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Fiscal Year 2011
United States Army
Annual Financial Report

America's Army: At a Strategic Crossroads

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America's Army: At a Strategic Crossroads

...Our Nation and its Army are positioned at a unique point in history...

...We must now consider the hard-won lessons of recent combat experience, current and anticipated resource constraints and the uncertainty of the future. The decisions we make will have far reaching and long lasting implications...

Transforming the Generating Force by...

...preparing, training, educating and supporting Army forces worldwide, as well as working to rapidly address the demands placed on the organization by both the current and future operating environments...

...working to provide "readiness at best value" in order to help us live within the constraints imposed by the national and international economic situation...

...working collaboratively to reform our requirements and resourcing process in order to create an organizationally aligned set of capabilities...

...developing a systematic approach to the Army's business processes that will ensure that innovative ideas and efficiencies influence future budgets...

Transforming the Civilian Workforce by...

...calling upon our Civilian Corps increasingly to assume greater levels of responsibility and accountability at organizations throughout the Army...

...integrating requirements determination; allocation and resourcing processes that identify the civilian workforce capabilities...

...improving civilian workforce lifecycle strategy; planning and operations to enhance mission effectiveness...

...establishing an integrated management system to support civilian human capital decision making...

...developing Army civilian leaders and reforming the civilian hiring process...

On the Cover (From Left to Right): Soldiers descending from an aircraft Operation Toy Drop on Fort Bragg (Photo by Tech. Sgt. Jeremy Lock) / US Army Rangers, rope bridge training (Photo by John D. Helms) / President Barack Obama and Vice President Joe Biden shake hands with the troops following the President's remarks (Photo by Pete Souza, White House) / Scouts pull overwatch during Operation Destined Strike (Photo by Sgt. Brandon Aird) / A small boy waves an American flag as 1st Infantry Division Soldiers march by during the Sundown Salute Parade (U.S. Army photo by Mollie Miller, 1st Inf. Div. Public Affairs) / U.S. Army Spc. Adam Supino takes a break while on a security halt (U.S. Air Force photo by Staff Sgt. Ryan Crane) / U.S. Army Soldiers in Iraq (U.S. Army photo).

On the Inside Cover: U.S. Army Capt. Scott Hall looks out the door of a UH-60 Black Hawk helicopter while flying over the Logar province in Afghanistan. (Photo by Sgt. Gustavo Olgiati).



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01

John M. McHugh | Secretary of the Army



“We remain committed to fielding the finest Army in the world – for the security of our Nation, its interests and the American people.”

This year marked the tenth anniversary of the terrorists attacks of September 11th, 2001. These attacks precipitated a decade-long conflict that has seen our Soldiers deploy, fight and win against skilled and determined enemies in two very different theaters. Throughout this challenging period, the United States Army – 1.1 million strong and our 300,000 Civilian employees have been focused on achieving victory in these conflicts while simultaneously preparing to meet unforeseen threats to America's security.

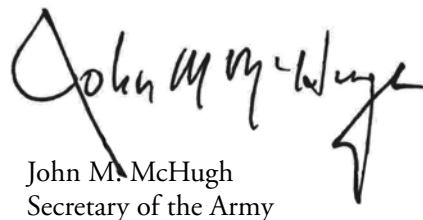
This period of continuous war has seen great change. We have modernized and modularized our formations, expanded and updated our Family support services, and begun the daunting challenge transforming the institutional Army to meet the needs of an expeditionary, 21st century force. We've done incredible work and accomplish a great deal. We should be proud.

But we cannot rest on our laurels or take for granted that the plans we have designed will be executed precisely as we've laid them out. After a decade of expanding budgets, we have entered an era of constrained resources. In order to continue to provide the best this Nation and our Soldiers and their Families deserve, we must continuously evaluate our organizations and systems to identify and eliminate redundancies, and ensure we remain good stewards of taxpayer resources.

Inherent in this regard is our continuous improvement in accounting for and reporting each and every obligation and expenditure. The trust and confidence the American people place in their Army is based in large measure on their faith in our professionalism. As such, we recognize our responsibility to provide open, accurate information on how we're using the resources the Nation provides. The Fiscal Year 2011 Financial Statements disclose how we've effectively and efficiently used taxpayer dollars to lead, train, organize and equip America's Army.

What our Army has accomplished on the battlefields during this decade of war has been nothing short of miraculous – and it is a testament to the courage, character and conviction of our Soldiers, their Families and our great Department of the Army Civilians. It is incumbent upon each of us, as we prepare to make the difficult fiscal choices ahead, that we keep foremost in our minds our commitments to the America people, our Soldiers and their Families.

We remain committed to fielding the finest Army in the world – for the security of our Nation, its interests and the American people. And, we remain committed to improving our systems and continuing to transform the institutions that prepare, train, educate and support our Soldiers and their Families. By better identifying and implementing efficiencies in everything we do, from our business practices and family programs, to our personnel management, equipment acquisitions, and improved auditability, we will uphold our commitments to both America's Army and the American People and remain the Strength of the Nation.



John M. McHugh
Secretary of the Army

02

Mary Sally Matiella Assistant Secretary of the Army
(Financial Management and Comptroller)



*“Fiscal year 2011
represented a
year of historic
accomplishments for
the Army.”*

The Army's resource managers are responsible for ensuring the efficient and effective use of taxpayer funds in training, organizing and equipping the Army, and for reporting results in a transparent manner. The Nation's fiscal constraints and growing budget concerns provide additional incentives to continue improving our business processes and systems and drive more reliable information from our business systems. We are several years into changing our business systems, processes, and reporting capabilities allowing us to better manage our resources and, improve our ability to support our Soldiers and their families.

Our changing financial management processes rely upon the successful deployments of state-of-the-art technology embedded in our enterprise resource planning (ERP) systems, replacing outdated legacy systems. These ERP systems, including General Fund Enterprise Business System (GFEBS), Global Combat Support System-Army (GCSS-A), Integrated Pay and Personnel System-Army (IPPS-A) and Logistics Modernization Program (LMP), are beginning to enable the effective and controlled processes required to sustain our financial environment. These ERP implementations are challenging, and represent the largest of their kind in the world in terms of users, geographic reach, and transaction volume. Together, GFEBS, GCSS-A, IPPS-A and LMP will provide a real-time, transparent integrated view of the Army's business and financial operations.

Throughout this change, the most important and telling outcome will be financial statements that can be independently validated and audited. In August 2011, the Army made substantial gains toward achieving auditable financial statements by receiving an unqualified audit opinion on our general fund appropriations received balance. This means an independent accounting firm validated that we properly accounted for, controlled and reported more than \$232 billion Congress appropriated to the Army. This represents a substantial component of the Army's financial statements, a significant audit readiness accomplishment, and provides Congress and the American taxpayers' assurance that we accurately account for our appropriated resources.

In fiscal year 2011 we began the annual cycle of financial statement audits to introduce Army headquarters, Commands, installation, and unit personnel to audit requirements and to ensure the Army's ERP systems and supporting business processes support a financial statement audit. Additionally, I directed the initiation of readiness activities across all Army Commands and installations to prepare the Army to meet the Congressional requirement of asserting auditable financial statements by fiscal year 2017. Each year we will continue these audit readiness activities across our business processes and systems to ensure we have implemented an effective internal control environment that allows us to achieve and sustain audit readiness.

Fiscal year 2011 represented a year of historic accomplishments for the Army. With GFEBS, GCSS-A, IPPS-A and LMP as important enablers, I look forward to the business operations and financial management communities building upon our successes in fiscal year 2012 and beyond. The Army is committed to continuous improvements in our business environment and providing our leaders with timely, accurate and reliable business and financial information. The results of our transformation directly impact our Commanders' ability to execute their missions. Consequently, we must do everything in our power to provide them with our best effort.



Dr. Mary Sally Matiella, CPA
Assistant Secretary of the Army
(Financial Management and Comptroller)

03

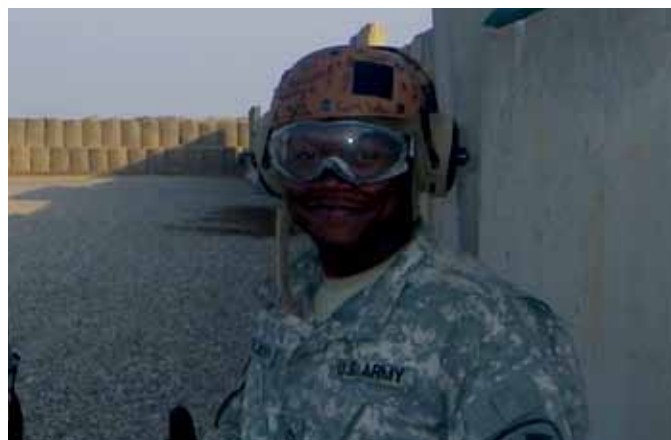


“The strength of our democracy has always rested on the willingness of those who believe in its values and in their will to serve, to give something back to this country, to fight and to sacrifice; above all, to do that in times of crisis”

— The Honorable Leon E. Panetta
(Secretary of Defense)

Management's Discussion and Analysis





Overview

Over the last ten years the Army has gone through unprecedented change and high operational tempo (OPTEMPO), not experienced since its founding over 236 years ago. The Army of 2011 has radically changed from the Army of 2001 due to improved equipment, training, and the collective lessons learned by leaders and Soldiers during this time of war. Our Soldiers and leaders at all levels are battle-hardened and combat-proven throughout the ranks. Despite the significant improvements made by the Army, it continues to face many challenges in the future, some foreseen, but many others that may not be foreseen. During fiscal year (FY) 2011, the stress on the force has eased and the Army has restored balance. The Army now has strategic flexibility and operational depth to respond to other contingencies and continues to be the strength of the nation.

The Army continues to sustain the quality and viability of the all-volunteer force. Significantly, in FY 2011 the Army exceeded its recruiting goals both numerically and qualitatively for the active Army and the Army Reserve (USAR) and 94 percent of its recruiting goal for the Army National Guard (ARNG). It also met 97 percent of its retention goals for the active Army, 109 percent for the Army Reserve and 115 percent for the Army National Guard. In order to sustain the all-volunteer force, the Army has improved the quality of life for Soldiers and their Families by standardizing Army Community Service staffing and programs, adding 1,170 family readiness support assistant positions and completing 84 child development centers. The Army also has eliminated its inventory of inadequate family housing in the continental United States and is on track to eliminate overseas inadequate housing by the end of FY 2016. In addition, inadequate permanent party, single-soldier barracks are on track to be modernized and occupied by FY 2015.

In preparing Soldiers, units and equipment for current and future operational environments, the Army has adopted the

Army Force Generation (ARFORGEN) process to leverage modular designs and create a sustainable and predictable deployment schedule for Soldiers and their Families with the ability to surge combat power for major contingencies. In FY 2011, the Army exceeded its air and ground OPTEMPO goals for the USAR and ARNG and air OPTEMPO goal for the active Army. Due to limited dwell times between rotations, the impact of equipment reset requirements, and unprogrammed changes in unit deployment schedules, the active Army met 92 percent of its ground OPTEMPO goal. The Army conducted 19 of 24 Combat Training Center Rotations, 38 of 40 planned exercises and 9 of 10 counterinsurgency (COIN) seminars. The Army has also invested heavily in modernizing the force, accelerating the fielding of the M4 Carbine, enhancing night vision devices, and providing the best camouflage uniforms and protective equipment possible. In addition, the Army's Rapid Equipping Force (REF) introduced over 221 different types of equipment (representing 34,245 individual items) to meet operational requirements on short notice during FY 2011.

Resetting equipment and units to full capacity through ARFORGEN is in full swing, with over 80,000 items of organic equipment reset by the end of July 2011. The Army continues to execute a responsible drawdown in Iraq that has retrograded over 2.5 million pieces of equipment to meet other Army-wide requirements, closed 471 of 505 bases and is on track to complete the drawdown of all U.S. forces in Iraq by 31 December 2011. To improve efficiency, the Army continues to implement the Single Army Logistics Enterprise (SALE) as the overarching logistics business and information technology framework. The SALE provides an efficient, streamlined and integrated end-to-end business process in line with commercial business practices enabling the efficient and effective management of the Army's world-wide logistics system.

The Army continues its transformation process; its conversion to a modular force, carefully balanced between the Active Component (AC) and Reserve Component (RC), is nearly complete. The Army has completed conversion of 42 of the



45 active brigade combat teams (BCTs) and completed the conversion of all 28 ARNG BCTs. In transforming LandWarNet with the Network of 2020 imperatives, the Army is reforming nearly every aspect of network design, implementation and management. The objective of the Network of 2020 is to make construction and operation easier, more efficient and cheaper while improving security and effectiveness to the user. The Army has also executed or initiated eight deployment infrastructure projects to improve force generation and projection. The Army has also continued to reposition forces worldwide and completed the requirements of the Base Realignment and Closure (BRAC) Commission on 15 September 2011. During BRAC, the Army closed 398 and realigned 53 installations. In meeting the requirements of the 2005 BRAC, the Army completed 329 military construction projects at a cost of \$13.5 billion.

Now that the Army has restored balance, its focus is shifting to reconstituting the force for other missions, dealing with the impacts of over ten years of persistent conflict and setting conditions for the future. The Army must sustain its all-volunteer force by providing depth and versatility to the joint force, being more effective in its employment and providing greater flexibility for national decision-makers in defense of our interests at home and abroad. The Army must ensure that it remains the Nation's source of decisive action.

Mission and Organization of the Army

The Army's mission is to support the national military strategy by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission has remained constant throughout the 236-year life of the Army; however, the environment and nature of conflict have changed dramatically over that same time. This is especially true in the

context of today's security environment in an era of protracted confrontation among state, non-state, and individual actors who are increasingly willing to use violence to achieve their political and ideological ends. New adversaries and the growth in asymmetric warfare have compelled the Army to transform how it trains and equips its Soldiers, how those Soldiers are organized, and how they fight.

The Army is committed to remaining the world's preeminent land power—relevant and ready at all times to serve the nation and to support our allies. The Army will continue to supply combatant commanders with the forces necessary to defeat any adversary, in any situation, at any time. The Army, therefore, must fully train and appropriately organize its forces, develop innovative and adaptive leaders, and design support structures that are appropriate for the twenty-first century global security environment.

The Army is a large and complex organization, with more than 566,000 Active Components (AC) and over 567,000 Reserve Components (RC) Soldiers. Over 231,000 AC and RC Soldiers are currently deployed or forward-stationed. The Army's Soldiers are supported by over 284,000 Army civilians, who are critical members of the institution at every level.

The Army is organized with the primary objective to support and sustain the mobilization, training, and deployment of its Soldiers anywhere in the world. The Headquarters, Department of the Army (HQDA) (Figure 1), under the direction of the Secretary of the Army and the Army Chief of Staff, leads and manages the entire Army. The HQDA consists of the Army Secretariat and the Army Staff (ARSTAF). The Secretariat is responsible for Army-wide policy development, promulgation, and oversight. The ARSTAF assists the Secretariat in the conduct of long-range planning, resource determination and allocation, the development of Army-wide objectives, the formulation of broad policy guidance, and the supervision and control of Department of the Army activities.

The Army's command structure (Figure 2) consists of two interdependent pieces: the war-fighting or operating force and the generating force. Organizations that report to HQDA consist of Army commands, Army service component commands, and direct reporting units.

The operating force consists of numbered armies, corps, divisions, brigades, and battalions that conduct full-spectrum operations (FSO) around the world. The generating force supports the operating force. Generating force organizations provide the infrastructure necessary to raise, train, equip, deploy, and ensure the readiness of all Army forces. Without the generating force, the operating force cannot function. Without the operating force, the generating force has no purpose.

The operational Army provides the land-power capabilities for the combatant commander. Within the operational Army, the transition continues from a division-centric war-fighting force to a brigade-centric force. At the heart of this change is the modularization and standardization of Army BCTs, a process that is essential to the development of a rapidly deployable, flexible, and powerful force.

Viewed by its constituent elements, the Army is separated into the AC and RC. The AC consists of full-time Soldiers assigned to the operational and institutional organizations that

*Figure 1 – Headquarters,
Department of the Army
(HQDA)*

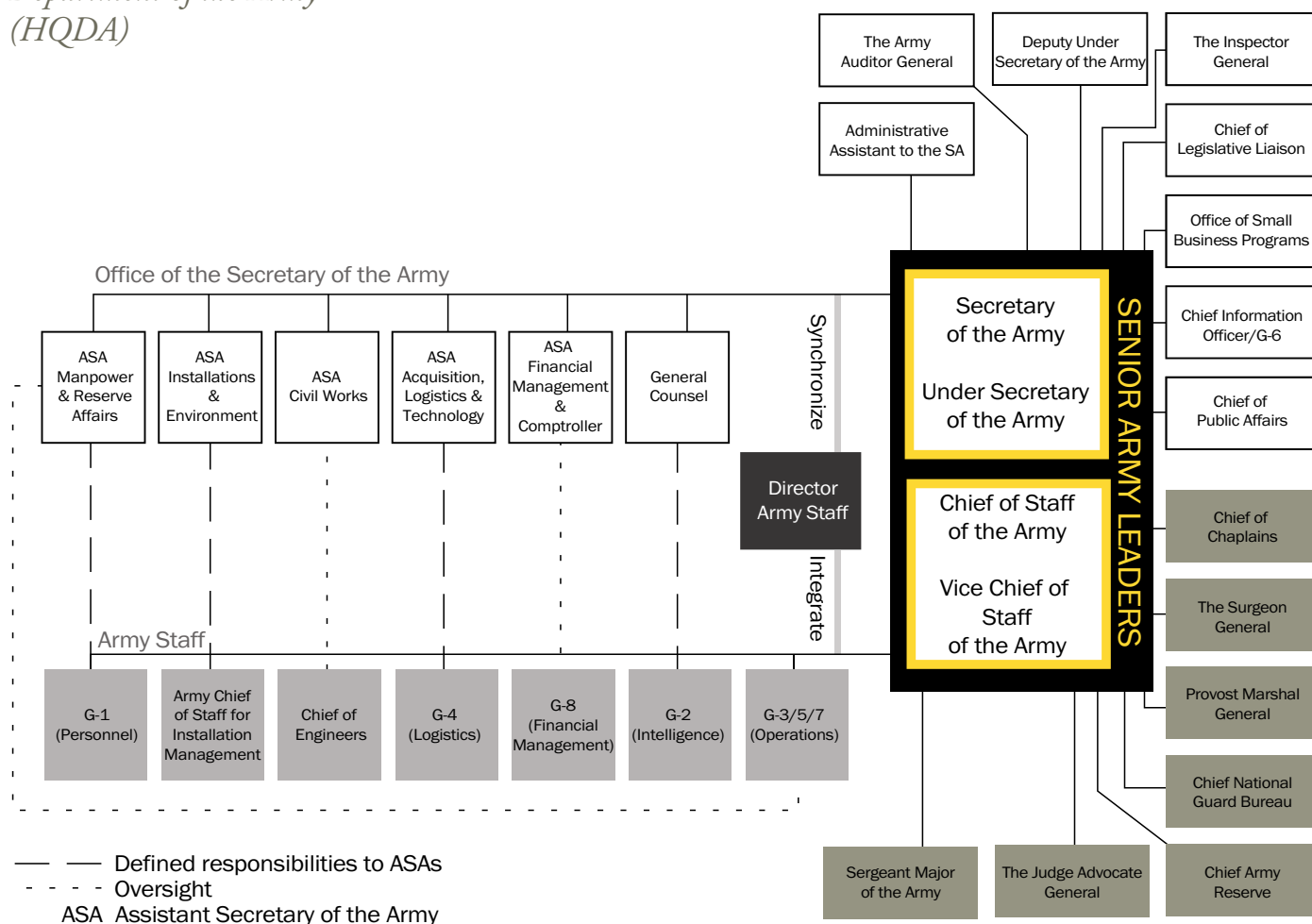
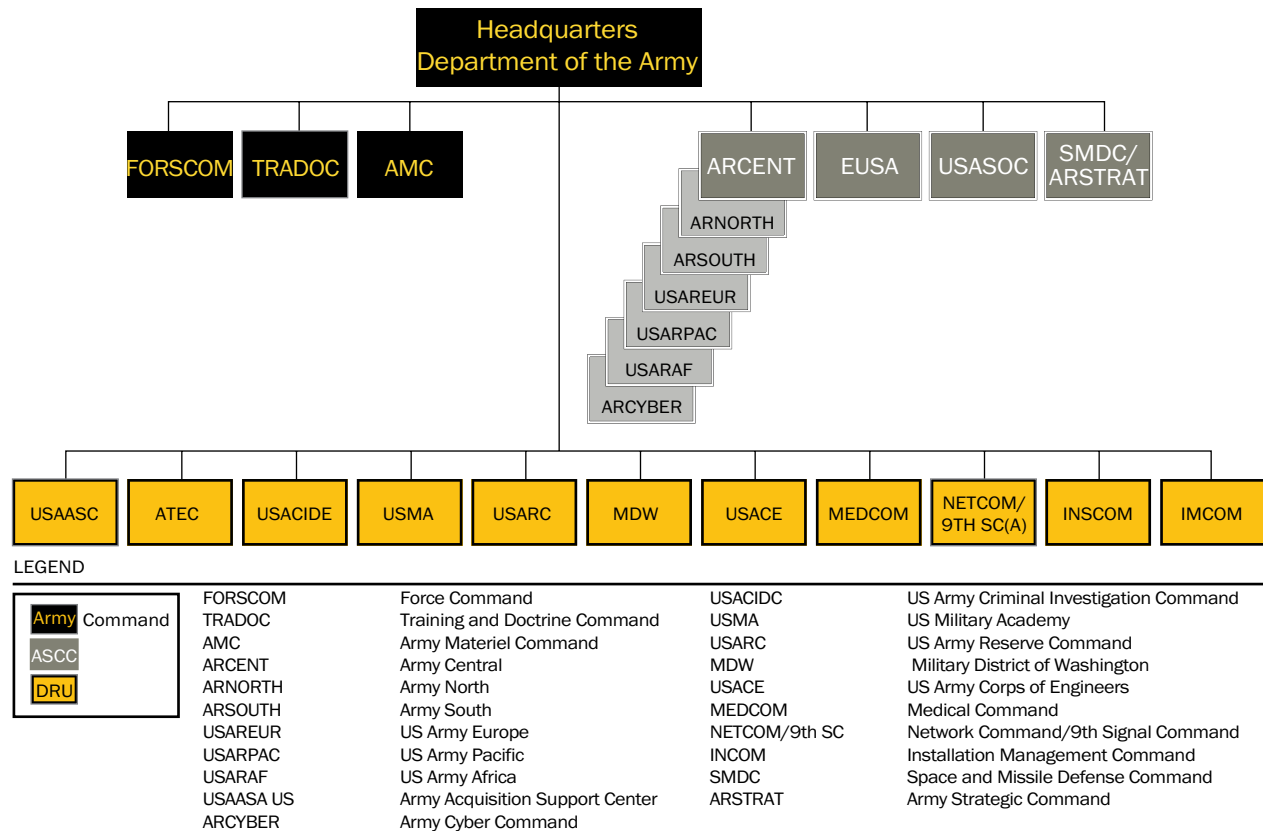


Figure 2 – Army Command Structure



perform day-to-day Army missions. The RC consists of the ARNG and the USAR. The Congress annually reviews and mandates the number of Soldiers that the Army may maintain.

