,087	$ 17,756,012
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	408,253	1,023,751	346	1,432,350	378,969
Distributed offsetting receipts (-)					
Agency Outlays, net (discretionary and mandatory)	$ 408,253	$ 1,023,751	$ 346	$ 1,432,350	$ 378,969

Department of Defense — Army Working Capital Fund

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

For the Years Ended September 30, 2020 and 2019
(In Millions)

	Fiscal Year 2020			**Fiscal Year 2019**		
Property Type	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)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$16,129	$ 1,858	12%	$13,029	$1,484	11%
Category 2: Buildings Structures, and Linear Structures (Heritage Assets)	$10,196	$1,433	14%	$6,696	$1,050	16%
Inactive Real Property						
Category 3: Building, Structures, and Linear Structures (Excess Facilities or Planned for Replacement	$718	$136	19%	$612	$132	22%

Per DoD Financial Management Regulation 7000 14-R (December 2016), Volume 6B, Chapter 12; Para 120303, the Army's deferred maintenance estimates for FY 2020 and FY 2019 include all facilities in which DoD has an 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 Installation Status Report (ISR) fourth quarter FY 2020 and FY 2019 or Q-ratings obtained by application of business rules described below. For FY 2020 and FY 2019, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x 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 of all ownership interests 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. A Disposal Completion Date is associated with the Asset
    4. A Disposal 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
    3. A Disposal 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

The Army WCF’s depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. The Army WCF is in the process of developing a methodology to identify and properly report the value of deferred maintenance and repair requirements for its equipment.

FY 2020 U.S. ARMY ANNUAL REPORT COVER CAPTIONS

1. Volcano system training using a UH-60 Blackhawk (U.S. Army photo by Sgt. Sarah Sangster)
2. Soldiers perform an airborne operations jump from UH-60 Black Hawk helicopters (U.S. Army photo by Master Sgt. Michel Sauret)
3. Green Berets move to load onto a helicopter for extraction during a training event (Photo courtesy of the U.S. Army)
4. A U.S. Army Soldier hugs his daughter before taking off for a deployment (U.S. Air National Guard photo by Master Sgt. Matt Hecht)
5. An Army National Guardsman helps distribute boxes of produce and canned goods at a food pantry for those experiencing food insecurity during the COVID-19 pandemic (U.S. Army photo by Army 1st Lt. Kyle Kilner)
6. Removing gear following a specific procedure to ensure there are no biohazard risks as part of a clean team training (U.S. Army photo by Sgt. Sarah D. Sangster)
7. (Photo courtesy of the U.S. Army)
8. An M88 Recovery Vehicle commander communicates via radio (U.S. Army photo by Gertrud Zach)
9. A flight engineer takes in his ‘office’ view from the ramp of his CH-47 Chinook (U.S. Army photo by Maj. Robert Fellingham)
10. U.S. Army paratroopers wait to board an aircraft prior to an airborne operation (U.S. Army photo by Spc. Ryan Lucas)

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

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(Financial Management and Comptroller)
Office of the Financial Reporting Directorate
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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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