The ARNG has two missions: federal and state. Its federal mission is to provide trained and ready forces for wartime, national emergencies, and other requirements, as an operational focus. Its state mission is to train for, and respond to, domestic emergencies and other missions as required by state law. Unless federally mobilized, ARNG units are commanded by their state executive, usually the governor.

The USAR is the primary federal reserve force of the Army. The USAR provides specialized units and resources to support the deployment and sustainment of Army forces around the globe. In addition, the USAR is the main source of individual Soldiers to augment headquarters staff and to fill vacancies in the AC.

The Army has met the challenges of the nation for over 236 years. It is postured to continue to defend the nation regardless of the challenges it faces in the future. The Army's effort to restore balance enables it to be ready whenever and wherever the nation calls.

Performance Goals, Objectives, and Results

The Army continues to prosecute the longest war in our nation's history in Afghanistan and, by the end of FY 2011, conclude the war in Iraq. More than 1 million of our country's men and women have deployed to combat; more than 6,200 have sacrificed their lives; and more than 46,400 have been wounded. The Army continues to be the leader in this war, protecting our national interests while helping others to secure their freedom. After more than ten years of continuous combat, the Army is back in balance. The Army continues to sustain the all-volunteer force and once again have the strategic depth to confront a multitude of security challenges during a time of significant uncertainty, historic change, and declining defense resources. The stress on the force has eased in FY 2011 as the demand for forces lowers with the conclusion of Operation New Dawn. The Army is funded and poised largely to meet its performance goals by the end of FY 2012.

The Army must strengthen the Profession of Arms and preserve the All-Volunteer Army. It must also build on leaders' current



experience and improve its leader development systems; build a versatile mix of capabilities, formations, and equipment and continue its efforts to enhance the capabilities of its Soldiers by maintaining its focus on Army Families. As the Army looks to the future, it must also provide flexibility to leaders, while sustaining dominance across a range of operations. In this regard, it is critical that the Army implement a modernization plan that enables it to develop, field, and sustain equipment in a more responsive and affordable manner. The Army will make fiscally informed investments, thoroughly reviewing costs, benefits, risks, and potential areas for trade-offs. It will fully align requirements, acquisition, resourcing, and sustainment processes to ensure all are focused on a common goal. Finally, the Army will develop, field, and sustain the right equipment in an incremental and iterative manner to provide Soldiers and units the capabilities they need to be successful in any operational scenario.

In FY 2011, the Army updated the Cost of the Doctrinal Army Model using improved and refined methods and the latest force structure associated with accomplishing the missions assigned by the Office of the Secretary of Defense. The Cost of the Doctrinal Army estimate is performed annually independent of the standard Planning, Programming, Budgeting and Execution (PPBE) process. This estimate tells the Army what it should cost to carry out its missions, using fully equipped and staffed units operating in accordance with established Army Doctrine. The Army has found these top-down cost estimates are comparable to the results contained through PPBE which is a bottom-up process. The Cost of the Doctrinal Army identifies the steady-state Army force structure and associated equipment and facilities, and then depreciates the equipment and facility assets to account for the annual investments needed to renew or replace the assets. The estimate includes only peacetime costs, excluding overseas contingency operations (OCO). The result is a Cost of the Doctrinal Army for FY 2012 of \$186.5 billion. The Army will continue to refine its methodology and resourcing strategy so we produce the leanest possible estimate, while

accurately articulating the cost of the Army and its doctrinal and operational capabilities to the Congress and the American people.

The costs associated with full implementation of the President's Temporary End-Strength Increase of up to 22,000 AC Soldiers resulted in an annual estimate of \$1.59 billion in FY 2011 and \$1.08 billion in FY 2012.

The Army has identified four imperatives – sustain, prepare, reset, and transform – that must be addressed in order to maintain current capabilities and preserve the All-Volunteer Force. The following sections discuss goals and program performance results in the context of the four imperatives.

Sustain

The Army must maintain the quality and viability of the all-volunteer force as well as the many capabilities it provides the nation in order to sustain Soldiers, 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 helps to improve retention rates.

Manning the Force – Recruiting and Retaining Soldiers

While the recruiting environment is challenging, the Army remains committed to bringing only the very best into its ranks. The Army's goal for Tier 1 Educational Credential Holders (e.g., those with high school diplomas or above) is to constitute no less than 90 percent of new recruits. The Army achieved 99 percent Tier 1 recruits in FY 2011, which is a 1 percent increase from FY 2010 and a 4 percent increase from FY 2009. The overall attrition rates remained virtually unchanged over the last 3 years. The static rate and overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force.



The Army was able to meet its recruiting requirements in all components. To meet these requirements, the Army adjusted several recruiting initiatives, such as Active First, the Army Prep School, and the Army Advantage Fund due to the current economy. Economic conditions in FY 2012 are also expected to yield high-quality recruits.

Due to OCO, several special skills remain in high demand. In FY 2011, the Army continued to offer a Critical Skills Retention and Accession Bonus (CSRB) to attract and retain personnel in specific skills areas, including Special Forces, Criminal Investigations, Military Intelligence, and Field Artillery. Further, medical-related CSRBs were offered to critical specialties including clinical psychologists, physician's assistants, and maxillofacial/oral surgeons. These bonuses, which are a vital tool in retaining Soldiers who possess valuable combat experience, have helped the Army to exceed its retention goal for FY 2011. Careful and deliberate adjustments to bonuses, including which critical skills are targeted, were made to retain the correct mixture of skilled Soldiers.

Recruiting and retaining Soldiers who are confident, adaptive, competent, and able to handle the full complexity of 21st century warfare in this combined, joint, expeditionary environment is a highly competitive endeavor. The Army will continue to develop and to implement programs to address this challenge.

Improving the Quality of Life for Soldiers and Their Families

In order to retain Soldiers, the Army must care for them and their Families by providing exceptional programs and services that support their well-being and meet the needs of their Families. The Army is committed to improving the quality of life for Active, Guard, and Reserve Soldiers and their Families that is equal to the quality of their service. The Army continues to demonstrate this commitment through the Army Family Covenant and the Soldier Family Action Plan. In FY 2011, the Army standardized Army Community Service staffing and programs to meet operational and staffing shortfalls. Other improvements include adding the following programs:

- Adding 1,170 family readiness support assistant positions;

Table 1 – Quality – Percent Tier 1 Educational Credential Holders (Active Component)

TIER 1	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Goal	90%	90%	90%	90%	90%
Actual	79%	83%	95%	98%	99%



- Increasing the number of military family life consultants from 112 (FY 2005) to 620 (FY 2010);
- Completing 84 child development centers since January 2008, which provided an additional 13,367 child care spaces and significantly reducing waiting lists at 41 installations;
- Maintaining 95 percent national accreditation of Army child development programs;
- Providing over 1 million hours of respite child care to reduce stress on deployed Families;
- Supporting more than 150,000 geographically dispersed AC and RC children who participated in youth outreach activities, camps, and workshops offered through Operation Military Kids in 49 states;
- Maintaining Soldier and Family Assistance Centers; and
- Placing thousands of spouses in jobs through the Army Spouse Employment Program.

Warrior Care and Transition

With the continued maturation of the Army's Warrior Care and Transition Program, wounded, ill, and injured Soldiers and

their Families are receiving the care management and support they both need and deserve. The Warrior Transition Command (WTC) was established to ensure focused and effective management of all aspects of the Warrior Care and Transition Program. In FY 2011 the Army dedicated \$900 million to resource the WTC mission with support staff, training, information technology, and investments in 20 facilities, 31 Soldier Family Assistance Centers, and 64 administrative headquarters. Staff across the enterprise included all components, civilians, and contractors – in total nearly 4,000 squad leaders, platoon sergeants, nurse case managers, and support staffs facilitate the coordination of care across both warrior transition units (WTUs) and community-based WTUs (CBWTU).

With the WTC at the helm, the Army is caring for a total of approximately 18,000 Soldiers and veterans annually. The WTC's wounded warrior program cares for approximately 8,100 severely wounded Soldiers and veterans with cases spanning from Post-Traumatic Stress Disorder to double amputees. This population is supported by 191 advocates in various locations across the country. There are over 2,200 wounded warriors supported at nine CBWTUs that allow them to heal in their home communities while remaining with their Families. Approximately 7,700 more wounded warriors are supported at 29 WTU locations across the nation.

Table 2 – Recruiting

	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Goal	FY 2011 Actual
Active Component	80,407	80,517	70,045	74,577	64,000	64,019
Army National Guard	62,914	62,397	52,014	57,204	53,000	47,206
Army Reserve	27,004	26,945	23,684	26,795	19,320	19,996

To support each warrior in transition's (WT) return to the force or to veteran status, the Army developed a systematic framework known as the comprehensive transition plan (CTP). The CTP is a six-part process, which includes an individual plan created by the WT with the assistance of dedicated cadre and support personnel. Using a standardized framework, this process enables wounded and ill Soldiers to customize their recovery plan, enabling them to set and reach their personal goals. In FY 2011, funding supported the return to duty of approximately 50 percent of the wounded warrior population. Other warriors have successfully transitioned to civilian life furthering their

*Table 3 – Active Component
End Strength Within 2 Percent*

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Goal	518,400	529,191	552,400	562,400	569,400
Congressional Baseline	518,400	525,400	532,400	562,400	569,400
Actual	522,017	543,645	553,044	566,045	566,500
Percent Delta	+0.7%	+3.5%	+3.9%	+0.7%	-0.5%

Performance Measure: The number of Soldiers on active duty at the end of the year; data are as of the end of each fiscal year. When the President declares a state of national emergency, end-strength limits can be waived.

*Table 4 – Reserve (ARNG and
USAR) End Strength Within
2 Percent*

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Goal	550,000	556,300	563,200	563,200	563,200
Actual	542,589	557,375	563,688	567,296	567,010
Percent Delta	-1.3%	+0.2%	+0.1%	+0.7%	+0.7%

Performance Measure: The number of Soldiers in the ARNG and the USAR at the end of FY 2011. When the President declares a state of national emergency, end-strength limits can be waived.

*Table 5 – Active and Reserve
Component Retention*

	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Goal	FY 2011 Actual
Active Component	62,200	73,913	68,387	60,000	45,000	43,626
Army National Guard	37,578	29,618	36,672	30,472	34,429	39,750
Army Reserve	16,571	16,523	11,163	10,330	11,663	12,934

Performance Measure: Measures the number of Soldiers reenlisted during a given FY against the published goals. All components achieved their retention mission for FY 2011. The AC FY 2011 actual includes Soldiers who extended enlistments for deployment through the Deployment Extension Incentive Pay program.



education and/or obtaining positions in the workplace. Initial success indicators can also be attributed in part to an aggressive non-clinical rehabilitative program. Funding-supported pillars of this program include activities such as adaptive reconditioning activities (sports, mental, etc); the inauguration of the world class para-athlete competition Warrior Games (physical/mental); comprehensive Soldier fitness – performance enhancement and other similar programs geared toward the holistic healing and mental and physical fitness of the Army's wounded and ill.

Improving Soldier and Family Housing

The Army's commitment and congressional support for housing programs continue to demonstrate our pledge to provide a quality of life for Soldiers and their Families commensurate with their service. In concert with the private sector, the Army continues to focus considerable effort on improving family housing and the Barracks Modernization Program. The Army's inventory of inadequate family housing has been eliminated at enduring U.S. locations through privatization and the demolition and divestiture of uneconomical and excess units. The Army will continue to improve or replace family housing residences worldwide in order to maintain adequate housing and meet Defense Department goals and will reflect these improvements in its property records.

All installations scheduled to have housing privatized are completed. The total number of installations where housing is privatized is 44, with an end-state inventory of 85,424 homes. The Residential Communities Initiative program is in the portfolio and asset management phase.

The Army is on track to eliminate inadequate permanent party, single-soldier barracks and to complete the modernization program for these barracks by FY 2013. The new barracks are expected to be available for occupancy in FY 2015. As of FY 2011, the Army has 146,524 adequate spaces funded of the 155,980 spaces required.

The Army's strategy to eliminate inadequate barracks for its Training Barracks Modernization Program remains on course for completion in FY 2015, with the new barracks available for occupancy in FY 2017. The goal is to construct new barracks to eliminate the deficit and to complete restoration and modernization of 91,530 Soldier (spaces) while the potential occupants attend basic training, one-station unit training, and advanced individual training. As of FY 2011, 58,893 spaces have been completed.

The Army executed four unaccompanied personnel housing privatization initiatives for staff sergeants and above at Forts Irwin, Drum, Bragg, and Stewart. Together, these facilities will provide 1,394 one-bedroom apartments in areas that have limited available rental properties for these grades.

Prepare

To prepare Soldiers, units, and equipment, the Army must maintain a high level of readiness for the current operational environments, especially in Afghanistan and Iraq, while taking into consideration potential future conflicts. The Army is continually adapting training and materiel to keep pace with an evolving enemy. We remain committed to providing our deploying Soldiers with the best available equipment, so that they can maintain a technological advantage over any enemy they may face.

Providing Support for Operational Requirements

The pace of operations in the new security environment presents a number of significant force management challenges to the Army. As a result of the Army's global commitments, approximately 187,600 Soldiers are deployed or forward-stationed in nearly 150 countries overseas. As of 21 September 2011, approximately 566,500 personnel were serving in the AC, and approximately 63,320 RC Soldiers were on mobilization orders.

Repeated deployments affect recruiting and retention and have a real impact on the Army's ability to care for Soldiers and their Families. The Army is pursuing numerous initiatives that will reduce force-management risk to meet today's challenges and to position Soldiers better for the future.

The ARFORGEN process leverages modular unit designs and the operational cycle to create a sustainable deployment posture with units that are ready in predictable patterns with the capacity to surge combat power for major operations. When fully operational, ARFORGEN will enable the Army to effectively and efficiently schedule fully-ready units for deployment, which will:

- Reduce uncertainty for Soldiers, Families, and the communities that support installations;
- Improve the availability of forces for combatant commanders;
- Generate a continuous number of available BCTs, augmented by all required supporting organizations (given appropriate mobilization authority); and
- Enable the Army to surge additional BCTs augmented by all required supporting organizations (given appropriate mobilization authority).

Training Soldiers

Initial entry training develops the Soldier's war-fighting capability through the training of individual warrior tasks and battle drills. To ensure tasks remain relevant to the operating environment, the Army reviews and updates these tasks and drills every two years.

The Army continues to augment its ability to conduct irregular warfare through several numerous functional courses that build on language and cultural competencies and improve Soldiers' and civilians' knowledge of and capabilities in electronic warfare, red teaming (opposing forces), counterterrorism, weapons of mass destruction, civil affairs, information operations, counter-explosive hazards, and operational law.

Training Units

In FY 2011, the Army provided trained and ready forces to commanders around the globe in addition to meeting critical homeland defense missions. To make sure Soldiers were combat-ready in FY 2011, they engaged in an appropriate mix of live, virtual, and constructive training. The AC and RC executed a focused and demanding ground and

Table 6 – Individual Training

	Initial Military Training						
	Basic Combat Training	One-Station Unit Training	Advanced Individual Training	Basic Officer Leader Course	Officer Candidate School	Warrant Officer Entry Course	Initial Entry Rotary Wing
2009 Trained (actual)	82,766	35,118	108,096	23,343	2,457	2,585	1,098
2010 Trained (actual)	75,922	32,126	105,050	18,977	2,306	2,273	1,132
2011 Trained (interim)	56,602	20,310	67,114	11,970	928	1,976	575

NOTES: This data represents active Army, ARNG, and USAR students graduating from AC schools. All data is based on start date (i.e. if a class starts in FY 2009 and graduates in FY 2010, it is counted in the FY 2009 data). Example: The initial basic training class that started in July 2009 is counted as a 2009 trained Soldier and is not part of the numbers in the table above. The actual trained data for 2010 and interim trained data for 2011 are as of 16 September 2011.

air training plan, which included actual miles driven and hours flown as well as virtual miles driven and hours flown associated with the use of simulators. In FY 2011, home-station training miles and hours executed were impacted by the limited dwell times between rotations, the impacts of equipment reset requirements, and unprogrammed changes in unit deployment schedules into theater.

Training Support Systems

The Army's Training Support System (TSS) enables the execution of training at home stations, Combat Training Centers (CTCs), and institutions by creating realistic conditions that reflect the operational environment. TSS provides critical training enablers including ranges and targets; live-virtual-constructive and gaming Training Aids, Devices, Simulators, and Simulations (TADSS); instrumentation systems; training facilities; maintenance support of TADSS; and training support operations and management.

The Army continues to adapt TSS to support ARFORGEN training requirements and lessons learned from current operations. At home stations, training must support Soldiers, leaders, and units conducting full-spectrum operations (FSOs) training under realistic conditions. Ranges are being modernized to integrate digital systems that enable squads and platoons to train as they fight, as well as to provide commanders and leaders with objective data to assess their units' performance and training levels. New ranges are being built at locations to support gunnery requirements in accordance with the Army Campaign Plan, and urban operations training facilities are being constructed and fielded to provide units a complex urban environment for training. This live training environment will be further enhanced with a Home Station Instrumentation Training System (HITS). HITS is a key component of a persistent live, virtual, and constructive integrated training environment that will be implemented at selected home stations. This architecture links ranges, urban complexes, and training areas to Mission Training Complexes (MTC) which house constructive simulations and gaming, as well as simulation facilities incorporated with virtual TADSS.

New and improved live-virtual-constructive and gaming TADSS are being fielded to improve training against improvised explosive devices (IEDs). Virtual simulators, IED simulators, gaming simulations, and convoy live-fire systems provide a complete package for battle drills, learning tactical techniques and procedures, and generally raising IED situational awareness.

Table 7 – Ground and Air Operational Tempo (OPTEMPO)

	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Goal	FY 2011 Actual
AC Ground OPTEMPO (Mileage)	503.0	605.0	427.0	418.0	386.0
AC Air OPTEMPO (Flight Hours)	12.6	10.0	9.9	9.1	11.4
ARNG Ground OPTEMPO (Mileage)	138.0	119.0	123.0	105.0	108.0
ARNG Air OPTEMPO (Flight Hours)	8.4	9.4	9.1	5.5	8.8
USAR Ground OPTEMPO (Mileage)	151.0	146.0	132.0	106.0	106.0
USAR Air OPTEMPO (Flight Hours)	7.8	5.5	5.1	5.6	7.3

NOTE: FY 2008 through FY 2011 reflects home-station execution only. FY 2011 amounts are estimates based on execution, as of September 2011.



The Army also is modernizing the MTCs and training simulations to increase leader and battle-staff training and to improve mission-rehearsal capabilities for deploying units. The MTCs provide units the ability to train and to sustain critical individual/operator and battle-staff skills on digital command, control, communications, intelligence, and surveillance and reconnaissance systems. The MTCs will also network with other installations and simulations to support joint training exercises. The MTC serves as the hub for an installation's live-virtual-constructive integrated training environment.

Army training modernization, including manpower and operations support required to maintain and operate TADSS, must continue to keep pace with equipment modernization and Army transformation. This will ensure that training supports current operations, addresses ARFORGEN training and readiness requirements, and enables training for FSO.

Adapting Training

In FY 2011, the Army conducted 19 of 24 planned rotations at the CTCs, 38 of 40 planned exercises, and 9 of 10 Counterinsurgency (COIN) Seminars at the Mission Command Training Program (MCTP) due to current deployment demands. The CTCs provide realistic joint and combined-arms training that approximates actual combat consistent with Army and joint doctrine. The CTCs are at the core of the Army's collective training strategy and have dedicated resources beyond those available at home-station training sites. Training is specifically tailored to prepare units for the conditions in the theater to which they will deploy as well as to provide a free-thinking enemy and lessons learned feedback through a professional staff of observer/ controllers. While the CTCs retained the capability for major combat operations-oriented unit training, which is needed for other potential theaters of war and new modular brigades, the current focus is counter-insurgency operations and lessons learned from combat in Afghanistan and Iraq. The training environment emphasizes rapid change and adaptation to current activities while using improved facilities, civilians on the battlefield, and realistic scenarios. While home station training focuses on battalion staff and company level collective training proficiency, the CTCs have the unique capability to train brigade level and above staffs and develop battalion level and above collective tasks. The complex,

Table 8 – Professional Development (AC Schools Only)

	Warrior Leader Course	Advanced Leader Course	Senior Leader Course	Sergeants Major Course Resident & Distance Learning	Intermediate Level Education Resident (ILE), Common Core	Senior Service College (SSC) Resident & Distance Learning
2009 Trained (actual)	28,368	22,321	11,248	540/495	1,110/905	257/247
2010 Trained (actual)	30,190	12,717	9,893	265/601	1,124/912	198/326
2011 Trained (interim)	25,911	10,942	9,277	265/331	1,071/614	210/338

NOTES: This data represents active Army, ARNG, and USAR students graduating from active component schools. The 2011 resident ILE classes do not graduate (1,071 inputs) until December 2011 and June 2012. All data is based on start date (i.e., if a class starts in FY 2011 and graduates in FY 2012, it is counted as FY 2011 data). Actual 2010 trained data and interim 2011 trained data are as of 19 September 2011.



event-driven scenarios challenge the BCTs to execute multiple, simultaneous missions that include integrated enablers from the Army and the joint community.

Growing Adaptive Leaders

The Army has developed and will continue to develop leaders who have proven themselves competent, confident and agile at every level in every cohort and component, in order to meet the challenges our Army and the nation face. Army leaders have performed magnificently and resiliently in two wars and under a harsh operations tempo resulting in a rich body of knowledge throughout the Army. The current operational environment proves that leaders must possess skills beyond those of pure tactical warfighting. It demands leaders who have developed skills in such disciplines as irregular warfare, information operations, negotiation, cultural awareness, stability and reconstruction operations, as well as foreign language proficiency without losing their war-fighting focus.

Due to the current high operational demand, many Army leaders are unable to attend Professional Military Education (PME) at the optimal time in their career. As a result, the Army has a large backlog at nearly all educational levels in both the AC and RC. To slow the growth of the backlog, the Army employed mobile training teams for Noncommissioned Officer Education System courses and increased the use of distributed learning to conduct PME within the constraints of ARFORGEN. As mission requirements change, the Army expects the availability of leaders to attend PME to increase significantly thus reducing the current backlog.

The Army is keenly aware of the valuable contributions of its Army Civilian Corps in supporting the National Military Strategy. The Army must provide its civilians training, education, and operational experiences that develop leader competencies and enhance their ability to support Soldiers, the Army, and the nation. The Army has accomplished this by revamping the Civilian Leader Development Program into a system that is similar to the Military Leader Development Program. Specifically, the Civilian Education System (CES) meets the Secretary of the Army’s mandate that leaders of tomorrow be “adaptable and multi-skilled.” This requires a centralized development program for training and educating the Army’s future civilian leaders “who will serve in both operational and institutional capacities to operate, and win, in this new environment.”

The CES uses leadership competencies derived from those set by the DoD Civilian Leader Development Framework and those identified by the Center for Army Leadership. CES courses provide leader development training and education that support Civilian leaders’ career path requirements and professional development as well as promote life-long learning and self-development.

Section 1113 of the 2010 National Defense Authorization Act (NDAA) and the Federal Supervisory Training Act outline specific requirements for the development of a mandatory supervisor training course for all DoD supervisors (Civilian and Military). Supervisor training must include the use of the new NDAA authorities, prohibited personnel practices, and mentoring of new supervisors. First-time supervisors (in job less than

Table 9 – Civilian Professional Development

	Army War College	Industrial College of Armed Forces	Civilian Education System
2011 Inputs	13	3	26,641



2 years) are required to complete training no later than 1 year from the date on which they are appointed to a supervisory position.

The Army has revised the Supervisor Development Course to meet the NDAA requirements. Supervisor training for all supervisors of civilian employees will promote the development of world class leaders and provide opportunities for new managers and supervisors to interact and learn from each other. Supervisor training will develop a diverse cadre of leaders who can manage across the enterprise, ensure the continuity of the leadership and supervisory pipeline and promote the Army's vision for competency-based development across the leadership continuum.

In direct support of the Secretary of the Army's initiative to transform the Army civilian workforce, the Civilian Training and Student Account (CTSA) was established for Army-funded civilians attending an Army Senior Service College (SSC). This account mirrors the Military Trainees, Transients, Holders, and Students account by reassigning SSC participants, who have been selected to attend the Army War College and the Industrial College of the Armed Forces resident programs, to an HQDA-centralized operational Table of Distribution and Allowances. Assigning SSC participants to the CTSA enables the losing command immediately to backfill against the position and to mitigate disruptions to the organization mission.

With the success of the CTSA in FY 2010, the Army continued the utilization of the CTSA in FY 2011 and then placed the graduates in Army Enterprise positions where most needed by the Army. Other recent initiatives will continue to be worked and implemented to provide a more robust training program that improves access for all Army civilians. They include, but are not limited, to the following:

- Establish an Army-wide civilian training management system;

- Establish leader competency-based training in conjunction with the Army competency management system;
- Establish fellowships and Joint Interagency International and Multinational broadening assignments for senior Army civilians;
- Increase outreach and communication to the Army Civilian Corps to increase CES participation; and
- Establish NDAA-directed Supervisory Training.

Improvements to CES and the successful implementation of new initiatives will reduce redundancies in the Army civilian training programs by providing overarching processes that enable the civilian population to be managed across the human capital life cycle from an enterprise perspective.

Modernizing and Equipping the Army

The Army will continue to develop and field a versatile and affordable mix of equipment that will enable Soldiers to succeed in full spectrum operations today and tomorrow, ensuring that the decisive advantage held over any enemy the Army might face is maintained. Since FY 2002, the Army has responded to the many lessons learned from Operations Iraqi Freedom, New Dawn, and Enduring Freedom. Indeed, force protection, communications, surveillance, and weapon systems programs were accelerated to meet urgent Soldier needs. The Army has invested in a variety of new equipment to replace the outdated and expensive-to-maintain equipment to include trucks and aircraft. As an example, the Army divested all M35 series trucks (2.5-ton) at the end of FY 2011 and will replace all M809 series trucks (5-ton) with a family of medium tactical vehicles by the end of FY 2012.

The Army also has accelerated the fielding of the M4 carbine, enhanced night vision devices, and continued efforts to provide Soldiers the very best camouflage uniforms and



protective equipment possible. To address a unique operational requirement, the Army invested in the mine-resistant ambush-protected vehicle (MRAP). The Army's aviation fleet was significantly modernized through procurements of UH-60M Black Hawk, CH-47F Chinook, and AH-64D Apache attack helicopters. Additionally, a new GCV program will initiate the modernization of the Army's fighting vehicles.

The Rapid Fielding Initiative (RFI) continues to enhance war-fighting capabilities through modernized technology to address the Soldiers' immediate requirements. A total of 32 BCTs and numerous other OCO-deploying units in the ARFORGEN operating cycle comprising 222,286 Soldiers were fielded RFI equipment during FY 2011.

The REF provides rapid capabilities to Army forces employed globally by harnessing current and emerging technologies to improve operational effectiveness. The REF's priority is at the deployed brigade and BCT level, focusing on commercial off-the-shelf and government off-the-shelf solutions to increase effectiveness and reduce risk. The REF maintains forward deployed teams to interact with deployed units to identify, equip, and evaluate their requirements and capability shortfalls. In FY 2011, the REF introduced over 221 different types of equipment, and provided more than 34,245 individual equipment items to deployed Soldiers and units in the past 11 months.

The Army continues to invest in the ARNG and USAR to enhance their mission capabilities and to ready forces entering the ARFORGEN cycle for deployment. The fleet age of trucks, combat vehicles, communications systems, and Soldier weapon systems continues to decline as new equipment is fielded to the RC. The ARNG and USAR forces preparing to deploy are fielded with the very best modernized equipment, eliminating the disparity in modernization between the AC and RC, thus achieving a critical goal in the effort to create strategic depth and operationalize the RC.

Reset

Units returning from theater enter the Reset phase of ARFORGEN which restores Soldiers, units, and equipment for future deployments and other contingencies to the desired level of combat capability commensurate with a unit's future mission. Reset reverses the effects of combat stress on equipment and extends the life of vital systems and platforms that have been used at unprecedented rates in harsh and demanding desert and mountain environments. In addition, the Army must also revitalize Soldiers and their Families by providing them the time and the opportunity to recover from the cumulative effects of sustained operations.

Repair, Replace, and Recapitalize Equipment

In FY 2011, the Army Equipment Reset program was directly impacted by operational decisions made in support in the drawdown of forces in Iraq and the expansion of forces in Afghanistan. As of 31 July 2011, the Army completed the Reset of over 8,000 items in Organic Depots, and 294 Brigade's worth of equipment as units returned from deployment. The Army also obligated 59 percent of its FY 2011 items using Other Procurement, Army funding to replace or recapitalize battle loss or damaged equipment in its tactical wheel and aviation fleet programs. A fully funded Army Reset program ensures that equipment is operationally ready for use by combat forces when needed for the next contingency.

Drawdown in Iraq

The drawdown in Iraq is the largest logistics operation since World War II. While simultaneously supporting the warfighter, the Army is successfully executing the final phase of the retrograde and redistribution of equipment from Iraq under a responsible drawdown. The base closure and transition plan is on track to complete the retrograde and redistribution of property. The Army has closed and/or transferred 93 percent of the bases in theater to the Government of Iraq. Specifically, the



Army closed 471 out of 505 bases with 34 remaining. Eleven enduring bases will remain under the control of the Department of State (DOS) and Office of Security Cooperation-Iraq (OSC-I). The Army is on schedule to meet the 31 December 2011 mandate in accordance with the Security Agreement to have all forces out of Iraq and complete the transition to the DOS led United States Mission – Iraq. Approximately 17,000 DOS and OSC-I personnel and contractors will remain in Iraq after the 31 December mandate. Over 70 percent of the 17,000 population are contractors. Some of the United States Forces-Iraq and Third Army/Army Central Command key accomplishments are as follows:

- Retrograded over 2.5 million pieces of equipment out of Iraq to meet other theater and Army-wide requirements;
- Reduced the number of vehicles (rolling stock) to 11,947;
- Shipped out more than 60,000 containers;
- Reduced the supply support activities footprint by 82 percent, downsizing from 22 to 4; and
- Transferred over 650 of the 1,700 pieces of tactical equipment approved as excess and is on track to transfer the remainder.

The Army continues to work with U.S. Forces-Iraq to identify equipment for transfer that will enable the Iraqi Security Forces (ISF) to reach minimum essential capabilities (MEC). To date, the Army has transferred 61 percent of the required 42,515 items to the ISF to enable them to achieve MEC. This equipment includes wheeled and tracked vehicles, weapons, ammunition, and repair parts. The Army transferred these items to the Government of Iraq under the provisions of several U.S. congressional authorities.

Enhancing Logistics Readiness

Logistics information systems yield an unprecedented shared awareness of logistics processes, capabilities, requirements, and resources. Decision support tools, empowered with the shared awareness, enable logistics leaders effectively to plan, execute, control, and assess sustainment and war-fighter functions across the Army. The Army continues to implement the SALE as the Army's overarching logistics business and information technology framework providing Army-wide logistics efficiency gains of interoperability, traceability, accountability, and transparency. The Army continues its two-tiered strategy: (1) continued support to current systems still in the field; and (2) implementation of enterprise resource planning solutions such as the Logistics Modernization Program (LMP), the Global Combat Support System – Army (GCSS-A), and the Army Enterprise Systems Integration Program (formerly Product Lifecycle Management Plus).

The following are key accomplishments during FY 2011:

- The GCSS-A rolled out the federal financial template, a key step towards auditability; and
- The LMP finished Deployment 3 roll-out at the Tank and Automotive Command.

The SALE initiatives provide an efficient, streamlined, and integrated enterprise resource planning capability (tactical to national) and end-to-end business process fully supporting the warfighter that is in line with commercial best business practices. SALE enables the Army to efficiently and effectively manage its worldwide logistics system. The Army must continue to implement the SALE to improve logistics processes and tactical logistics operations as it continues to field the federated GCSS-A and the General Fund Enterprise Business System (GFEBS) financial solutions for the Army.



As of 31 July 2011, more than 80,000 items have been repaired at depot-level facilities. This includes, for example, more than 660 tracked vehicles (e.g., Abrams tanks and Bradley fighting vehicles), more than 2,000 tactical-wheeled vehicles (e.g., high-mobility, multipurpose, wheeled vehicles, and medium and heavy tactical vehicles), and more than 14,500 individual and crew-served weapons (e.g., rifles, pistols, and machine guns). Meanwhile, the Army's Special Repair Teams brought additional depot-level expertise out into the field, completing repairs to over 528,000 items including small arms, night-vision devices, and communications electronics, as well as chemical and biological gear. Furthermore, the Aviation Special Technical Inspection and Repair program restored more than 290 fixed and rotary wing aircraft to combat capability.

Transform

To transform, the Army must continuously improve its ability to meet the combatant commanders' needs in a changing 21st century security environment. Transformation is a holistic effort to adapt how the Army fights; trains; modernizes; develops leaders; bases its forces; and supports Soldiers, Families, and civilians. Transformation is a journey, not a destination.

Growing and Modularizing the Army

Operating in an era of persistent conflict and the requirement to maintain a forward presence created both the necessity and the opportunity to accelerate change from the current to the future force. The Army's conversion to a modular force which is carefully balanced between the AC and RC is nearly complete. Modularity is intertwined throughout the force to the point that it is now indistinguishable as a separate effort. As a result, the Army is more versatile, lethal, expeditionary, agile, and interoperable.

The Army modular force reorganizes the operational Army into Army Service Component Commands, theater support structures, Corps and Division Headquarters, BCTs, and

multi-functional and functional support brigades, all based on standardized organizational designs across the three components. The intent of this transformation is to:

- Increase the number of available BCTs to meet operational requirements;
- Create brigade-size combat support and combat-service support formations of common organizational designs; and
- Redesign organizations to perform as integral parts of the joint force, making them more effective across the range of military operations by enhancing their ability to contribute to joint, interagency, and multinational efforts.

Of the 45 AC maneuver brigades programmed for the end of FY 2011, the Army finished converting 42 brigades to the modular design and was in the process of converting one to a heavy BCT. The conversion process can take up to 12 months for an AC-heavy BCT and infantry BCT, and as long as 24 months for a Stryker BCT.

The ARNG began transforming in FY 2005 with an accelerated plan allowing early implementation under the new BCT designs. Transformation for an ARNG BCT can take as long as 48 months. By the end of FY 2011, the ARNG had successfully completed the full conversion of all 28 BCTs to a modular design. The ARNG BCTs continue to modernize in order to maintain interoperability with their AC counterparts.

The overall transformation plan is on track to achieve a combined total of 73 BCTs: 45 in the AC and 28 in the ARNG. Initial transformation covers training, manning, and organization only; equipment transformation will occur over time. Table 10 provides a summary of BCT transformation.

Providing Advanced Technologies

The Army's Science and Technology strategy supports the Army's goal to restore balance between current and future demands by providing new technologies to enhance upgrades and modernize systems in the current force and to enable new capabilities in the future force. The Army's Science and Technology investment strategy pursues technologies to field forces that are lighter, yet more lethal, more sustainable, and more agile while achieving new capabilities such as the ability to locate, tag, and track enemies.

A new comprehensive Science and Technology (S&T) strategy specifically addresses war-fighter outcomes (WFO) developed annually by the Army's Capabilities Integration Center (ARCIC). The Army's S&T community in concert with combat developers in ARCIC and across Training Doctrine Command will place greater emphasis on demonstrating capabilities rather than a maturing a technology. This new S&T strategy culminates with Technology Enabled Capability Demonstrations (formerly Army Technology Objectives) to place advanced capabilities into the hands of small units and Soldiers earlier. In addition, this process establishes a stronger partnership between the S&T community, Army leadership and Soldiers.

Similarly, the Army is partnering with other Services, Combatant Commands and agencies in the Joint Capability Technology Demonstration (JCTD) program and will transition mature technologies in the form of capabilities, to the Warfighter more quickly. Particularly important is the S&T community's ability to rapidly provide limited or interim capabilities to Warfighters in response to highly adaptive threats. In this way, mature technologies can be rapidly exploited to modify currently fielded systems. The S&T vision is to provide technology enabling capabilities that empower, unburden and protect our Soldiers in an environment of persistent conflict.

Table 10 – BCT Transformation Summary

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
AC Transformed	35	38	39	42	42
ARNG Transformed	0	0	7	14	28
Total Transformed	35	38	46	56	70
AC Transforming	4	2	3	1	1
ARNG Transforming	26	28	21	14	0
Total Transforming	30	30	24	15	1
Total Transformation	65	68	70	71	71

NOTES: Transformed means the unit has completed its initial reorganization and re-equipping to a modular design within resource constraints, is participating in the ARFORGEN process, and may be used against a requirement. Transforming means the unit is still undergoing initial reorganization and re-equipping to a modular design within resource constraints. The last 2 Army brigades (numbers 72 and 73) do not begin transformation until FY 2012 and FY 2013, respectively, and are not counted in this table.



LandWarNet Operational Capabilities and Focus

The Army has transitioned to a continental United States-based “expeditionary force,” over the past 10 years and as such, access to reliable and trusted information is critical to its mission success. Whether deploying to an austere theater of operations or responding to a humanitarian crisis, the Army has become heavily reliant upon a robust Network infrastructure and services supporting war-fighting capabilities as well as business operations around the world. The vision for this robust Network is a completely integrated, secure, accessible, interoperable and affordable network that provides information to Soldiers, civilians, and mission partners when they need it, in any environment - from garrison to the tactical edge. Recently, the focus is an enterprise approach across the Army to build out the Network. This will allow communication, technology priorities and investment strategies to align those requirements with the ARFORGEN and operational capability set management. The end result will ensure that the Army Network provides the most effective infrastructure and services to enable war-fighter mission success and Army business support operations.

Over the past year, the focus has continued to be on Army data centers and enterprise services, most notably Enterprise Email. These initiatives are essential to the initial phases of transforming and building the network. The Army Data Center Consolidation Plan is a strategic implementation plan to consolidate data centers and applications, provide enterprise hosting as a managed service, and improve the security of Army information assets. The Defense Information Systems Agency-hosted DoD Enterprise Email provides the Army unclassified and classified email services from a managed services provider. This has allowed access to email anytime from any location in the DoD using smartcard authentication and has allowed more than a 1,000 percent increase in mailbox size. Both current initiatives are significant for the transformation of the Army’s network and to realize savings.

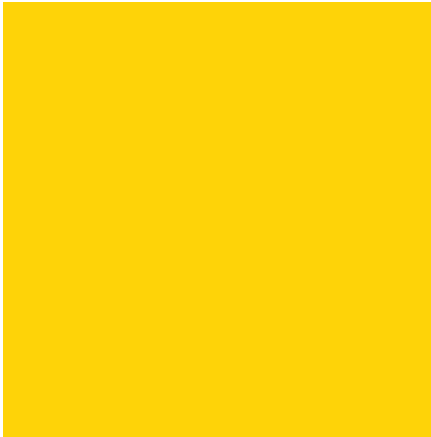
Developing the Network of 2020

The Army plans to develop the Network of 2020 through the reform of nearly every aspect of Network design, implementation, and management. The objective is to make construction and operation of the Network easier, more efficient and cheaper, while constantly improving the Network’s effectiveness to the end user and its security.

Standardization and centralization are crucial elements of this across-the-board reform. The Army has already applied these principles to the Network foundation, establishing a uniform basic architecture. The Common Operating Environment (COE) is a centrally approved, commercially based set of computing technologies and standards to which the Network itself and all applications and systems riding the Network must adhere. It defines minimum configurations for the Army computing environments, from the enterprise server to mobile small handheld devices, and is the key to creating a Network that enables rapid insertion of new technology. Alignment with the COE is now mandatory for new systems and capabilities. The Army is in the process of bringing existing programs of record (POR) and non-PORs into compliance, as well.

To solidify the base established by the COE, the Army has also standardized to a single mode of information transmission, regardless of format or delivery means. Whether text, voice, video, signal or other type of data, the Network will move it via a non-proprietary internet protocol, a method dubbed “EoIP” (Everything over Internet Protocol).

Getting the right information at the right time requires universal accessibility. Therefore, the Army is also standardizing and centralizing the provision of data, applications and services. The most visible efforts include cloud-based enterprise email, collaboration capabilities, directory services and authentication. In addition, the Army’s data center consolidation initiative is using a unified cloud-computing operation model to move application into the DoD cloud as much as possible; then



leveraging commercial infrastructure; and, as a last resort, utilizing Army-owned data centers (data centers store, manage and/or disseminate data, information and command, control, communications and computer service to the entire force). The Army must normalize Network tactics, techniques, procedures and defense, as well.

Developing Force Generation Platforms in Support of Army Force Generation

Eight deployment infrastructure projects were executed or initiated in FY 2011. These projects support the “Flagships of Readiness” concept.

The first project, a rail head upgrade and expansion project at Fort Carson, improves the out-loading of a heavy BCT from the current 240 railcars per day to the 275 railcars per day requirement. This project constructs five additional spurs to handle the growth at Fort Carson as documented in the Grow the Army stationing plan. The project also includes constructing an additional siding to the access track to allow direct railcar pickup by commercial trains as opposed to taking the railcars to the nearest commercial interchange yard at Kelker Junction. Construction is 70 percent complete and is scheduled for completion in February 2012.

The next three projects improve out-loading at the seaport in Charleston Naval Weapons Station, the only military general cargo seaport in the southeast region. This seaport has been very busy supporting current real-world operations in the Middle East, for both deployment and redeployment. The first of these three out-loading projects upgrades paving, lighting, and fencing of the port. This upgrade improves security for equipment and personnel during deployment and also helps protect equipment from damage. The project is 86 percent complete, and completion is anticipated a month ahead of schedule in December 2011. The second of these three projects upgrades rail capabilities from 40 railcars per day to 60 railcars per day to meet rail requirements fully. Construction for this project is

70 percent complete, with a completion date of January 2012. The third project expands the pier and hardstand to be able to adequately position larger roll-on/roll-off and container ships. The project is 55 percent complete, with an expected completion ahead of schedule in March 2012.

The next two projects are to construct a consolidated multi-class munitions handling, storage, and shipping facility as well as a depot level ammunition igloo at McAlester Army Ammunition Plant (AAP). The first project corrects ammunition shipping/receiving deficiencies to provide more efficient and timely out-loading, especially for small quantity shipments, which experienced a 50 percent increase at McAlester AAP in the past few years. This project is 75 percent complete, with an expected January 2012 completion. The second project constructs an ammunition storage igloo designed to store returning munitions from the Middle East. Due to late passage of the FY 2011 budget, the contract for this project was only recently awarded.

The seventh project is to construct an alert holding area and defense readiness reaction facility at Fort Bliss to enhance out-loading of equipment and Soldiers. Fort Bliss has experienced the most growth of any U.S. installation as outlined in the Grow the Army stationing plan. This project upgrades the out-loading of equipment and Soldiers to handle the growth and is funded through the Grow the Army initiative. This facility is complete and operational.

The eighth project is to construct a staging area complex at Fort Bragg. This complex consolidates staging area activities for efficiently deploying airborne units to meet global response force requirements and is funded through the Grow the Army initiative. Due to late passage of the FY 2011 budget, this project is 5 percent complete with an expected completion of December 2012.



Implementing Base Realignment and Closure / Restationing Forces

The intent of Base Realignment and Closure (BRAC) 2005 was to support the Army's transformation by positioning assets to provide better support to our missions, Soldiers, civilians, Reservists, and their Families. BRAC 2005 also accommodated the rebasing of overseas units within the Global Defense Posture Realignment Basing Strategy, and divested an accumulation of installations that were either no longer relevant or were less effective in supporting a joint and expeditionary Army. In partnership with other Services, the Army used BRAC 2005 to transform RC infrastructure to create more operational opportunities for joint training and deployment. This transformation created efficiencies in core Army business processes.

Under BRAC 2005, the Army closed 11 AC installations, 387 RC installations, and 8 leased facilities. Additionally, BRAC 2005 realigned 53 installations and/or functions and enabled the Army to establish multi-component headquarters, joint Army training centers of excellence, joint bases, joint power projection platforms, a human resources centers of excellence, and joint technical and research facilities. To accommodate the relocating units from the closed RC installations, BRAC 2005 authorized 125 new multi-component armed forces reserve centers and realigned the USAR command and control structure.

For the Army, BRAC 2005 was more than three times larger than the four previous Army BRAC rounds combined with an unprecedented \$17.8 billion total implementation cost, which represented 51 percent of the overall DoD BRAC 2005 program. The Army is in the final year of the 6-year BRAC 2005 execution window. The Army developed 102 business plans to define further the BRAC 2005 Commission recommendations, including more than 1,100 actions. These actions represented the requirements necessary to achieve full implementation. A majority of the BRAC 2005 actions were dependent on construction at gaining installations with 75 percent of the total

resources dedicated to funding 329 major construction projects valued at \$13.5 billion. The Army met its BRAC obligations within the 6-year implementation window ending 15 September 2011. A few Army BRAC 2005 recommendations have residual actions to complete, and Army senior leaders continue to manage their completion.

The Army completed the conveyance of approximately 46 percent (23,372 acres) of all excess property during the BRAC 2005 implementation period. Caretaker activities will continue until environmental restoration is complete and all remaining excess property is conveyed.

Implementing Business Transformation Initiatives

Starting in 2009, the Secretary of the Army, acting through the Chief Management Officer, has been responsible for carrying out an initiative for the business transformation of the Army. The Secretary established the Office of Business Transformation (OBT) in order to concentrate on achieving business process improvement. The OBT's objectives are to:

- Transform business operations,
- Improve the effectiveness and efficiency of business processes,
- Transform business systems information technology,
- Promote resource-informed decision-making, and
- Achieve integrated management.

These objectives will culminate in an adaptive Generating Force that better supports the agile and versatile Operating Force. These objectives are also expected to successfully prioritize, balance, and integrate Army activities and resources in the present and postures for success in the future. The integrated management system focuses the entire Army towards results with emphasis on cutting costs while modernizing a mission-ready

force: A “Readiness at Best Value” rather than “Readiness at Any Cost” approach.

During FY 2011, the Continuous Performance Improvement/Lean Six Sigma (CPI/LSS) element within the OBT continued to provide enabling activities to the overall Army Business Transformation and the Secretary of the Army’s reformation of the Generating Force. All efforts support the strategic guidance and direction of the Army’s Chief Management Officer. The CPI/LSS community has focused its efforts on performance improvement across the Army. These efforts range from realizing operational benefits in logistics throughput in Afghanistan and Iraq (United States Army Central Command’s CPI/LSS activities) directly are impacting our warfighters, to achieving better performance and financial benefits within the Generating Force.

In FY 2011, the OBT CPI/LSS element, in concert with the Assistant Secretary of the Army for Financial Management and Comptroller (ASA(FM&C)) and Deputy Assistant Secretary of the Army for Cost and Economics (DASA-CE) staff, was able to better connect the outcomes of CPI/LSS projects contained in the Army’s project management database—PowerSteering with the financial management activities inherent in building the Army’s Program Objective Memorandum (POM). This enhanced connectivity is both at the technical level (database connectivity) and at the operational level.

The CPI/LSS continues to be a rigorous proven methodology to achieve performance improvement at any level. In FY 2011, the multiple projects conducted across all commands within the Army, to include its RCs, have yielded \$1.6 billion in cost savings and \$5.8 billion in cost avoidance. The future of CPI/LSS within the Army is bright. The Army’s program continues to rely on training CPI/LSS practitioners that return to their units of assignment to tackle projects their leaders support. This past year, the CPI/LSS community trained 1,305 new practitioners from entry level experience through enterprise level expertise to support Army Business Transformation and assist in the reform of its Generating Force.

Additionally, the Army continues to develop and implement modern system solutions that improve the quality and efficiency of various business processes including financial, accounting, real property, and cost management across the enterprise. The GFEBS is the centerpiece of this effort as it provides the core financial systems capability to support an unqualified audit opinion of the Army’s General Fund. In addition, the GFEBS transforms business processes to enable better-informed decisions, better-managed resources, and better support to the warfighter. This system integrates funding, real property management, financial accounting, cost management and related output, and performance data in an Enterprise Resource Planning system. The GFEBS is a web-based system that provides real-time visibility of data for the AC, the ARNG, and the USAR. This solution will enable the Army to move to a cost and performance culture. During FY 2011, the Army added over 21,000 new users at 140 major locations in the United States, Europe, and Korea, and completed the entire ARNG. The Army will complete world-wide implementation of the GFEBS during FY 2012.

The Army continues to transform from a budget focus to a cost and performance culture, which requires that leaders understand the full cost of the capabilities they provide and incorporate cost considerations in their planning and decision-making processes. This new approach enables the Army to achieve its readiness and performance objectives more efficiently and effectively.

To cultivate this cost culture, the Army is executing education and training programs for military and civilian personnel at all levels, supporting both the resource management and functional communities. The Army established the graduate-level Cost Management Certificate Course (CMCC) to educate and develop cost-savvy subject matter experts to serve as senior leader staff advisors. The Army trained 162 students in the CMCC in FY 2011, achieving 96 percent of its training goal. The Army Training and Doctrine Command (TRADOC) and ASA (FM&C) developed and piloted two new courses in cost analysis and management in FY 2011. Principles and Intermediate Cost Analysis and Management, both 3-week courses, will be offered



through resident and mobile training teams through TRADOC in FY 2012. The Army continued offering a 4-hour cost-benefit analysis (CBA) training program of instruction during FY 2011 to enable resource-informed decision making within the Army. Over 1,100 additional individuals completed the CBA training in FY 2011 bringing the total since February 2010 to over 2,200. Additionally, the Army provided Cost Management 101 training, a program of instruction designed to educate the GFEBS sites about cost management principles in advance of system deployment, to over 750 individuals in FY 2011.

Conclusion

During the last 12 months, the Army component of U.S. Central Command is on a path to successfully conclude Operation New Dawn by the end of calendar year 2011, completing one of the largest retrograde operations in our nation's history. The Army has nearly completed transformation of the operational force from division-centric to brigade-centric and has successfully restored balance across the force.

Despite all the Army's long and difficult efforts, more remains to be done. Continuing reforms to take advantage of the technology, knowledge and experience available to enable the Institutional Army to do things faster, smarter and better. Army institutions and processes – from personnel to training and development to materiel systems – must have the same unparalleled ingenuity, flexibility and adaptability as their operational forces. Only by identifying gaps, managing strategic risks, encouraging innovation, preparing intelligently and adapting rapidly can the Army be ready for future challenges. In some cases it may not be what the Army changes, but what is no longer done. To this end, the Army has established the Institutional Army Transformation Commission. This commission will focus on achieving greater efficiencies and will set the conditions for longer-term efforts to transform the way the Army provides trained and ready forces for the future.

The Army's acquisition system is in need of significant reform in order to ensure success in the future. The acquisition system will become more agile, flexible, economical, fair, and effective. Comprehensive efforts are being aggressively engaged to reform the Army's procurement methods with the following goal: to develop and field a versatile and affordable mix of equipment that will enable Soldiers to succeed in full spectrum operations today and tomorrow, ensuring that we maintain our decisive advantage over any enemy we face.

The Army's Total Army Analysis 14-18 will assess capabilities and develop an affordable, competent POM force, capable of supporting national objectives and combatant commanders' operational needs. Using efficient employment, the Army will seek the right capabilities to effectively support the combatant commanders' requirements. In an era of fiscal uncertainty, Army power will come through prudent investment and employment of our Nation's precious resources.

A decade of war has damaged or destroyed vast numbers of the Army's systems. From vehicles to weapons, much of its equipment is in need of overhaul or repair and will continue to need reset after the draw down in Iraq and Afghanistan is complete.

The resources and support provided in FY 2012 and beyond will determine whether the Army can continue to maintain momentum of the key programs, accomplish its mission, and prepare to succeed in whatever tasks the Army faces today and tomorrow.

Management Assurances

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

Chief Financial Officer Compliance

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

Internal Controls

The Army operates a robust Manager's internal control program in compliance with OMB Circular A-123 to employ a comprehensive system of continuous evaluation of internal controls and is fully integrated with functional program control assessments. In strict adherence to The Office of the Under

Secretary of Defense (Comptroller) guidance, the Army reports a level of assurance over its internal controls in three distinct areas: Internal Controls over Non-Financial operations, Internal Controls over Financial Reporting, and Internal Controls over Financial Systems. See the complete Army Statement of Assurance at <http://asafm.army.mil/offices/FO/IntControl.aspx?OfficeCode=1500>.

Internal Controls Over Financial Reporting

As stated in the Army's Annual Statement of Assurance dated August 29, 2011, "Although we continue to make progress in improving internal controls over financial reporting for the General and Working Capital Funds, I provide no assurance that as of June 30, 2011 the Army's internal controls for financial reporting were operating effectively. This assessment is based on auditor's inability to render an audit opinion; over 5,000 uncorrected actions identified in our financial improvement plan; and 13 weaknesses associated with the General Fund and nine weaknesses associated with the Working Capital Fund."



Analysis of Financial Statements and Stewardship Information

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

Army GF Financial Results and Balance Sheet

The Army GF Balance Sheet includes total assets that exceed \$381.6 billion. Two asset categories, Fund Balance with Treasury and General Property, Plant and Equipment (GPP&E), comprise 89 percent of total assets, with values of \$166.9 billion and \$171.9 billion, respectively.

Liabilities primarily consist of \$31.8 billion in Environmental Liabilities and \$8.6 billion in Accounts Payable.

The GPP&E account increased \$6.9 billion due to additions of military equipment (e.g., mine-resistant, ambush-protected vehicles, high mobility, multi-purpose wheeled vehicles, and Stryker vehicles).

Figure 3 – Composition of Army GF Assets and Liabilities

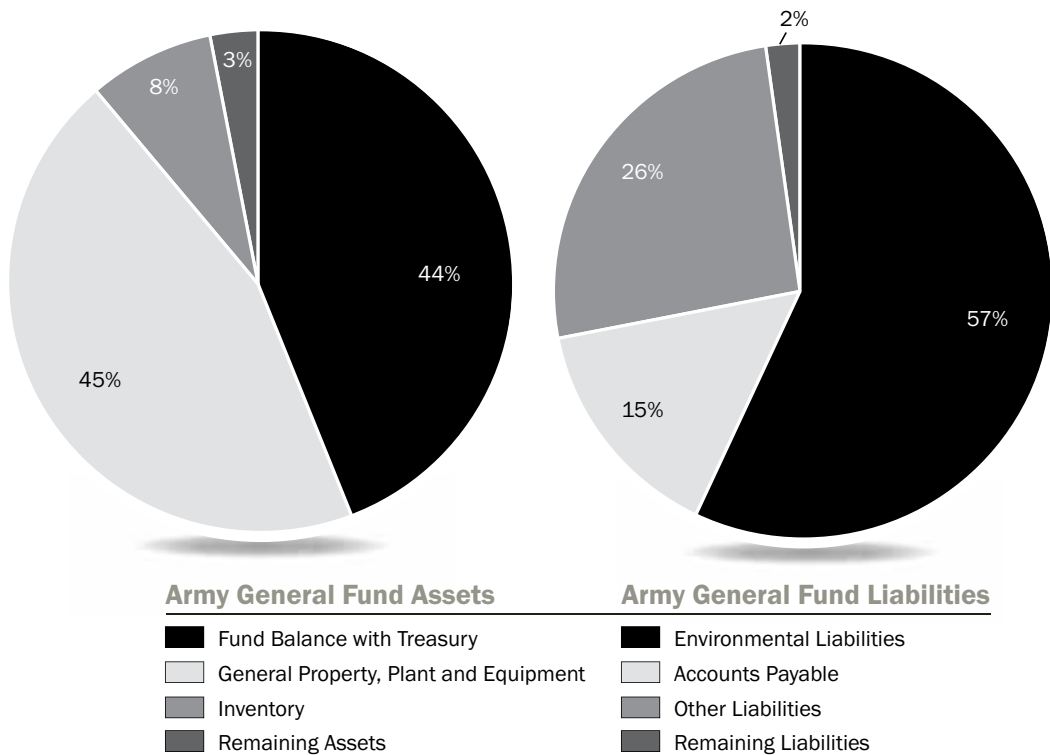


Table 11 – Select GF Assets and Liabilities (Amounts in billions)

ASSET TYPE	FY 2010	FY 2011	Change	Percentage of FY 2011 Assets
Fund Balance with Treasury	\$166.9	\$166.9	\$0.0	44%
General Property, Plant and Equipment	165.0	171.9	6.90	45%
Inventory	34.1	31.2	(2.9)	8%
Remaining Assets	13.3	11.6	(1.7)	3%
Total Assets	\$379.3	\$381.6	\$2.3	100%

LIABILITY TYPE	FY 2010	FY 2011	Change	Percentage of FY 2011 Liabilities
Environmental Liabilities	\$33.4	\$31.8	(\$1.6)	57%
Accounts Payable	12.6	8.6	(4.0)	15%
Other Liabilities	16.5	14.4	(2.1)	26%
Remaining Liabilities	1.3	1.3	0.0	2%
Total Liabilities	\$63.8	\$56.1	(\$7.7)	100%



Army WCF Financial Results

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

Cash Management

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

Sufficient cash levels should be maintained to support seven-to-ten days of operational disbursements, plus adequate cash to

meet six months of capital investment program disbursements, plus the amount of any positive accumulative operating results that is to be returned to customers.

The cash balance is primarily affected by cash generated from operations; however, the balance is also affected by appropriations, transfers, and withdrawals. Maintaining a proper cash balance depends on setting rates to recover full costs—including prior year losses—accurately projecting work load and meeting established operational goals.

The Army WCF ended FY 2011 with a cash balance of \$1,900.5 million, \$882.1 million above the 10-day cash level of \$1,018.4 million. The Army WCF cash balance will return to a balance closer to the 10-day level when operations in Iraq and Afghanistan decline, and payments associated with the delivery of replacement stocks and the repairs of spares are higher than inventory sales.

Table 12 shows an overall growth in cash primarily from operations and direct appropriations offset by transfers out. The Army WCF received direct appropriations for war reserve materiel, inventory augmentation, replacement of inventory combat losses, and higher fuel costs. Transfer for FY 2011 was directed by Congress to cover a cut in the Operation and Maintenance, Army appropriation. At some point, part or all of the transfers will require repayment to ensure that the fund has sufficient cash on hand.

Table 12 – Army WCF Cash

	FY 2009	FY 2010	FY 2011
(Amounts in millions)			
Collections	\$ 16,676.7	\$ 16,315.7	\$ 13,742.5
Disbursements	17,421.0	15,626.9	13,004.7
Net Outlay	\$ (744.3)	\$ 688.8	\$ 737.8
Appropriations Received	545.4	50.0	54.6
Transfers Out	1,023.0	280.0	700.0
Net Cash Transactions	\$ (1,221.9)	\$ 458.7	\$ 92.4
Cash Balance	\$ \$1,349.5	\$ 1,808.1	\$ 1,900.5

Amounts may not sum due to the rounding.

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 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.

Table 13 – Net and Accumulated Operating Results by Activity Groups

OPERATING RESULTS (Amounts in millions)	FY 2009	FY 2010	FY 2011
Industrial Operations NOR	(\$31.6)	\$57.3	\$113.8
Industrial Operations AOR*	\$462.6	\$525.6	\$639.4
Supply Management NOR	\$516.5	(\$125.1)	(\$108.0)
Supply Management AOR	\$460.1	\$335.0	\$227.0

*Includes prior-period AOR adjustments

Carryover

Carryover is the dollar amount of orders accepted from customers that have not been completed by the end of a fiscal year. It is a normal part of doing business. These orders enable the industrial workforce to maintain continuity in production operations. The Army expects the carryover for FY 2011 to be less than the maximum allowable amount.

Stock Availability

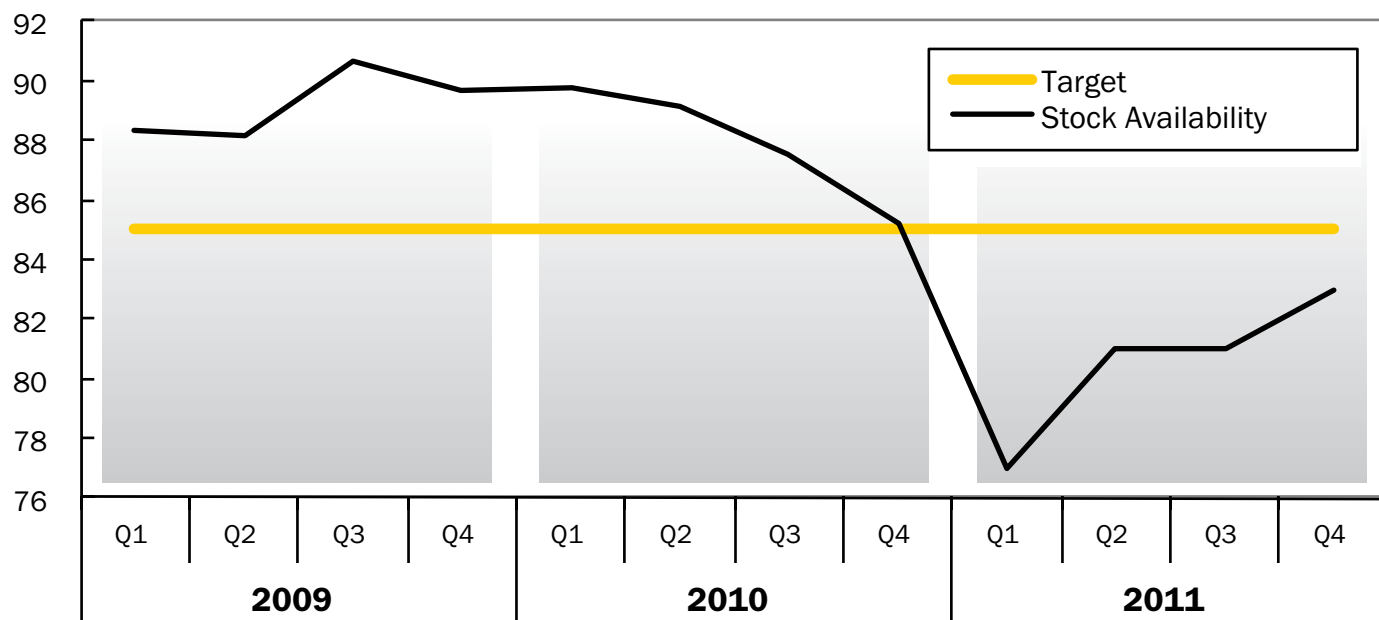
Stock availability measures the percentage of requisitions filled within established timeframes. The DoD and Army have set a target 85 percent stock availability. The Army exceeded this goal in both FY 2009 and FY 2010.

Table 14 – Army WCF Carryover

(Amounts in millions)	FY 2009	FY 2010	FY 2011
New Orders	\$6,393.1	\$6,196.5	\$7,262.5
Allowable Carryover	\$3,327.3	\$4,075.5	\$4,711.3*
Calculated Carryover	\$3,146.0	\$3,452.0	\$4,435.3*

* Estimated amounts

Figure 4 – Stock Availability
Percentage



Production

Although the industrial operations activity group is comprised of 13 activities, the preponderance of workload is performed at the 5 hard-iron maintenance depots. Major operations in Afghanistan place tremendous demands on equipment. As a result of the higher operating tempo, rough desert environments, and limited depot maintenance available in theater, operational fleets age at a far greater pace than expected. To counter this, the Army established a reset program designed to reverse the effects of combat stress on equipment and to prepare equipment for future missions. Industrial operations received \$2.9 billion in reset orders, representing approximately 39 percent of FY 2011 new orders.

The Army's depots and their efforts to partner with industry are critical to the entire reset effort. These repair programs must continue through the end of the current conflict and for at least three additional years to reconstitute equipment completely. Due to actions taken in support of wartime requirements, the industrial operations activity group significantly increased depot production over pre-war levels, as illustrated in Table 15.

The aircraft increase shown in the FY 2011 column of Table 15 is due to increases in production requirements. The decrease to the annual production throughout of High Mobility Multipurpose Wheeled Vehicle (HMMWV) from FY 2010 to FY 2011 is due to the end of combat operations in Iraq which contributed to a lower requirement for HMMWVs in FY 2011. In addition, HMMWVs were initially planned to be recapped in FY 2011, but the continuing resolution precluded the start of this work until 3rd Quarter, FY 2011. Track shoe production levels decreased from FY 2010 to FY 2011 due to a decrease in expected operational levels for the M1 and Bradley fighting vehicles. The drop in production results from the customer decreasing the requirements and is not related to any production issues.

Table 15 – Annual Production Throughput¹

	Pre-War	FY 2009	FY 2010	FY 2011
Aircraft	4	70	74	101
Helicopter Engines	<200	817	468	760
Bradleys	144	1,384	758	Not Available ²
HMMWVs	<100	9,813	6,189	2,090
Firefinder Radars	<1	30	61	31
Track Shoes	120,000	110,293	120,667	39,161

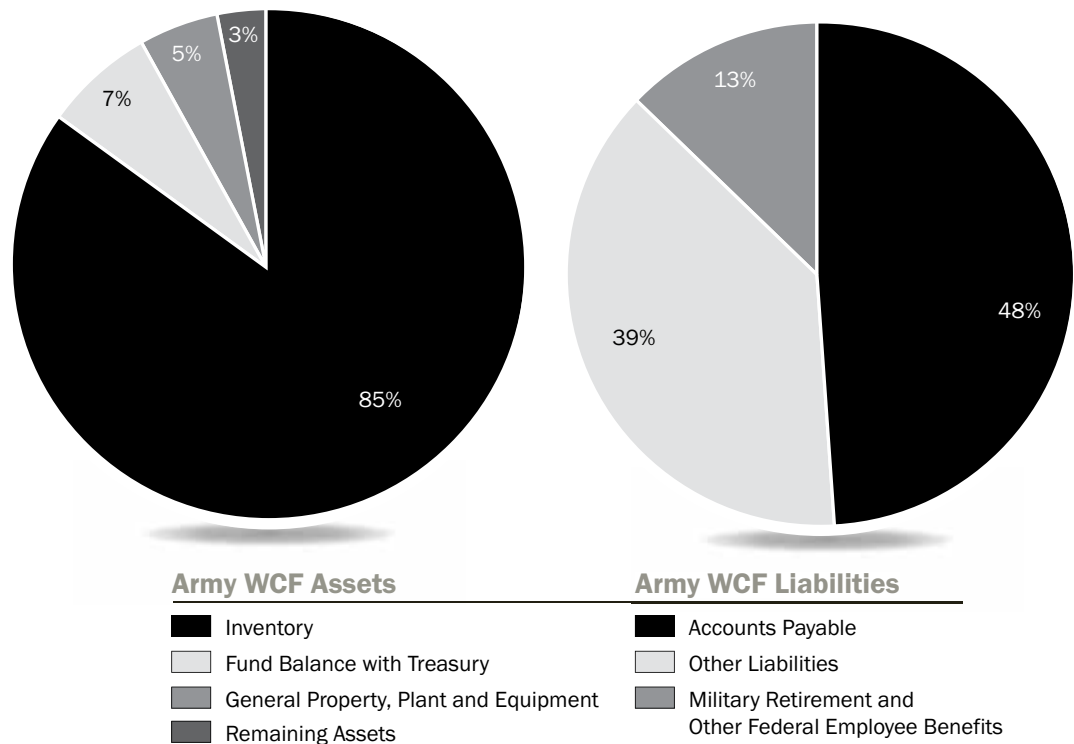
¹Throughput is the number of weapon systems completed for any given year.

² Number not available by publishing date

Army WCF Balance Sheet

The Army WCF balance sheet shows assets exceeding \$29.5 billion, primarily in Inventory and Fund Balance with Treasury. Liabilities consist of Accounts Payable and Other Liabilities, which include payroll, benefits, accrued annual leave, and workman's compensation.

Figure 5 – Army WCF Assets and Liabilities



*Table 16 – Army WCF Assets
and Liabilities*

ASSET TYPE (Amounts in millions)	FY 2010	FY 2011	Change	Percentage of FY 2011 Assets
Inventory	\$22,309.8	\$25,211.5	\$2,901.7	85%
Fund Balance with Treasury	1,808.0	1,900.5	92.5	7%
General Property, Plant and Equipment	1,397.8	1564.4	166.6	5%
Remaining Assets	981.3	908.9	(72.4)	3%
Total Assets	\$26,496.9	\$29,585.3	\$3,088.4	100.0%

LIABILITY TYPE (Amounts in millions)	FY 2010	FY 2011	Change	Percentage of FY 2011 Liabilities
Accounts Payable	\$762.2	\$783.4	\$21.2	48%
Other Liabilities	440.5	644.5	204.0	39%
Military Retirement and Other Federal Employee Benefits	219.9	221.6	1.7	13%
Total Liabilities	\$1,422.6	\$1,649.5	\$226.9	100.0%

Amounts may not sum due to rounding.

04

Required Supplementary Stewardship Information and Required Supplementary Information



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

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

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

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

deferred maintenance relates to maintenance needed on Army facilities that has not been funded. At the end of FY 2011, the Army reported approximately \$37.0 billion in deferred real property maintenance on facilities with a replacement value of approximately \$259.9 billion. Real property deferred maintenance totals approximately 14 percent of estimated replacement value of the facilities requiring maintenance. The nine major categories of military equipment deferred maintenance totaled approximately \$2.4 billion at the end of FY 2011. Electronic and communication systems equipment represented the largest category of deferred equipment maintenance at approximately \$834.3 million.

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

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

¹ Federal Accounting Standards Advisory Board. *Statement of Federal Financial Accounting Concepts and Standards* (June 30, 2008). *Statement of Federal Financial Accounting Standards 8: Supplementary Stewardship Reporting*, page 762. Found at http://www.fasab.gov/pdf/codification_report2010.pdf on October 23, 2011.

² *ibid.* *Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*, pages 9 and 13 and *Technical Release 9: Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*, page 46. SFFAS 29 found at http://www.fasab.gov/pdf/ffas_29.pdf on October 23, 2011. *Technical Release 9* found at <http://fasab.gov/aapc/technic.html> on October 23, 2011.





Limitations

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, 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.

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

Department of Defense - Army General Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2011 and 2010 (Amounts in thousands)

	2011 Consolidated	2010 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 166,985,312	\$ 166,987,504
Investments (Note 4)	3,205	3,218
Accounts Receivable (Note 5)	538,573	1,006,385
Other Assets (Note 6)	888,607	1,033,623
Total Intragovernmental Assets	\$ 168,415,697	\$ 169,030,730
Cash and Other Monetary Assets (Note 7)	1,432,966	1,776,209
Accounts Receivable, Net (Note 5)	960,325	819,603
Loans Receivable (Note 8)	0	0
Inventory and Related Property, Net (Note 9)	31,180,416	34,113,653
General Property, Plant and Equipment, Net (Note 10)	171,879,899	165,019,692
Investments (Note 4)	0	0
Other Assets (Note 6)	7,815,573	8,570,058
TOTAL ASSETS	\$ 381,684,876	\$ 379,329,945
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,028,077	\$ 1,890,428
Debt (Note 13)	1	1
Other Liabilities (Note 15 & 16)	3,109,908	2,924,663
Total Intragovernmental Liabilities	\$ 5,137,986	\$ 4,815,092
Accounts Payable (Note 12)	6,632,564	10,753,970
Military Retirement and Other Federal Employment Benefits (Note 17)	1,356,264	1,350,559
Environmental and Disposal Liabilities (Note 14)	31,767,991	33,352,731
Loan Guarantee Liability (Note 8)	154	3,640
Other Liabilities (Note 15 and Note 16)	11,292,808	13,532,369
TOTAL LIABILITIES	\$ 56,187,767	\$ 63,808,361
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0	\$ 0
Unexpended Appropriations - Other Funds	162,359,241	158,281,584
Cumulative Results of Operations - Earmarked Funds	49,586	58,686
Cumulative Results of Operations - Other Funds	163,088,282	157,181,314
TOTAL NET POSITION	\$ 325,497,109	\$ 315,521,584
TOTAL LIABILITIES AND NET POSITION	\$ 381,684,876	\$ 379,329,945

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

Department of Defense - Army General Fund

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2011 and 2010 (Amounts in thousands)

	2011 Consolidated		2010 Consolidated	
Program Costs				
Gross Costs	\$	227,456,499	\$	209,719,324
Military Personnel		70,291,279		69,409,127
Operations, Readiness & Support		94,073,478		93,286,956
Procurement		37,363,041		24,275,341
Research, Development, Test & Evaluation		14,596,807		15,080,395
Family Housing & Military Construction		11,131,894		7,667,505
(Less: Earned Revenue)		(11,502,557)		(11,960,786)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	215,953,942	\$	197,758,538
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		0		0
Net Program Costs Including Assumption Changes		215,953,942		197,758,538
Costs Not Assigned to Programs	\$	0	\$	0
(Less: Earned Revenues) Not Attributed to Programs		0		0
Net Cost of Operations	\$	215,953,942	\$	197,758,538

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

Department of Defense - Army General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITIONAs of September 30, 2011 and 2010
(Amounts in thousands)

	2011 Earmarked Funds	2011 All Other Funds	2011 Eliminations	2011 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	\$ 58,686	\$ 157,181,313	\$ 0	\$ 157,239,999
Prior Period Adjustments				
Changes in accounting principles (+/-)	0	0	0	0
Corrections of errors (+/-)	0	0	0	0
Beginning balances, as adjusted	\$ 58,686	\$ 157,181,313	\$ 0	\$ 157,239,999
Budgetary Financing Sources:				
Other adjustments (rescissions, etc.)	\$ 0	\$ 0	\$ 0	\$ 0
Appropriations used	(54)	228,493,138	0	228,493,084
Nonexchange revenue	2,471	0	0	2,471
Donations and forfeitures of cash and cash equivalents	6,719	0	0	6,719
Transfers-in/out without reimbursement	0	700,000	0	700,000
Other budgetary financing sources	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	237	0	237
Transfers-in/out without reimbursement (+/-)	(3,641)	1,804,306	0	1,800,665
Imputed financing from costs absorbed by others	0	1,283,044	0	1,283,044
Other (+/-)	810	(10,435,219)	0	(10,434,409)
Total Financing Sources	\$ 6,305	\$ 221,845,506	\$ 0	\$ 221,851,811
Net Cost of Operations (+/-)	15,405	215,938,537	0	215,953,942
Net Change	\$ (9,100)	\$ 5,906,969	\$ 0	\$ 5,897,869
Cumulative Results of Operations	\$ 49,586	\$ 163,088,282	\$ 0	\$ 163,137,868
UNEXPENDED APPROPRIATIONS				
Beginning Balances	\$ 0	\$ 158,281,584	\$ 0	\$ 158,281,584
Prior Period Adjustments				
Changes in accounting principles	0	0	0	0
Corrections of errors	0	0	0	0
Beginning balances, as adjusted	\$ 0	\$ 158,281,584	\$ 0	\$ 158,281,584
Budgetary Financing Sources:				
Appropriations received	\$ 0	\$ 236,165,926	\$ 0	\$ 236,165,926
Appropriations transferred-in/out	0	772,258	0	772,258
Other adjustments (rescissions, etc.)	(54)	(4,367,389)	0	(4,367,443)
Appropriations used	54	(228,493,138)	0	(228,493,084)
Total Budgetary Financing Sources	\$ 0	\$ 4,077,657	\$ 0	\$ 4,077,657
Unexpended Appropriations	0	162,359,241	0	162,359,241
Net Position	\$ 49,586	\$ 325,447,523	\$ 0	\$ 325,497,109

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

Department of Defense - Army General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITIONAs of September 30, 2011 and 2010
(Amounts in thousands)

	2010 Earmarked Funds	2010 All Other Funds	2010 Eliminations	2010 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	\$ 57,671	\$ 118,171,296	\$ 0	\$ 118,228,967
Prior Period Adjustments				
Changes in accounting principles (+/-)	0	0	0	0
Corrections of errors (+/-)	461	381,405	0	381,866
Beginning balances, as adjusted	\$ 58,132	\$ 118,552,701	\$ 0	\$ 118,610,833
Budgetary Financing Sources:				
Other adjustments (rescissions, etc.)	\$ 0	\$ 0	\$ 0	\$ 0
Appropriations used	0	229,297,580	0	229,297,580
Nonexchange revenue	4,362	0	0	4,362
Donations and forfeitures of cash and cash equivalents	8,190	0	0	8,190
Transfers-in/out without reimbursement	0	280,280	0	280,280
Other budgetary financing sources	0	(323,902)	0	(323,902)
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	2,292,891	0	2,292,891
Imputed financing from costs absorbed by others	0	1,240,470	0	1,240,470
Other (+/-)	(606)	3,588,440	0	3,587,834
Total Financing Sources	\$ 11,946	\$ 236,375,759	\$ 0	\$ 236,387,705
Net Cost of Operations (+/-)	11,392	197,747,146	0	197,758,538
Net Change	\$ 554	\$ 38,628,613	\$ 0	\$ 38,629,167
Cumulative Results of Operations	\$ 58,686	\$ 157,181,314	\$ 0	\$ 157,240,000
UNEXPENDED APPROPRIATIONS				
Beginning Balances	\$ 0	\$ 150,540,142	\$ 0	\$ 150,540,142
Prior Period Adjustments				
Changes in accounting principles	0	0	0	0
Corrections of errors	0	(370,485)	0	(370,485)
Beginning balances, as adjusted	\$ 0	\$ 150,169,657	\$ 0	\$ 150,169,657
Budgetary Financing Sources:				
Appropriations received	\$ 0	\$ 231,889,806	\$ 0	\$ 231,889,806
Appropriations transferred-in/out	0	9,227,449	0	9,227,449
Other adjustments (rescissions, etc.)	0	(3,707,748)	0	(3,707,748)
Appropriations used	0	(229,297,580)	0	(229,297,580)
Total Budgetary Financing Sources	\$ 0	\$ 8,111,927	\$ 0	\$ 8,111,927
Unexpended Appropriations	0	158,281,584	0	158,281,584
Net Position	\$ 58,686	\$ 315,462,898	\$ 0	\$ 315,521,584

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

Department of Defense - Army General Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2011 and 2010 (Amounts in thousands)	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2011 Combined	2010 Combined	2011 Combined	2010 Combined

BUDGETARY FINANCING ACCOUNTS**BUDGETARY RESOURCES**

Unobligated balance, brought forward, October 1	\$ 48,310,809	\$ 42,835,509	\$ 3,641	\$ 290
Recoveries of prior year unpaid obligations	24,828,910	22,661,187	0	0
Budget authority				
Appropriation	236,175,946	231,902,473	0	0
Borrowing authority	0	0	0	1
Contract authority	0	0	0	0
Spending authority from offsetting collections				
Earned				
Collected	26,102,381	26,540,103	155	4,547
Change in receivables from Federal sources	854,321	(640,368)	120	0
Change in unfilled customer orders				
Advance received	150,877	46,537	0	0
Without advance from Federal sources	1,566,481	2,612,167	0	0
Anticipated for rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Expenditure transfers from trust funds	0	0	0	0
Subtotal	\$ 264,850,006	\$ 260,460,912	\$ 275	\$ 4,548
Nonexpenditure transfers, net, anticipated and actual	\$ 1,472,258	\$ 9,507,729	\$ 0	\$ 0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(4,367,443)	(3,707,748)	0	(1,060)
Total Budgetary Resources	\$ 335,094,540	\$ 331,757,589	\$ 3,916	\$ 3,778

Status of Budgetary Resources:

Obligations incurred:				
Direct	\$ 254,440,450	\$ 253,349,257	\$ 5,107	\$ 137
Reimbursable	29,003,731	30,097,522	0	0
Subtotal	\$ 283,444,181	\$ 283,446,779	\$ 5,107	\$ 137
Unobligated balance:				
Apportioned	\$ 41,866,513	\$ 42,153,378	\$ 51	\$ 3,510
Exempt from apportionment	4,959	54,633	0	0
Subtotal	\$ 41,871,472	\$ 42,208,011	\$ 51	\$ 3,510
Unobligated balance not available	9,778,887	6,102,799	(1,242)	131
Total status of budgetary resources	\$ 335,094,540	\$ 331,757,589	\$ 3,916	\$ 3,778

Change in Obligated Balance:

Obligated balance, net				
Unpaid obligations, brought forward, October 1	\$ 143,921,216	\$ 143,712,640	\$ 0	\$ 0
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(25,572,774)	(23,600,975)	0	0
Total unpaid obligated balance	\$ 118,348,442	\$ 120,111,665	\$ 0	\$ 0
Obligations incurred net (+/-)	283,444,181	283,446,779	5,108	137
Less: Gross outlays	(260,080,898)	(260,577,017)	(3,444)	(137)
Obligated balance transferred, net				
Actual transfers, unpaid obligations (+/-)	0	0	0	0
Actual transfers, uncollected customer	0	0	0	0
Total Unpaid obligated balance transferred, net	0	0	0	0
Less: Recoveries of prior year unpaid obligations, actual	(24,828,910)	(22,661,187)	0	0
Change in uncollected customer payments from Federal sources (+/-)	(2,420,803)	(1,971,798)	(120)	0
Obligated balance, net, end of period				
Unpaid obligations	\$ 142,455,589	\$ 143,921,215	\$ 1,664	\$ 0
Less: Uncollected customer payments from Federal sources (-)	(27,993,577)	(25,572,773)	(120)	0
Total, unpaid obligated balance, net, end of period	\$ 114,462,012	\$ 118,348,442	\$ 1,544	\$ 0

Net Outlays:

Gross outlays	\$ 260,080,898	\$ 260,577,017	\$ 3,444	\$ 137
Less: Offsetting collections	(26,253,257)	(26,586,641)	(155)	(4,547)
Less: Distributed Offsetting receipts	(856,292)	(142,173)	0	0
Net Outlays	\$ 232,971,349	\$ 233,848,203	\$ 3,289	\$ (4,410)

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

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

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

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

The Army General Fund currently has 14 auditor-identified financial statement material weaknesses: (1) Financial management systems; (2) Accounting adjustments; (3) Abnormal account balances; (4) Intragovernmental transactions and eliminations; (5) Fund Balance with Treasury; (6) Accounts Receivable; (7) Inventory and Related Property, including government-furnished materiel and contractor-acquired materiel; (8) General Property, Plant, and Equipment; (9) Accounts Payable; (10) Environmental Liabilities; (11) Statement of Net Cost; (12) Reconciliation of Net Cost of Operations to Budget; (13) Statement of Budgetary Resources; and (14) Contingency payment audit trails.

1.B. Mission of the Reporting Entity

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

This mission has been unchanged for the 236-year life of the Army, but the environment and nature of conflict have undergone many changes over that same time, especially with the overseas contingency operations. These contingency operations have required that the Army simultaneously transform the way that it fights, trains, and equips its Soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the nation's domestic and international security obligations today and into the future.

1.C. Appropriations and Funds

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

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

These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at <http://www.defenselink.mil/recovery>.

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. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues; required by statute to be used for designated activities, benefits or purposes; and remain available over time. The Army General Fund is required to separately account for and report on the receipt, use, and retention of revenues and other financing sources for earmarked funds.

Special fund accounts are used to record government receipts reserved for a specific purpose.

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

The Army General Fund is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, 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, and all other funds specifically designated by OMB.

The Army General Fund receives allocation transfers from the Federal Highway Administration and the U.S. Forestry Service. The Army General Fund also receives allocation transfers for the Foreign Military Sales trust fund which meet the OMB exception; however, activities for this fund are reported separately from the DoD financial statements.

As a parent, the Army General Fund allocates funds to the Department of Agriculture and the Department of Transportation for the active Army and Army National Guard.

1.D. Basis of Accounting

The Army General Fund's financial management systems are unable to meet all full accrual accounting requirements. Many of the Army General Fund's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of the Army General Fund's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

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

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the United States Standard General Ledger. Until all of the Army General Fund's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, the Army General Fund's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The Army General Fund receives congressional appropriations as financing sources for general funds that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Army General Fund recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the Army General Fund's standard policy for services provided as required by OMB Circular A-25, *User Charges*. The Army General Fund recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

The Army General Fund does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and Note 21, *Reconciliation of Net Cost of Operations to Budget*. The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

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

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

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Foreign Currency

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

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

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

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Generally, allowances for uncollectible accounts due from the public are based upon analysis of collection experience by age category. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/factsi/manuals/tfm-bulletin-2011-04.pdf>.

1.L. Direct Loans and Loan Guarantees

The Army General Fund operates the Armament Retooling and Manufacturing Support Initiative under Title 10, United States Code 4551-4555. This loan guarantee program is designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

The Federal Credit Reform Act of 1990 governs all amended direct loan obligations and loan guarantee commitments made after FY 1991.

1.M. Inventories and Related Property

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

Related property includes OM&S and stockpile materiel. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Army General Fund uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Army General Fund uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2011 and FY 2010, the Army General Fund expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the

DoD; long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

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

The Army General Fund recognizes excess, obsolete, and unserviceable OM&S at a net realizable value of \$0 pending development of an effective means of valuing such materiel.

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

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

The Army General Fund invests in nonmarketable market-based U.S. Treasury securities, which are issued to federal agencies by the U.S. Treasury's Bureau of the Public Debt. They are not traded on any securities exchange but mirror the prices of particular U.S. Treasury securities traded in the government securities market.

1.O. General Property, Plant and Equipment

The Army General Fund uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information.

The DoD's general property, plant and equipment (PP&E) capitalization threshold is \$100 thousand except for real property, which is \$20 thousand. The Army General Fund is in the process of fully implementing the \$20 thousand threshold for real property.

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 DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing general PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all general PP&E, other than land, on a straight-line basis.

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Army General Fund records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Army General Fund records the asset and 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 General Fund, as the lessee, receives the use and possession of leased property--for example, real estate or equipment--from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

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

1.R. Other Assets

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

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

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

1.S. Contingencies and Other Liabilities

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

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Undistributed Disbursements and Collections

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

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.X. Significant Events

There are no significant events as of September 30, 2011.

1.Y. Fiduciary Activities

Fiduciary cash and other assets are not assets of the Army General Fund and are not recognized on the balance sheet. Fiduciary activities are reported on the financial statement note schedules.

Note 2. Nonentity Assets

As of September 30	2011		2010	
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	\$	175,340	\$	123,946
B. Accounts Receivable		0		0
C. Other Assets		0		0
D. Total Intragovernmental Assets	\$	175,340	\$	123,946
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	\$	1,432,966	\$	1,776,209
B. Accounts Receivable		88,055		63,530
C. Other Assets		0		0
D. Total Nonfederal Assets	\$	1,521,021	\$	1,839,739
3. Total Nonentity Assets	\$	1,696,361	\$	1,963,685
4. Total Entity Assets	\$	379,988,515	\$	377,366,260
5. Total Assets	\$	381,684,876	\$	379,329,945

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

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

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

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

Note 3. Fund Balance with Treasury

As of September 30	2011		2010	
(Amounts in thousands)				
1. Fund Balances				
A. Appropriated Funds	\$	166,762,831	\$	166,799,025
B. Revolving Funds		155		7,644
C. Trust Funds		1,985		1,469
D. Special Funds		45,001		55,420
E. Other Fund Types		175,340		123,946
F. Total Fund Balances	\$	166,985,312	\$	166,987,504
2. Fund Balances Per Treasury Versus Agency				
A. Fund Balance per Treasury	\$	169,770,205	\$	168,960,972
B. Fund Balance per Army		166,985,312		166,987,504
3. Reconciling Amount				
	\$	2,784,893	\$	1,973,468

Other Fund Types

Other Fund Types consist of deposit funds, clearing accounts, unavailable receipt accounts, seized Iraqi cash, and the Development Fund Iraq (DFI). Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Clearing accounts are used as a temporary suspense account until later paid by or refunded into another account or when the government acts as a banker or agent for others. Unavailable receipt accounts are credited with all collections not earmarked by law for a specific purpose. These collections include taxes, customs duties, and miscellaneous receipts. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. The DFI consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds.

Reconciling Amount

The U.S. Treasury reported \$2.8 billion more in Fund Balance with Treasury (FBWT) than reported by the Army General Fund. This difference includes \$2.4 billion in canceling year authority, \$367.2 million in unavailable receipts, \$13.8 million in fiduciary activity and \$5.2 million in net differences due to the U.S. Treasury treatment of allocation transfers. The allocation transfers reconciling difference results from instances in which Army allocates to or is allocated funds from various governmental entities. In cases in which Army is allocated funds, the amount is excluded from the Fund Balance per Army, but included in Fund Balance per Treasury. In cases in which Army allocates funds, the amount is included in the Fund Balance per Army, but it is excluded from the Fund Balance per Treasury.

Status of Fund Balance with Treasury

As of September 30	2011	2010
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	\$ 41,871,522	\$ 42,211,520
B. Unavailable	9,777,646	6,102,930
2. Obligated Balance not yet Disbursed	142,457,252	143,921,217
3. Nonbudgetary FBWT	875,817	327,829
4. NonFBWT Budgetary Accounts	(27,996,925)	(25,575,992)
5. Total	<u>\$ 166,985,312</u>	<u>\$ 166,987,504</u>

Status of Fund Balance with Treasury Definitions

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

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

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

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

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

Note 4. Investments and Related Interest

As of September 30

(Amounts in thousands)

1. Intragovernmental Securities

A. Nonmarketable, Market-Based

1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0
2. Medicare-Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	3,219	Effective interest	(31)	3,188	3,192
5. Total Nonmarketable, Market-Based	\$ 3,219		\$ (31)	\$ 3,188	\$ 3,192

B. Accrued Interest

17			17	17
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C. Total Intragovernmental Securities

\$ 3,236		\$ (31)	\$ 3,205	\$ 3,209
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2. Other Investments

A. Total Other Investments

\$ 0		\$ 0	\$ 0	N/A
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As of September 30

(Amounts in thousands)

1. Intragovernmental Securities

A. Nonmarketable, Market-Based

1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0
2. Medicare-Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	3,259	Effective interest	(78)	3,181	3,185
5. Total Nonmarketable, Market-Based	\$ 3,259		\$ (78)	\$ 3,181	\$ 3,185

B. Accrued Interest

37			37	37
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C. Total Intragovernmental Securities

\$ 3,296		\$ (78)	\$ 3,218	\$ 3,222
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2. Other Investments

A. Total Other Investments

\$ 0		\$ 0	\$ 0	N/A
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Other Funds include the Army Gift Fund. The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army General Fund along with the interest received from the investment of such donations. The related earnings are allocated to the appropriate Army General Fund activities to be used in accordance with the directions of the donor. These funds are recorded as Nonmarketable Market-Based U.S. Treasury Securities, which are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

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

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

Note 5. Accounts Receivable

As of September 30

(Amounts in thousands)

	2011		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 538,573	N/A	\$ 538,573
2. Nonfederal Receivables (From the Public)	1,055,330	\$ (95,005)	960,325
3. Total Accounts Receivable	<u>\$ 1,593,903</u>	<u>\$ (95,005)</u>	<u>\$ 1,498,898</u>

As of September 30

(Amounts in thousands)

	2010		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 1,006,385	N/A	\$ 1,006,385
2. Nonfederal Receivables (From the Public)	986,361	\$ (166,758)	819,603
3. Total Accounts Receivable	<u>\$ 1,992,746</u>	<u>\$ (166,758)</u>	<u>\$ 1,825,988</u>

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

Note 6. Other Assets

As of September 30

(Amounts in thousands)

	2011	2010
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 888,607	\$ 1,033,623
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	<u>\$ 888,607</u>	<u>\$ 1,033,623</u>
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 7,289,438	\$ 7,898,060
B. Advances and Prepayments on behalf of Foreign Governments	526,135	671,998
C. Advances and Prepayments	0	0
D. Total Nonfederal Other Assets	<u>\$ 7,815,573</u>	<u>\$ 8,570,058</u>
3. Total Other Assets	<u>\$ 8,704,180</u>	<u>\$ 9,603,681</u>

Other Assets Definitions

Contract terms and conditions for certain types of contract financing payments convey certain rights to the government that protect the contract work from state or local taxation, liens or attachment by the contractor's 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 federal government. The federal government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army General Fund is not obligated to make payment to the contractor until delivery and acceptance.

Outstanding Contract Financing Payments

The balance of Outstanding Contract Financing Payments includes \$6.9 billion in contract financing payments and an additional \$0.4 billion in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. (See additional discussion in Note 15, *Other Liabilities*.)

Note 7. Cash and Other Monetary Assets

As of September 30	2011	2010
(Amounts in thousands)		
1. Cash	\$ 234,302	\$ 402,605
2. Foreign Currency	1,198,664	1,373,604
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 1,432,966</u>	<u>\$ 1,776,209</u>

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

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

Note 8. Direct Loan and Loan Guarantees

Direct Loan and/or Loan Guarantee Programs

The Army General Fund operates a loan guarantee program, the Armament Retooling and Manufacturing Support (ARMS) Initiative Loan Guarantee Program, designed to increase commercial use of inactive government facilities.

The Federal Credit Reform Act of 1990 governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991. The Army General Fund does not operate a direct loan program.

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows: Payments by the Army General Fund to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Army General Fund including origination and other fees, penalties, and recoveries.

Armament Retooling and Manufacturing Support Initiative

The Army General Fund established the ARMS Initiative Loan Guarantee Program, authorized by Title 10, United States Code 4551-4555. The purpose of this program is to encourage commercial use of the Army's inactive ammunition plants through incentives for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements; however, this capacity may be needed by the military in the future. Revenues from property rentals are used to help offset the overhead costs for the operation, maintenance and environmental cleanup at the facilities.

The Army and U.S. Department of Agriculture Rural Business-Cooperative Service (RBS) have established a memorandum of understanding for the RBS to administer this loan guarantee program.

Loan Guarantees

In an effort to preclude additional Army General Fund loan liability, the Assistant Secretary of the Army (Acquisition, Logistics and Technology) instituted an ARMS loan guarantee moratorium in 2004. The Army General Fund continues to operate under the moratorium and does not anticipate initiating new loan guarantees.

Summary of Direct Loans and Loan Guarantees

As of September 30	2011		2010	
(Amounts in thousands)				
Loans Receivable				
Direct Loans				
1. Foreign Military Loan Liquidating Account	\$	0	\$	0
2. Military Housing Privatization Initiative		0		0
3. Foreign Military Financing Account		0		0
4. Military Debt Reduction Financing Account		0		0
5. Total Direct Loans	\$	0	\$	0
Defaulted Loan Guarantees				
6. A. Foreign Military Financing Account	\$	0	\$	0
B. Military Housing Privatization Initiative		0		0
C. Armament Retooling & Manufacturing Support Initiative		0		93
7. Total Default Loan Guarantees	\$	0	\$	93
8. Total Loans Receivable	\$	0	\$	93
Loan Guarantee Liability				
1. Foreign Military Liquidating Account	\$	0	\$	0
2. Military Housing Privatization Initiative		0		0
3. Armament Retooling & Manufacturing Support Initiative		154		3,640
4. Total Loan Guarantee Liability	\$	154	\$	3,640

The Loan Guarantee Liability represents the present value of the estimated cash inflows less cash outflows of non-acquired loan guarantees. The \$154.5 thousand in loan guarantee liability represents the estimated long-term cost of the one remaining performing loan to the U.S. Government for the ARMS Initiative Loan Guarantee Program.

Direct Loans Obligated

The Army General Fund does not operate direct loan programs; therefore, this schedule is not applicable.

Total Amount of Direct Loans Disbursed

The Army General Fund does not operate direct loan programs; therefore, this schedule is not applicable.

Subsidy Expense for Direct Loan by Program

The Army General Fund does not operate direct loan programs; therefore, this schedule is not applicable.

Subsidy Rate for Direct Loans by Program

The Army General Fund does not operate direct loan programs; therefore, this schedule is not applicable.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post-FY 1991 Direct Loans

The Army General Fund does not operate direct loan programs; therefore, this schedule is not applicable.

Defaulted Guaranteed Loans

As of September 30	2011		2010	
(Amounts in thousands)				
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees				
(Allowance for Loss Method):				
1. Foreign Military Loan Liquidating Account				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0	\$	0
B. Interest Receivable		0		0
C. Foreclosed Property		0		0
D. Allowance for Loan Losses		0		0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0	\$	0
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees				
(Present Value Method):				
2. Military Housing Privatization Initiative				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0	\$	0
B. Interest Receivable		0		0
C. Foreclosed Property		0		0
D. Allowance for Subsidy Cost (Present Value)		0		0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0	\$	0
3. Armament Retooling & Manufacturing Support Initiative				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	735	\$	735
B. Interest Receivable		0		0
C. Foreclosed Property		0		0
D. Allowance for Subsidy Cost (Present Value)		(735)		(735)
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0	\$	0
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable				
	\$	0	\$	0

Guaranteed Loans Outstanding

As of September 30	2011		2010	
	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(Amounts in thousands)				
Guaranteed Loans Outstanding				
1. Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	2,437	2,072	2,716	2,308
3. Foreign Military Liquidating Account	0	0	0	0
4. Total	\$ 2,437	\$ 2,072	\$ 2,716	\$ 2,308
New Guaranteed Loans Disbursed				
1. Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	0	0	0	0
3. Total	\$ 0	\$ 0	\$ 0	\$ 0

Guaranteed Loans Outstanding Definition

The Outstanding Principal of Guaranteed Loans, Face Value is the principal amount of loans disbursed by third parties and guaranteed by the Army General Fund. The face value does not include any interest that is due to be paid on the debt instruments.

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The Amount of Outstanding Principal Guaranteed is the principal amount of loans disbursed by third parties and guaranteed by the Army General Fund less borrower collateral. The net amount represents the loan amount guaranteed by the Army General Fund. One performing loan remains.

Liabilities for Loan Guarantees

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
Liabilities for Losses on Loan Guarantee from Pre 1992		
(Allowance for Loss):		
1. Foreign Military Liquidating Account	\$ 0	\$ 0
2. Total Loan Guarantee Liability (Pre-FY 1992)	\$ 0	\$ 0
Liabilities for Loan Guarantee from Post 1991 (Present Value):		
3. Military Housing Privatization Initiative	\$ 0	\$ 0
4. Armament Retooling & Manufacturing Support Initiative	154	3,640
5. Total Loan Guarantee Liability (Post-FY 1991)	\$ 154	\$ 3,640
6. Total Loan Guarantee Liability	\$ 154	\$ 3,640

Liabilities for Loan Guarantee Programs Post-FY 1991 represent the present value of the estimated cash inflows less cash outflows of non-acquired loan guarantees. The \$154.5 thousand in loan guarantee liability represents the estimated long-term cost of the currently performing loan to the U. S. Government for the ARMS Initiative Loan Guarantee Program.

Subsidy Expense for Loan Guarantees by Program

As of September 30

(Amounts in thousands)

2011	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Totals	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2010	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Totals	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2011	Interest Differential	Defaults	Fees	Other	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	1	(3,641)	(3,640)	(3,640)
Totals	\$ 0	\$ 1	\$ (3,641)	\$ (3,640)	\$ (3,640)
2010	Interest Differential	Defaults	Fees	Other	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Totals	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	2011	2010			
5. Total Loan Guarantee:					
Military Housing Privatization Initiative	\$ 0	\$ 0			
Armament Retooling & Manufacturing Support Initiative	(3,640)	0			
Totals	\$ (3,640)	\$ 0			

In an effort to preclude additional Army General Fund loan liability, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) instituted an ARMS loan guarantee moratorium in 2004. The Army General Fund continues to operate under the moratorium, and does not anticipate initiating new loan guarantees.

Subsidy Rates for Loan Guarantees by Program

As of September 30

(Amounts in thousands)

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

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The Subsidy Rates for Loan Guarantees table displays subsidy rates applied to new guaranteed loans. Since there have been no new loan guarantees originated since 2004 for the ARMS Initiative Program, the table properly presents zero percent subsidy rates.

Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

As of September 30	2011	2010
(Amounts in thousands)		
Beginning Balance, Changes, and Ending Balance:		
1. Beginning Balance of the Loan Guarantee Liability	\$ 3,640	\$ 2,436
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	\$ 0	\$ 0
B. Default Costs (Net of Recoveries)	0	0
C. Fees and Other Collections	0	0
D. Other Subsidy Costs	0	0
E. Total of the above Subsidy Expense Components	\$ 0	\$ 0
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0	\$ 0
B. Fees Received	0	0
C. Interest Supplements Paid	0	0
D. Foreclosed Property and Loans Acquired	0	0
E. Claim Payments to Lenders	0	0
F. Interest Accumulation on the Liability Balance	154	127
G. Other	0	1,077
H. Total of the above Adjustments	\$ 154	\$ 1,204
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$ 3,794	\$ 3,640
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	\$ 1	\$ 0
B. Technical/default Reestimate	(3,641)	0
C. Total of the above Reestimate Components	\$ (3,640)	\$ 0
6. Ending Balance of the Loan Guarantee Liability	\$ 154	\$ 3,640

Administrative Expenses

Administrative expense for the ARMS Initiative represents \$4,000 per annum in salary expenses.

Note 9. Inventory and Related Property

As of September 30	2011	2010
(Amounts in thousands)		
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materials & Supplies, Net	31,180,416	34,113,653
3. Stockpile Materiel, Net	0	0
4. Total	\$ 31,180,416	\$ 34,113,653

Inventory, Net

Not Applicable.

Operating Materiel and Supplies, Net

As of September 30 <i>(Amounts in thousands)</i>	2011			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
1. OM&S Categories				
A. Held for Use	\$ 31,180,416	\$ 0	\$ 31,180,416	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	509,798	(509,798)	0	NRV
D. Totals	\$ 31,690,214	\$ (509,798)	\$ 31,180,416	

As of September 30 <i>(Amounts in thousands)</i>	2010			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
1. OM&S Categories				
A. Held for Use	\$ 34,113,653	\$ 0	\$ 34,113,653	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	674,458	(674,458)	0	NRV
D. Totals	\$ 34,788,111	\$ (674,458)	\$ 34,113,653	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost

SP = Standard Price

AC = Actual Cost

MAC = Moving Average Cost

NRV = Net Realizable Value

LCM = Lower of Cost or Market

O = Other

Operating Materiel and Supplies (OM&S) include ammunition, tactical missiles, and their related spare and repair parts. The category, Held for Use, includes all materiel available to be issued. Economically repairable materiel is categorized as held for repair.

Managers determine which items are more costly to repair than to replace. The net value of these items is zero and is shown as Excess, Obsolete, and Unserviceable.

The Army General Fund establishes an allowance for excess, obsolete, and unserviceable OM&S at 100 percent of the carrying amount in accordance with DoD policy.

The values of the Army's government-furnished materiel and contractor-acquired materiel in the hands of contractors are normally not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information in other existing logistics systems. Currently, there are no restrictions on OM&S.

Stockpile Materiel, Net

Not Applicable.

Note 10. General PP&E, Net

As of September 30	2011				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 519,901	N/A	\$ 519,901
B. Buildings, Structures, and Facilities	S/L	20 or 40	72,230,406	\$ (35,284,447)	36,945,959
C. Leasehold Improvements	S/L	lease term	30,655	(20,606)	10,049
D. Software	S/L	2-5 or 10	501,823	(207,870)	293,953
E. General Equipment	S/L	5 or 10	9,649,888	(4,512,849)	5,137,039
F. Military Equipment	S/L	various	172,188,793	(55,126,843)	117,061,950
G. Shipbuilding	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	166,617	(164,637)	1,980
I. Construction-in-Progress	N/A	N/A	11,909,068	N/A	11,909,068
J. Other			0	0	0
K. Total General PP&E			\$ 267,197,151	\$ (95,317,252)	\$ 171,879,899

As of September 30	2010				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 461,150	N/A	\$ 461,150
B. Buildings, Structures, and Facilities	S/L	20 or 40	61,998,707	\$ (33,539,328)	28,459,379
C. Leasehold Improvements	S/L	lease term	26,318	(19,732)	6,586
D. Software	S/L	2-5 or 10	501,718	(207,742)	293,976
E. General Equipment	S/L	5 or 10	13,955,404	(4,292,652)	9,662,752
F. Military Equipment	S/L	various	164,280,693	(49,152,182)	115,128,511
G. Shipbuilding	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	166,617	(162,635)	3,982
I. Construction-in-Progress	N/A	N/A	11,003,356	N/A	11,003,356
J. Other			0	0	0
K. Total General PP&E			\$ 252,393,963	\$ (87,374,271)	\$ 165,019,692

Legend for Valuation Methods:

S/L = Straight Line

N/A = Not Applicable

General Property, Plant and Equipment (PP&E)

The Army General Fund uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information. The Army General Fund is not aware of any restrictions on the use or convertibility of General PP&E.

Heritage Assets and Stewardship Land

The mission of the Army is to provide the military forces needed to deter war and protect the security of the United States by organizing, training, supplying, equipping, and mobilizing forces for assignment in support of that mission. Executing this mission requires efficient and effective use of resources in a manner that ensures operational and environmental sustainability, while respecting the history and heritage that reflect and support the military mission. The Army has stewardship responsibilities for heritage assets that

date not only from the military history of the land, but from prior historic occupations. The Army relies upon heritage assets, such as historic buildings and stewardship land for daily use in administering, housing, and training Soldiers. Heritage assets not currently employed as multi-use, such as archeological collections or museum collections, are items that embody the multi-faceted history of the land, the military, the local communities, and the nation. In that mission, the Army General Fund, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets (capitalized and depreciated).

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

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

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

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

Museum Collection Items. Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

The following is a description of the methods of acquisitions and withdrawals of heritage assets and stewardship land:

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

The heritage assets for the Army General Fund are listed below:

Categories	Measure Quantity	Beginning Balance	Additions**	Deletions	Ending Balance
Buildings and Structures	Each	40,333	0	652	39,681
Archeological Sites	Each	6,340	2,760	31	9,069
Museum Collection Items (Objects, Not Including Fine Art)	Each	572,869	8,294	900	580,263
Museum Collection Items (Objects, Fine Art)	Each	0	0	0	0

**There were no donations included in the Additions column.

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

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

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

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

(Acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions**	Deletions	Ending Balance
9110	Government-Owned Land	*4,902	400	371	4,931
9111	State-Owned Land	12	7	12	7
9120	Withdrawn Public Land	6,505	54	113	6,446
9130	Licensed and Permitted Land	2,096	430	434	2,092
9140	Public Land	11	11	11	11
9210	Land Easement	215	28	27	216
9220	In-leased Land	178	61	106	133
9230	Foreign Land	157	1	0	158
Grand Total					13,994
Total - All Other Land					7,530
Total - Stewardship Land					6,464

*The amount reported at 4th Quarter, FY 2010 for Additions to Government-Owned Land was 3,445 acres. The amount that should have been reported was 345 acres, causing an overstatement of the Ending Balance of 3,100 acres for 4th Quarter, FY 2010. The correct beginning balance for this line is shown above.

**There were no donations included in the Additions column.

Assets Under Capital Lease

As of September 30	2011	2010
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 166,071	\$ 166,071
B. Equipment	546	546
C. Accumulated Amortization	(164,637)	(162,635)
D. Total Capital Leases	\$ 1,980	\$ 3,982

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2011	2010
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	553,337	602,734
D. Total Intragovernmental Liabilities	\$ 553,337	\$ 602,734
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 170,964	\$ 211,211
B. Military Retirement and Other Federal Employment Benefits	1,356,264	1,350,560
C. Environmental Liabilities	28,558,194	30,095,842
D. Other Liabilities	7,643,785	7,818,996
E. Total Nonfederal Liabilities	\$ 37,729,207	\$ 39,476,609
3. Total Liabilities Not Covered by Budgetary Resources	\$ 38,282,544	\$ 40,079,343
4. Total Liabilities Covered by Budgetary Resources	17,905,223	23,729,018
5. Total Liabilities	\$ 56,187,767	\$ 63,808,361

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided.

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

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

Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities consist primarily of the FECA benefits liability of \$1.4 billion. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Environmental Liabilities represents the Department's liability for existing and anticipated environmental cleanup and disposal.

Nonfederal Liabilities Other primarily consists of \$3.7 billion in unfunded annual leave, \$1.1 billion in contingent liabilities, and \$2.7 billion in expected expenditures for disposal of conventional munitions.

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

Note 12. Accounts Payable

As of September 30

(Amounts in thousands)

	2011		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 2,028,077	N/A	\$ 2,028,077
2. Nonfederal Payables (to the Public)	6,631,107	\$ 1,457	6,632,564
3. Totals	\$ 8,659,184	\$ 1,457	\$ 8,660,641

As of September 30

(Amounts in thousands)

	2010		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 1,890,428	N/A	\$ 1,890,428
2. Nonfederal Payables (to the Public)	10,747,638	\$ 6,332	10,753,970
3. Totals	\$ 12,638,066	\$ 6,332	\$ 12,644,398

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by the Army General Fund. The Army General Fund's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with intraagency seller-side accounts receivable. Accounts Payable were adjusted by reclassifying amounts between federal and nonfederal Accounts Payable.

Note 13. Debt

As of September 30

(Amounts in thousands)

	2011			2010		
	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)						
A. Debt to the Treasury	\$ 1	\$ (0)	\$ 1	\$ 1,060	\$ (1,059)	\$ 1
B. Debt to the Federal Financing Bank	0	0	0	0	0	0
C. Total Agency Debt	\$ 1	\$ 0	\$ 1	\$ 1,060	\$ (1,059)	\$ 1
2. Total Debt	\$ 1	\$ 0	\$ 1	\$ 1,060	\$ (1,059)	\$ 1

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

The Army General Fund, by means of the Armament Retooling and Manufacturing Support (ARMS) initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. When a borrower defaults on a guaranteed loan, the Army General Fund executes borrowing authority with the U.S. Treasury to pay the lender the guaranteed outstanding principal resulting in a debt with the U.S. Treasury. The total debt of \$0.7 thousand consists of interest and principal payments due to the U.S. Treasury for ARMS loan defaults.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
1. Environmental Liabilities - Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 2,036,524	\$ 2,339,511
2. Active Installations—Military Munitions Response Program (MMRP)	1,869,956	1,930,687
3. Formerly Used Defense Sites—IRP and BD/DR	3,295,377	3,426,263
4. Formerly Used Defense Sites—MMRP	10,990,009	11,811,902
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	326,128	274,591
2. Environmental Closure Requirements	354,103	343,655
3. Environmental Response at Operational Ranges	74,732	107,287
4. Asbestos	246,744	240,559
5. Non-Military Equipment	0	0
6. Other	60,887	66,168
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	673,582	871,671
2. Military Munitions Response Program	530,682	861,312
3. Environmental Corrective Action/Closure Requirements	206,853	289,094
4. Asbestos	0	0
5. Non-Military Equipment	0	0
6. Other	0	0
D. Environmental Disposal for Military Equipment/Weapons Programs		
1. Nuclear Powered Military Equipment/Spent Nuclear Fuel	0	0
2. Non-Nuclear Powered Military Equipment	0	0
3. Other Weapons Systems	0	0
E. Chemical Weapons Disposal Program		
1. Chemical Demilitarization - Chemical Materials Agency (CMA)	4,592,023	5,286,908
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	6,510,391	5,503,123
3. Other	0	0
2. Total Environmental Liabilities	\$ 31,767,991	\$ 33,352,731

Applicable Laws and Regulations

The Army General Fund is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activity. This cleanup requirement applies to releases of hazardous substances and wastes that created a public health or environmental risk and from unexploded ordnance, discarded military munitions, and munitions constituents at other than operational ranges. The Defense Environmental Restoration Program (DERP), established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 and codified in Title 10 of the United States Code (USC) 2700 et seq., establishes requirements. The Army General Fund

is also required to clean up contamination resulting from waste disposal practices, leaks, spills, and other activity at overseas locations in accordance with DoD policy as prescribed in DoD Instruction 4715.8, *Environmental Remediation for DoD Activities Overseas*, under the Army Compliance Cleanup Program.

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

The Army General Fund is required to destroy the chemical stockpile and nonstockpile items as part of the Chemical Demilitarization Program. The 1986 Defense Authorization Act (Public Law (PL) 99-145, as amended by subsequent acts) directed the DoD to destroy the unitary chemical stockpile while providing for maximum protection of the environment, public, and personnel involved in the destruction effort. The U.S. Army Chemical Materials Agency's Nonstockpile Chemical Materiel project provides centralized management and direction to the DoD for the disposal of currently declared nonstockpile chemical materiel in a safe and environmentally sound manner. The facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations.

For the environmental liability associated with the destruction of chemical weapons, the schedules and cost estimates in the approved baseline are based on the best information available and have been through the formal acquisition program baseline approval process at the time of report submission. However, these schedules and estimates are subject to modifications and impacts from program risks and uncertainties inherent to the task of chemical demilitarization and the political sensitivity of the program. These risks may include processing changes required to meet the operational schedules due to the deteriorating condition of the stockpile and additional schedule time and/or cost to address changes in environmental laws or congressional requirements.

Applicable laws are as follows for the DERP, NonDERP, low-level radioactive waste, and the Base Realignment and Closure (BRAC) programs:

- Comprehensive Environmental Response, Compensation, and Liability Act
- Superfund Amendments and Reauthorization Act
- Clean Water Act
- Safe Drinking Water Act
- Clean Air Act
- Resource Conservation and Recovery Act
- Toxic Substances Control Act
- Medical Waste Tracking Act
- Atomic Energy Act
- Low-Level Radioactive Waste Policy Amendments Act
- Nuclear Waste Policy Act
- National Defense Authorization Acts

Types of Environmental Liabilities and Disposal Liabilities Identified

The Army General Fund has cleanup requirements for DERP sites at active installations, BRAC installations, formerly used Defense sites (FUDS) at active installations that are not covered by DERP, weapon systems programs, and chemical weapons disposal programs. Environmental disposal for weapons systems programs consists of chemical weapons disposal, including the destruction of the entire United States' stockpile of chemical agents and munitions and disposal of nonstockpile chemical material. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations, and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance, and disposal. All cleanup is done in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Army General Fund uses engineering estimates and independently validated models to estimate environmental cleanup liabilities. The Remedial Action Cost Engineering and Requirements (RACER) system is the Army's preferred model. The Army General Fund relies upon the Air Force, the RACER executive agent, to validate the model in accordance with DoD Instruction 5000.61, *DoD Modeling and Simulation (M&S) Verification, Valuation, and Accreditation (VV&A)*, and primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Army primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of an environmental cleanup project.

The Army General Fund uses the real property inventory and engineering estimates of costs for environmental closure liabilities and reports these costs in aggregate. Asbestos disposal costs are not estimable due to the ubiquitous nature of non-friable asbestos, but facility surveys to determine the presence of asbestos are reported, based upon a cost of \$0.35/square foot multiplied by the gross square feet of the Army-owned buildings.

The Army General Fund is unable to systematically gather and report environmental disposal liabilities for military equipment or general property, plant, and equipment. Most liabilities for individual items of equipment are expected to be below the Army's \$42,000 materiality threshold for a single environmental site. The Army General Fund will continue to coordinate with the Office of the Under Secretary of Defense (Comptroller) to address this deficiency.

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

The Army General Fund had changes in estimates resulting from previously unknown contamination, better site characterization with sampling information, reestimation based on different assumptions, and lessons learned. Environmental liabilities may change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

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

The environmental liabilities for the Army General Fund are based on accounting estimates, which require certain judgments and assumptions that are believed to be reasonable based upon information available at the time the estimates are calculated. 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. Liabilities can be further impacted if investigation of the environmental sites discloses contamination levels different than known at the time of the estimates.

The Army General Fund has reported asbestos survey costs but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, in accordance with FASAB TB 2006-1, presents too much uncertainty to recognize on the Balance Sheet.

The Army General Fund is also uncertain regarding the costs for remediation activities in conjunction with returning overseas military facilities to host nations. The Army General Fund is currently unable to provide a reasonable estimate because the extent of remediation required is not known.

Other Accrued Environmental Liabilities – Non-BRAC, Other consists of low-level radioactive waste.

Note 15. Other Liabilities

As of September 30 (Amounts in thousands)	2011			2010
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 45,118	\$ 0	\$ 45,118	\$ 86,346
B. Deposit Funds and Suspense Account Liabilities	832,516	0	832,516	251,088
C. Disbursing Officer Cash	1,438,076	0	1,438,076	1,779,631
D. Judgment Fund Liabilities	20,953	0	20,953	0
E. FECA Reimbursement to the Department of Labor	117,872	134,606	252,478	274,896
F. Custodial Liabilities	77,671	5,275	82,946	60,108
G. Employer Contribution and Payroll Taxes Payable	145,608	0	145,608	135,973
H. Other Liabilities	292,213	0	292,213	336,621
I. Total Intragovernmental Other Liabilities	\$ 2,970,027	\$ 139,881	\$ 3,109,908	\$ 2,924,663
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 791,599	\$ 0	\$ 791,599	\$ 2,857,487
B. Advances from Others	1,804,354	0	1,804,354	1,760,221
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	44,072	0	44,072	76,841
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	2,752,431	2,752,431	2,072,316
G. Accrued Unfunded Annual Leave	3,707,090	0	3,707,090	4,520,402
H. Capital Lease Liability	1,957	1,496	3,453	7,040
I. Contract Holdbacks	488,556	0	488,556	421,941
J. Employer Contribution and Payroll Taxes Payable	138,712	1,568,860	1,707,572	150,546
K. Contingent Liabilities	(7,515)	0	(7,515)	1,665,186
L. Other Liabilities	1,196	0	1,196	389
M. Total Nonfederal Other Liabilities	\$ 6,970,021	\$ 4,322,787	\$ 11,292,808	\$ 13,532,369
3. Total Other Liabilities	\$ 9,940,048	\$ 4,462,668	\$ 14,402,716	\$ 16,457,032

Capital Lease Liability

As of September 30 (Amounts in thousands)	2011				2010
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2012	\$ 2,413	\$ 0	\$ 0	\$ 2,413	\$ 4,509
B. 2013	1,612	0	0	1,612	2,413
C. 2014	148	0	0	148	1,612
D. 2015	0	0	0	0	148
E. 2016	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 4,173	\$ 0	\$ 0	\$ 4,173	\$ 8,682
H. Less: Imputed Interest Executory Costs	720	0	0	720	1,642
I. Net Capital Lease Liability	\$ 3,453	\$ 0	\$ 0	\$ 3,453	\$ 7,040
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 3,453	\$ 7,040
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0	\$ 0

Intragovernmental Other Liabilities Composition

Intragovernmental Other Liabilities consist of unemployment compensation liability.

Nonfederal Other Liabilities Composition

Nonfederal Other Liabilities consist of amounts that have not been obligated.

Estimated Future Contract Financing Payments

Contingent liabilities include \$385.8 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vest with the federal government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Army General Fund is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability of contractors completing their efforts and delivering satisfactory products, the Army General Fund has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

Note 16. Commitments and Contingencies

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

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

Nature of Contingency

The Management's Schedule of Information derived from the FY 2011 Army Legal Representation Letter outlines claims against the Army General Fund totaling \$12.3 trillion for which the Army OGC is unable to express an opinion. The majority of this amount is due to claims for Fort Detrick, Maryland contamination (\$10.0 trillion) and the Hurricane Katrina levee breach (\$2.3 trillion). The historical payout percentage for these cases is less than 1 percent. To determine the historical payout, the Army OGC divides the total amount reported as a payout in the fiscal year by the total amount claimed in the Army Legal Representation Letter.

The Army General Fund has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army General Fund's financial statements. As of September 30, 2011, the Army General Fund had \$884.1 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Estimates for litigations, claims, and assessments are required to be fully supported.

Estimates in the Management Schedule of Information will not always agree with amounts reported by the OGC subordinate commands, displayed below, because the Management Schedule of Information amounts are subject to a materiality threshold – currently \$31.5 million.

(Amounts in thousands)

Type of Contingent Liabilities	Estimate
Army Environmental Law Division	\$345,633
Army Contract Appeals	114,058
U.S. Army Claims Service	21,159
Litigation Division	403,254
Total	\$884,104

Other Information Pertaining to Commitments

The Army General Fund is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, the Army General Fund has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present the Army General Fund's contingent liabilities.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30

(Amounts in thousands)

	2011			2010	
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	Unfunded Liabilities	
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0	\$ 0	
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0	0	
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0	0	
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0	\$ 0	
2. Other Actuarial Benefits					
A. FECA	\$ 1,356,264	\$ 0	\$ 1,356,264	\$ 1,350,559	
B. Voluntary Separation Incentive Programs	0	0	0	0	
C. DoD Education Benefits Fund	0	0	0	0	
D. Other	\$ 0	\$ 0	\$ 0	\$ 0	
E. Total Other Actuarial Benefits	1,356,264	0	1,356,264	1,350,559	
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,356,264	\$ 0	\$ 1,356,264	\$ 1,350,559	

Federal Employees Compensation Act (FECA)

The Army's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The actuarial liability for FECA increased \$5.7 million between FY 2010 and FY 2011.

Actuarial Cost Method

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

Market Value of Market-Based Securities

As of September 30, 2011, the market value of the nonmarketable, market-based securities held by the Army General Fund is \$3.2 million. See Note 4, *Investments and Related Interest*, for additional information.

Assumptions

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

Interest rate assumptions utilized for discounting were as follows:

3.535% in Year 1
4.025% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, COLAs and CPIMs were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2011 were used to adjust the historical payments associated with the methodology to current year constant dollars.

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

CBY	COLA	CPIM
2011	N/A	N/A
2012	2.10%	3.07%
2013	2.53%	3.62%
2014	1.83%	3.66%
2015	1.93%	3.73%
2016+	2.00%	3.73%

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 2011 to the average pattern observed during the most current three charge-back years; and (4) a comparison of the estimated liability per case in the 2011 projection to the average pattern for the projections of the most recent three years.

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue

As of September 30	2011		2010	
(Amounts in thousands)				
Military Retirement Benefits				
1. Gross Cost				
A.Intragovernmental Cost	\$	0	\$	0
B.Nonfederal Cost		0		0
C.Total Cost	\$	0	\$	0
2. Earned Revenue				
A.Intragovernmental Revenue	\$	0	\$	0
B.Nonfederal Revenue		0		0
C.Total Revenue	\$	0	\$	0
3. Losses/(Gains) from Actuarial Assumption				
Changes for Military Retirement Benefits	\$	0	\$	0
Total Net Cost	\$	0	\$	0
Civil Works				
1. Gross Cost				
A.Intragovernmental Cost	\$	0	\$	0
B.Nonfederal Cost		0		0
C.Total Cost	\$	0	\$	0
2. Earned Revenue				
A.Intragovernmental Revenue	\$	0	\$	0
B.Nonfederal Revenue		0		0
C.Total Revenue	\$	0	\$	0
3. Losses/(Gains) from Actuarial Assumption				
Changes for Military Retirement Benefits	\$	0	\$	0
Total Net Cost	\$	0	\$	0
Military Personnel				
1. Gross Cost				
A.Intragovernmental Cost	\$	19,521,006	\$	19,415,863
B.Nonfederal Cost		50,770,273		49,993,264
C.Total Cost	\$	70,291,279	\$	69,409,127
2. Earned Revenue				
A.Intragovernmental Revenue	\$	(322,188)	\$	(306,328)
B.Nonfederal Revenue		117		(3,577)
C.Total Revenue	\$	(322,071)	\$	(309,905)
3. Losses/(Gains) from Actuarial Assumption				
Changes for Military Retirement Benefits	\$	0	\$	0
Total Net Cost	\$	69,969,208	\$	69,099,222

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Intragovernmental Costs and Exchange Revenue**As of September 30****2011****2010***(Amounts in thousands)***Operations, Readiness & Support**

1. Gross Cost

A. Intragovernmental Cost

\$ 29,017,694 \$ 31,308,024

B. Nonfederal Cost

65,055,787 61,978,933

C. Total Cost

\$ 94,073,481 \$ 93,286,957

2. Earned Revenue

A. Intragovernmental Revenue

\$ 3,498,400 \$ 2,500,452

B. Nonfederal Revenue

(1,201,874) (1,032,420)

C. Total Revenue

\$ 2,296,526 \$ 1,468,032

3. Losses/(Gains) from Actuarial Assumption

Changes for Military Retirement Benefits

\$ 0 \$ 0

Total Net Cost

\$ 96,370,007 \$ 94,754,989

Procurement

1. Gross Cost

A. Intragovernmental Cost

\$ 6,755,174 \$ 8,045,310

B. Nonfederal Cost

30,607,867 16,230,031

C. Total Cost

\$ 37,363,041 \$ 24,275,341

2. Earned Revenue

A. Intragovernmental Revenue

\$ (2,008,116) \$ (1,652,464)

B. Nonfederal Revenue

18,418 (692,756)

C. Total Revenue

\$ (1,989,698) \$ (2,345,220)

3. Losses/(Gains) from Actuarial Assumption

Changes for Military Retirement Benefits

\$ 0 \$ 0

Total Net Cost

\$ 35,373,343 \$ 21,930,121

Research, Development, Test & Evaluation

1. Gross Cost

A. Intragovernmental Cost

\$ 2,693,848 \$ 2,887,002

B. Nonfederal Cost

11,902,958 12,193,392

C. Total Cost

\$ 14,596,806 \$ 15,080,394

2. Earned Revenue

A. Intragovernmental Revenue

\$ (4,586,334) \$ (4,058,049)

B. Nonfederal Revenue

(173,483) (128,875)

C. Total Revenue

\$ (4,759,817) \$ (4,186,924)

3. Losses/(Gains) from Actuarial Assumption

Changes for Military Retirement Benefits

\$ 0 \$ 0

Total Net Cost

\$ 9,836,989 \$ 10,893,470

Intragovernmental Costs and Exchange Revenue

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
Family Housing & Military Construction		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,486,514	\$ 967,515
B. Nonfederal Cost	9,645,378	6,699,990
C. Total Cost	\$ 11,131,892	\$ 7,667,505
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (6,533,797)	\$ (6,201,396)
B. Nonfederal Revenue	(193,700)	(385,373)
C. Total Revenue	\$ (6,727,497)	\$ (6,586,769)
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	\$ 4,404,395	\$ 1,080,736

Consolidated

1. Gross Cost		
A. Intragovernmental Cost	\$ 59,474,236	\$ 62,623,714
B. Nonfederal Cost	167,982,263	147,095,610
C. Total Cost	\$ 227,456,499	\$ 209,719,324
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (9,952,035)	\$ (9,717,785)
B. Nonfederal Revenue	(1,550,522)	(2,243,001)
C. Total Revenue	\$ (11,502,557)	\$ (11,960,786)
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	\$ 0	\$ 0
4. Costs Not Assigned to Programs	0	0
5. (Less: Earned Revenues Not Attributed to Programs)	0	0
Total Net Cost	\$ 215,953,942	\$ 197,758,538

Definitions

Intragovernmental costs and revenue represent transactions made between two reporting entities within the federal government.

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

Other Information Regarding Costs

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

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

Additional Disclosures

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

The Army General Fund accounting systems do not capture information relative to heritage assets separately and distinctly from normal operations. The Army General Fund is not able to separately identify the costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets. The Army Financial Improvement Plan outlines tasks to separately identify and report costs associated with heritage assets by 1st Quarter, FY 2013.

Note 19. Disclosures Related to the Statement of Changes in Net Position

Other Financing Sources, Other

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

Appropriations Received

The Appropriations Received line item on the Statement of Changes in Net Position (SCNP) does not agree with the Appropriation line item on the Statement of Budgetary Resources (SBR). The \$10 million difference is due to additional resources included in the Appropriation line item on the SBR. Refer to Note 20, Disclosures Related to the SBR, for further information.

Eliminations

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

Earmarked

The ending balance for the Earmarked Cumulative Results of Operations on the SCNP does not agree with the Earmarked Cumulative Results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30

(Amounts in thousands)

	2011	2010
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 139,093,091	\$ 136,696,725
2. Available Borrowing and Contract Authority at the End of the Period	\$ 0	\$ 0

Undelivered Orders

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

Reporting of Appropriations Received

The Appropriation line item on the SBR does not agree with the Appropriations Received line item on the Statement of Changes in Net Position because of differences between proprietary and budgetary accounting concepts and reporting requirements. These differences, totaling \$10.0 million, consist of the receipts for special and trust funds.

Presentation of Statement of Budgetary Resources

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

Breakdown of Apportionment Categories

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

(Amounts in billions)

Budgetary	Direct	Reimbursable
Category A	\$193.3	\$0.1
Category B	61.1	28.9
Exempt from Apportionment	0.1	0.0
Total	\$254.5	\$29.0

(Amount in thousands)

Non-Budgetary	Direct	Reimbursable
Category A	\$5.1	\$0.0

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

The use of unobligated balances of the expired funding is restricted by time limit, purpose, and obligation limitations.

Terms of Borrowing Authority

Borrowing authority is used for guaranteed loan defaults relating to the Armament Retooling and Manufacturing Support (ARMS) Initiative. This initiative is designed to encourage commercial use of inactive Army General Fund ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army General Fund and Department of Agriculture Rural Business-Cooperative Service (RBS) established a memorandum of understanding for the RBS to administer the ARMS Initiative Loan Guarantee Program.

Borrowings are repaid on Standard Form 1151, Nonexpenditure Transfer Authorization, as maturity dates become due. For liquidating accounts, maturity dates are one working day prior to the anniversary date of the note. For financing accounts, maturity dates are based on the period of time used in the subsidy calculation, not the contractual term of the agency's loans to borrowers.

There is no borrowing authority available as of September 30, 2011.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2011	2010
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 283,449,288	\$ 283,446,916
2. Less: Spending authority from offsetting collections and recoveries (-)	(53,503,245)	(51,224,173)
3. Obligations net of offsetting collections and recoveries	\$ 229,946,043	\$ 232,222,743
4. Less: Offsetting receipts (-)	(856,292)	(142,173)
5. Net obligations	\$ 229,089,751	\$ 232,080,570
Other Resources:		
6. Donations and forfeitures of property	\$ 237	\$ 0
7. Transfers in/out without reimbursement (+/-)	1,800,665	2,292,891
8. Imputed financing from costs absorbed by others	1,283,044	1,240,470
9. Other (+/-)	(10,434,410)	3,587,834
10. Net other resources used to finance activities	\$ (7,350,464)	\$ 7,121,195
11. Total resources used to finance activities	\$ 221,739,287	\$ 239,201,765
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ (2,395,513)	\$ (5,821,728)
12b. Unfilled Customer Orders	1,717,357	2,658,704
13. Resources that fund expenses recognized in prior Periods (-)	(2,704,006)	(4,030,203)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	856,567	146,719
15. Resources that finance the acquisition of assets (-)	(24,555,719)	(35,780,900)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0	0
16b. Other (+/-)	8,633,510	(5,870,104)
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (18,447,804)	\$ (48,697,512)
18. Total resources used to finance the Net Cost of Operations	\$ 203,291,483	\$ 190,504,253

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 182,781	\$ 764,838
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	(33,360)	16,035
23. Other (+/-)	673,693	1,001,654
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 823,114	\$ 1,782,527
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 16,375,441	\$ 10,400,454
26. Revaluation of assets or liabilities (+/-)	(34,774)	0
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	0	0
27c. Operating Material and Supplies Used	0	0
27d. Other	(4,501,324)	(4,928,696)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 11,839,343	\$ 5,471,758
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 12,662,457	\$ 7,254,285
30. Net Cost of Operations	\$ 215,953,940	\$ 197,758,538

Required Disclosures

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

The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost totaled \$154.1 million and was reported in the category of Other Components Not Requiring or Generating Resources.

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

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

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

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

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

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

Note 22. Disclosures Related to Incidental Custodial Collections

The Army General Fund does not collect incidental custodial revenues.

Note 23. Earmarked Funds

	2011				
	Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
BALANCE SHEET					
As of September 30					
<i>(Amounts in thousands)</i>					
ASSETS					
Fund Balance with Treasury	\$ 0	\$ 0	\$ 47,140	\$ 0	\$ 47,140
Investments	0	0	3,205	0	3,205
Accounts and Interest Receivable	0	0	0	0	0
Other Assets	0	0	0	0	0
Total Assets	\$ 0	\$ 0	\$ 50,345	\$ 0	\$ 50,345
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Liabilities	0	0	759	0	759
Total Liabilities	\$ 0	\$ 0	\$ 759	\$ 0	\$ 759
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	49,586	0	49,586
Total Liabilities and Net Position	\$ 0	\$ 0	\$ 50,345	\$ 0	\$ 50,345
STATEMENT OF NET COST					
For the period ended September 30					
Program Costs	\$ 0	\$ 0	\$ 15,559	\$ 0	\$ 15,559
Less: Earned Revenue	0	0	(154)	0	(154)
Net Program Costs	\$ 0	\$ 0	\$ 15,405	\$ 0	\$ 15,405
Less: Earned Revenue Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	\$ 0	\$ 0	\$ 15,405	\$ 0	\$ 15,405
STATEMENT OF CHANGES IN NET POSITION					
For the period ended September 30					
Net Position Beginning of the Period	\$ 0	\$ 0	\$ 58,686	\$ 0	\$ 58,686
Net Cost of Operations	0	0	15,405	0	15,405
Budgetary Financing Sources	0	0	9,137	0	9,137
Other Financing Sources	0	0	(2,832)	0	(2,832)
Change in Net Position	\$ 0	\$ 0	\$ (9,100)	\$ 0	\$ (9,100)
Net Position End of Period	\$ 0	\$ 0	\$ 49,586	\$ 0	\$ 49,586

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BALANCE SHEET
As of September 30
*(Amounts in thousands)***ASSETS**

	2010				
	Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Fund Balance with Treasury	\$ 0	\$ 0	\$ 60,530	\$ 0	\$ 60,530
Investments	0	0	3,218	0	3,218
Accounts and Interest Receivable	0	0	0	0	0
Other Assets	0	0	0	0	0
Total Assets	\$ 0	\$ 0	\$ 63,748	\$ 0	\$ 63,748

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Liabilities	0	0	5,062	0	5,062
Total Liabilities	\$ 0	\$ 0	\$ 5,062	\$ 0	\$ 5,062
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	58,686	0	58,686
Total Liabilities and Net Position	\$ 0	\$ 0	\$ 63,748	\$ 0	\$ 63,748

STATEMENT OF NET COST
For the period ended September 30

Program Costs	\$ 0	\$ 0	\$ 11,552	\$ 0	\$ 11,552
Less: Earned Revenue	0	0	(160)	0	(160)
Net Program Costs	\$ 0	\$ 0	\$ 11,392	\$ 0	\$ 11,392
Less: Earned Revenue Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	\$ 0	\$ 0	\$ 11,392	\$ 0	\$ 11,392

STATEMENT OF CHANGES IN NET POSITION
For the period ended September 30

Net Position Beginning of the Period	\$ 0	\$ 0	\$ 57,671	\$ 0	\$ 57,671
Net Cost of Operations (+/-)	0	0	11,392	0	11,392
Budgetary Financing Sources	0	0	12,552	0	12,552
Other Financing Sources	0	0	(145)	0	(145)
Change in Net Position	\$ 0	\$ 0	\$ 1,015	\$ 0	\$ 1,015
Net Position End of Period	\$ 0	\$ 0	\$ 58,686	\$ 0	\$ 58,686

Earmarked Funds

Earmarked Funds represent funds received from outside sources for specific purposes. The Army General Fund receives earmarked funds for the following appropriations:

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

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

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

Forest and Wildlife Conservation, Military Reservations. Funds are received from the sales of forest products harvested from forests on military installations and distributed to the respective states involved in the sales. Each state is entitled to 40 percent of the sales

of products from its forest after reimbursement of DoD appropriations for the costs of production. Title 10, USC 2665 provides authority for this fund and for payments to the states.

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

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

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

The Total Earmarked Funds column is shown as consolidated and relates only to Earmarked Funds. The Elimination column on this note includes only eliminations associated with Earmarked Funds and excludes the offsetting eliminations from all other funds. This exclusion causes assets to not equal liabilities and net position in the note. However, the amounts in the Total column equal the amounts reported for Earmarked Funds on the Balance Sheet.

Note 24. Fiduciary Activities

Schedule of Fiduciary Activity

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
1. Fiduciary net assets, beginning of year	\$ 119,885	\$ 135,244
2. Fiduciary revenues	\$ 0	\$ 0
3. Contributions	180,725	171,329
4. Investment earnings	11,677	12,169
5. Gain (Loss) on disposition of investments, net	0	0
6. Administrative and other expenses	0	0
7. Distributions to and on behalf of beneficiaries	(182,908)	(198,857)
8. Increase/(Decrease) in fiduciary net assets	\$ 9,494	\$ (15,359)
9. Fiduciary net assets, end of period	\$ 129,379	\$ 119,885

Schedule of Fiduciary Net Assets

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
Fiduciary Assets		
1. Cash and cash equivalents	\$ 129,380	\$ 119,885
2. Investments	0	0
3. Other Assets	0	0
Fiduciary Liabilities		
4. Less: Liabilities	0	0
5. Total Fiduciary Net Assets	\$ 129,380	\$ 119,885

Fiduciary activities are those federal government activities that relate to the collection or receipt of cash or other assets in which nonfederal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary activities also include managing, protecting, accounting, investing, and disposing of such cash or other assets. The DoD has a fiduciary duty to the Savings Deposit Program in which the Army General Fund participates. Public Law 89-538 authorizes DoD, through the Savings Deposit Program, to collect a voluntary allotment from the current pay of members of the Armed Forces deployed outside the United States or its possessions in designated areas. The Army General Fund collects the savings and allotments of soldiers, and the collections and accrued earned interest are transferred to the Navy General Fund, the program's executive agent. These fiduciary assets are not assets of the Army General Fund and are not recognized on the Army General Fund's balance sheet.

Note 25. Other Disclosures

As of September 30

(Amounts in thousands)

1. ENTITY AS LESSEE-Operating Leases

Future Payments Due

Fiscal Year

2012

2011			
Land and Buildings	Equipment	Other	Total
\$ 67	\$ 0	\$ 0	\$ 67
67	0	0	67
67	0	0	67
67	0	0	67
67	0	0	67
15,150	0	0	15,150
\$ 15,485	\$ 0	\$ 0	\$ 15,485

2013

2014

2015

2016

After 5 Years

Total Future Lease Payments Due

Note 26. Restatements

Not Applicable.

FY 2011 Required Supplementary Stewardship Information

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

Nonfederal Physical Property: Yearly Investments in State and Local Governments for Fiscal Years FY 2007 through FY 2011

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Transferred Assets:					
1. National Defense Mission Related	\$31.5	\$22.2	\$26.7	\$34.2	\$23.0
Funded Assets:					
2. National Defense Mission Related	0	0	0	0	0
Totals	\$31.5	\$22.2	\$26.7	\$34.2	\$23.0

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

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

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

Yearly Investments in Research and Development for Fiscal Years FY 2007 through FY 2011

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Basic Research	\$414.4	\$405.5	\$392.7	\$345.9	\$348.9
Applied Research	261.1	728.3	1,191.1	1,147.4	1,115.2
Development					
Advanced Technology Development	380.4	941.0	1,341.8	1,336.5	1,576.2
Advanced Component Development and Prototypes	221.9	781.3	1,023.8	719.8	585.3
Systems Development and Demonstration	475.4	1,913.7	4,883.9	4,981.4	5,026.1
Research, Development, Test and Evaluation Management Support	206.9	726.3	1,387.1	1,317.1	1,336.7
Operational Systems Development	142.7	690.2	1,700.9	1,459.2	1,380.5
Totals	\$2,102.8	\$6,186.3	\$11,921.4	\$11,307.3	\$11,368.9

Narrative Statement

Investment values included in this report are based on R&D outlays (expenditures). Outlays are used because current department accounting systems are unable to capture and summarize costs in accordance with federal accounting standards. Research and development programs are classified in the following categories: basic research, applied research, and development. The definition for each type of R&D category and subcategories is explained below.

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

The following are two representative program examples for each of the major categories:

Defense Research Sciences (PE 0601102A): This program fosters fundamental scientific knowledge and contributes to the sustainment of Army scientific and technological superiority in land warfighting capability; provides new concepts and technologies for the Army's future force; and provides the means to exploit scientific breakthroughs and avoid technological surprises. It fosters innovation in Army niche areas (such as lightweight armor, energetic materials, night vision) and when the commercial incentive to invest is lacking due to limited markets, e.g., vaccines for tropical diseases. It also focuses universal single investigators on research areas of Army interest, such as high-density compact power and novel sensor phenomenologies. The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to expeditiously transition knowledge and technology into the appropriate developmental activities. The extramural program leverages the research efforts of other government agencies, academia, and industry. This translates to a coherent, well-integrated program which is executed by four primary contributors: (1) the Army Research, Development, and Engineering Command; (2) the U.S. Army Engineer Research and Development Center; (3) the Army Medical Research and Materiel Command laboratories; and, (4) the Army Research Institute for Behavioral and Social Sciences. The basic research program is coordinated with the other services via Defense Science and Technology Reliance (Defense Basic Research Advisory Group) and other inter-service working groups. This program responds to the scientific and technological requirements of the DoD Basic Research Plan by enabling technologies that can significantly improve joint war-fighting capabilities. The projects in this program involve basic research efforts directed toward providing fundamental knowledge that will contribute to the solution of military problems related to long-term national security needs.

University and Industry Research Centers (PE 0601104A): A significant portion of the work performed within this program directly supports future force requirements by providing research that supports enabling technologies for future force capabilities. Broadly, the work in this project falls into three categories: collaborative technology alliances (CTAs), university COEs, and paradigm-shifting centers, university-affiliated research centers (UARCs). The Army has formed CTAs to leverage large investments by the commercial sector in basic research areas that are of great interest to the Army. The CTAs involve partnerships among industry, academia, and the Army Research Laboratory (ARL) to incorporate the practicality of industry; the expansion of the boundaries of knowledge from universities; and the ability of Army scientists to shape, mature and transition technology. The CTAs have been competitively established in the areas of advanced sensors, advanced decision architecture, communications and networks, power and energy, and robotics. This program element includes the Army's COE, which focus on expanding the frontiers of knowledge in research areas where the Army has enduring needs, such as rotorcraft, automotive, microelectronics, materials, and information sciences. The COEs couple state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in information sciences, materials science, electronics, automotive, and rotary-wing technology. Also included is eCYBERMISSION, the Army's national, web-based competition to stimulate interest in science, math, and technology among middle and high school students. This program also includes the four Army UARCs, which have been created to exploit opportunities to advance new capabilities through a sustained long-term, multi-disciplinary effort. The Institute of Advanced Technology funds basic research in electromagnetics and hypervelocity physics. The Institute for Soldier Nanotechnologies (ISN) focuses on Soldier protection by emphasizing revolutionary materials research for advanced Soldier protection and survivability. The Institute for Collaborative Biotechnologies, focusing on enabling network-centric technologies, will broaden the Army's use of biotechnology for the development of bio-inspired materials, sensors, and information processing. The Institute for Creative Technologies is a partnership with academia and the entertainment and gaming industries to leverage innovative research and concepts for training and simulation.

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

The following are two representative program examples for this category:

Materials Technology (PE 0602105A): This program funds research and evaluation of materials technologies for armor and armaments that will significantly enhance the survivability and lethality of future force systems and, when feasible, can be exploited to enhance the current force. This program builds on materials research transitioned from the Defense Research Sciences Materials and Mechanics project and applies it to specific Army platforms and the individual Soldier. This program is directed toward developing materials technology that contributes to making heavy forces lighter and more deployable and light forces more lethal and survivable. The program provides the technology base required for solving materials-related problems in individual Soldier support equipment, armor, armaments, aircraft, ground and combat vehicles, and combat support. This program also funds collaborative research efforts in nanomaterials technology among the ARL, the ISN at the Massachusetts Institute of Technology, and the ISN industry partners. The effort is focused specifically on the improvement in individual Soldier protection.

Combat Vehicle and Automotive Technology (PE 0602601A): This program researches, investigates, and applies combat vehicle and automotive component technologies that enhance survivability, mobility, sustainability, and maintainability of Army ground combat and tactical vehicles. As combat vehicle systems become smaller and lighter, and tactical vehicles are more often exposed to combat conditions, one of the greatest technological and operational challenges is providing adequate crew protection without reliance on heavy, passive armor. This challenge will be met using a layered approach, including long-range situational awareness, advanced lightweight opaque and transparent armors, active protection systems, and multi-spectral signature reduction. Another focus of the program is on designing, fabricating, and evaluating performance of integrated and add-on lightweight armor packages needed to provide lightweight combat vehicles protection against chemical energy and kinetic energy threats with less than one-fourth the weight of conventional heavy armor. The program also designs, fabricates, and evaluates structural and add-on armors for tactical vehicles. This program funds the National Automotive Center (NAC). The goal of the NAC is to leverage large, commercial investments in automotive technology, research, and development by pursuing automotive-oriented technology programs that have potential benefit to military ground vehicles. The research and investigation of a variety of enabling technologies in the areas of hybrid electric propulsion, mobility, thermal management, intelligent systems, vehicle diagnostics, fuels/lubricants, and water purification is also part

Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

of the program function. Future force vehicles and new tactical vehicles are being designed with hybrid electric architectures, advanced high-power density engines, and auxiliary power units that provide power for propulsion, control systems, communications, life support systems, electromagnetic armor, Soldier battery charging, and export to other systems.

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

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

The following are five representative program examples of development:

Electronic Warfare Advanced Technology (PE 0603008A): The goal of this program is to provide the Army's future force enabling technologies for a secure, mobile, wireless network that will operate reliably in diverse and complex terrain, in all environments, and, when feasible, to exploit opportunities to enhance current force capabilities. Technologies will be matured and demonstrated to address this challenge with distributed, mobile, secure, self-organizing communications networks. A key objective is to demonstrate seamlessly integrated communications technologies across all network tiers, ranging from unattended networks and sensors through maneuver elements and airborne/space assets. To accomplish the goal, this program will investigate and leverage external communication technologies and combine technology options in a series of command, control, communications, and computers intelligence, surveillance, and reconnaissance on-the-move experiments to measure the battlefield effectiveness for the future force. This program also provides (1) protection technologies for tactical wireless networks against modern network attacks; (2) smart communication technologies to network and control unmanned systems anywhere on the battlefield, enabling timely sensor-decider-engagement linkage to defeat critical targets; (3) advanced antenna technologies for greater communications mobility, range, and throughput; and, (4) automated network management aids.

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

Patriot/Medium Extended Air Defense System Combined Aggregate Program (CAP) (PE 0604869A): The Medium Extended Air Defense System (MEADS) program is a tri-national, co-development program among the United States, Germany, and Italy to replace the U.S. Patriot air defense systems, Patriot and Hawk systems in Germany, and NikeHercules systems in Italy. The North Atlantic Treaty Organization (NATO) MEADS Management Agency (NAMEADSMA) is the NATO contracting authority managing

the system acquisition, and providing management of the MEADS program on behalf of its participating nations. Within the Patriot/MEADS CAP, there are two synergistic efforts: (1) an international MEADS development effort managed by NAMEADSMA; and, (2) a U.S. effort to inject U.S.-specific capability requirements into the MEADS major end items. The MEADS will provide joint and coalition forces with critical asset and defended area protection against multiple and simultaneous attacks by short- to medium-range ballistic missiles, cruise missiles, unmanned aerial vehicles and tactical air-to-surface missiles. The Missile Segment Enhancement (MSE) missile has been accepted as the baseline missile for MEADS. It is being developed for the Patriot system to meet U.S. operational requirements. The MSE will provide a more agile and lethal interceptor that increases the engagement envelope/defended area of the Patriot and the MEADS systems. The PAC-3 MSE improves upon the current PAC-3 missile capability by providing a higher performance solid rocket motor, modified lethality enhancer, more responsive control surfaces, upgraded guidance software, and insensitive munitions improvements.

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

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

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

National Defense Property, Plant, and Equipment: The Federal Accounting Standards Advisory Board revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for Fiscal Year 2003 and beyond, and encouraged early implementation.

FY 2011 Required Supplementary Information (RSI)

General Property, Plant, and Equipment Real Property Deferred Maintenance Amounts for Fiscal Year Ended September 30, 2011

(Amounts in millions)

Property Type	Current Fiscal Year		
	Plant Replacement Value	Required Work (deferred maintenance)	Percentage
Category 1	\$242,688	\$31,792	13%
Category 2	\$17,241	\$5,235	30%
Category 3	\$10,137	\$0	0%

Narrative Statement

In accordance with DoD Financial Management Regulation 7000.14-R (updates through October 2011), Volume 6B, Chapter 12, Paragraph 120303. B.1., the Army's deferred maintenance estimates for FY 2011 include all facilities in which DoD has ownership interest under the control of the Army. Previous deferred maintenance estimates did not include nonArmy assets.

The deferred maintenance estimates are based on the facility Q-ratings reported in ISR 4th Quarter, FY 2011 or Q-ratings obtained by application of business rules described below. For FY 2011, 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. For assets with a Nonfunctional operational status, assigned Q-ratings are 95 if the reason code is RENO, 70 if the reason code is ENVR, and 40 if the reason code is DAMG. Acceptable operating condition represents facilities with no deferred maintenance.

Facilities with an ownership interest of "FEE" are included in the data set.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission including multi-use Heritage Assets. (Facilities with an Operational Status of "Active" or "Semi-Active" are included, less those with a disposal code.)
- Category 2: 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", "Disposed", "Excess", "Non-Functional", "Outgrant", and "Surplus" plus "Active" and "Semi-active" with disposal codes.)
- Category 3: Buildings, Structures, and Utilities that are Heritage Assets – these have an operational status of closed and are not maintained. (Facilities with an Operational Status of "Closed" as well as a historical status that is not blank.)

Military Equipment Deferred Maintenance for Fiscal Year Ended September 30, 2011

(Amounts in thousands)

Major Categories	
Aircraft	\$ 161,931
Automotive Equipment	102,618
Combat Vehicles	149,506
Construction Equipment	29,324
Electronics and Communications Systems	228,577
General Purpose Equipment	64,910
Missiles	18,130
Ordnance Weapons and Munitions	40,967
Other	37,176
Ships	1,140
Grand Total	\$834,279

The OP-30 from the FY 2011 President's budget was used to compile the deferred depot level maintenance.

Depot Maintenance Operations and Planning System is the automated system for capturing depot-level deferred maintenance data. The data is for SAG 123, all active components.

For the POM13-17 requirements build, the depot maintenance program supports the Army's most critical modernization and equipping strategies by sustaining the availability and reliability of fielded systems. This program ensures that Soldiers have the equipment they need to execute their assigned mission as they progress through the Army Force Generation (ARFORGEN) cycle.

The depot maintenance requirements continue to grow while the Army continues to get fewer resources with reduced budgets. The FY 2013 budget request for depot maintenance continues an effort begun in FY 2010 of Army justifying resources to support increased home station dwell time and training. This is because the Army is drawing down forces and equipment from theater. The changing ratio of deployed to non-deployed force structure and the sustainment of enduring requirements are the drivers behind the need for increased resourcing in Army's base depot maintenance budget. The POM 13-17 provides sufficient resources for Army forces transitioning from operations in theater to home station training with prudent risks.

Depot Maintenance faces three challenges during this transition. First, the Army will have a larger number of forces at home station with a longer dwell time. These forces will demand greater equipment availability to train and prepare for Full Spectrum Operations (FSO). To execute FSO, the Army must resource depot-level maintenance for that equipment for training. Second, the Army has generated a force where many of its capabilities are dependent upon digital technology which has resulted in an increase in Post Production Software Support (PPSS) requirements. Consequently, the Army's depot maintenance enterprise has experienced a paradigm shift because of the maintenance required for these technologies. The third challenge is the resourcing of PPSS. Over the course of the last decade, this growing presence of digital technology and its PPSS was heavily funded by Overseas Contingency Operations (OCO) dollars. With limited resources, the Army has to take risks in depot maintenance and has to balance requirements with available resources. The Army has to identify critical PPSS requirements and prioritize those that require funding across the FYDP to meet ARFORGEN and unit readiness requirements. In addition, the Army will rely on available OCO to ensure all critical shortfalls including deferred maintenance are met.

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2011

The conditions of archeological sites across the Army remain varied from poor to excellent based on a number of factors including the environmental setting, the type of site, and the impact of Army activities from Army activities. If an Army activity has the potential to adversely impact an archeological site eligible for the National Register of Historic Places, the installation's Installation Cultural Resource Management Plan (ICRMP) contains provisions for how the installation would proceed to mitigate those impacts. The ICRMP is the plan that installations use to manage their cultural resources including archeological sites in compliance with federal requirements. These plans provide for site protection, site conditions 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.



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2011

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

SUBJECT: Independent Auditor's Report on the Army General Fund FY 2011 and FY 2010 Basic Financial Statements
(Report No. DODIG-2012-012)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army General Fund Consolidated Balance Sheet as of September 30, 2011 and 2010, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Army management. Army management is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Army General Fund FY 2011 and FY 2010 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance With Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us that the Army General Fund FY 2011 and FY 2010 Basic Financial Statements do not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Army financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2011. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended,* to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Army General Fund management has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the Basic Financial Statements. Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, or Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

* OMB Memorandum No. 09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Summary of Internal Control

In planning our work, we considered the Army internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas:

- Financial Management Systems
- Fund Balance with Treasury
- Accounts Receivable
- Inventory
- General Property, Plant, and Equipment
- Accounts Payable
- Environmental Liabilities
- Statement of Net Cost
- Statement of Budgetary Resources
- Intragovernmental Eliminations
- Accounting Adjustments
- Abnormal Account Balances
- Reconciliation of Net Cost of Operations to Budget
- Contingency Payment Audit Trails

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. The previously identified significant deficiency, Legal Representation Process, continues to exist.

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, most of which we consider to be material internal control weaknesses.

The Army reported the above material weaknesses in its FY 2011 Statement of Assurance.

Summary of Compliance With Laws and Regulations

We limited our work to determining compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us that the Army General Fund financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether Army General Fund management complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Deputy Assistant Secretary of the Army (Financial Operations) who provided technical comments that we have incorporated as appropriate.



Patricia A. Marsh, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment:
As stated



Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and significant deficiency, which could adversely affect the Army General Fund financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

Army accounting systems lacked a single, standard transaction-driven general ledger. The Army also needed to upgrade or replace many of its nonfinancial feeder systems so it could meet financial statement reporting requirements. The lack of a single, standard transaction-driven general ledger will continue to prevent the Army from preparing auditable financial statements.

The General Fund Enterprise Business System (GFEBS), intended to correct existing problems and improve current processes in Army financial systems, has been deployed to over 154 organizations as of September 30, 2011. The Army plans to complete the deployment of GFEBS to all remaining organizations by July 2012.

Fund Balance With Treasury

DoD and its Components, including the Army, have had long-standing problems in reconciling transaction activity in their Fund Balance with Treasury accounts. The appropriation balances recorded in the accounting records do not agree with the balances held at Treasury. As of September 30, 2011, the Treasury reported \$2.8 billion more in Fund Balance with Treasury than reported by the Army General Fund.

Accounts Receivable

The Army has acknowledged weaknesses in its management of accounts receivable. The weaknesses are considered to be DoD-wide and apply to both public and intragovernmental receivables at the Army General Fund level. The Army's accounts receivable has weaknesses that include:

- noncompliance with policies and procedures on referrals to the Department of the
- Treasury's Debt Management Office and on write-offs of 2-year-old debt;
- a lack of controls to ensure that all entitlement system receivables (vendor pay, civilian pay, and interest) are recorded in the accounting systems; and
- a lack of controls to ensure that accounts receivable balances are supportable at the transaction level.

Inventory

Inventories are valued and reported at approximate historical cost using the latest acquisition cost, adjusted for holding gains and losses. The systems do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement No. 3 states that Operating Materials and Supplies must be expensed when the items are consumed. However, significant amounts of Operating Materials and Supplies were expensed when they were purchased instead of when they were consumed.

General Property, Plant, and Equipment

Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires that all General Property, Plant, and Equipment be recorded at cost and that depreciation expense be recognized on all General Property, Plant, and Equipment. The Army has acknowledged that real property and military equipment were not recorded at acquisition or historical cost and did not include all the costs needed to bring these assets to a form and location suitable for their intended use. The Army could not support the reported cost of Military Equipment in accordance with Statement No. 6. Also, the Army lacks financial accountability systems for all its Military Table of Equipment unit property books that comply with the Federal Financial Management Improvement Act of 1996.

Accounts Payable

The Army is unable to account for and report Accounts Payable properly. In addition, the Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales. Therefore, the Army has acknowledged that it was unable to reconcile Intragovernmental accounts payable to the related Intragovernmental accounts receivable that generated the payable.

Environmental Liabilities

The Army has not properly estimated and reported its environmental liabilities. For example, the processes used to report environmental liabilities for the Defense Environmental Restoration Program, Base Realignment and Closure, and the non-Defense Environmental Restoration Program on the financial statements were not adequate to establish or maintain sufficient documentation and audit trails. Although estimators were properly qualified to perform estimates, the Army did not document supervisory reviews of estimates and did not have adequate quality control programs in place to ensure the reliability of data.

Statement of Net Cost

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

Statement of Budgetary Resources

The Army accounting systems do not provide or capture the data needed for obligations incurred or prior-year obligations recovered in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget Requirements." Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined. The information presented in the Army General Fund's Statement of Budgetary Resources does not completely agree with the information submitted in the year-end "Reports on Budget Execution and Budgetary Resources" (SFs-133).

Intragovernmental Eliminations

DoD is unable to collect, exchange, and reconcile buyer and seller Intragovernmental transactions, resulting in adjustments that cannot be verified. This is primarily because the majority of the systems within DoD do not allow the capture of buyer-side information for use in reconciliations and eliminations. The DoD and Army accounting systems were unable to capture trading partner data at the transaction level to facilitate required trading partner eliminations, and DoD guidance did not require adequate support for eliminations. In addition, DoD procedures required that buyer side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations.

Accounting Adjustments

Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army General Fund financial statements. For the FY 2011 year-end, DFAS did not adequately support \$14.6 billion in journal voucher adjustments used to prepare the Army General Fund financial statements.

Abnormal Account Balances

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

Reconciliation of Net Cost of Operations to Budget

The Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. During FY 2007, OMB rescinded the requirement to report this reconciliation as a Statement of Financing and now requires the disclosure of the information as a note to the financial statements. The Army is unable to represent accurately the relationship between its budgetary obligations incurred and its Statement of Net Cost.

Contingency Payment Audit Trails

The Army acknowledged that the maintenance of substantiating documents by certifying and entitlement activities creates significant challenges in tracing audit trails for support of financial statements. DoD Office of Inspector General Report No. D-2008-098, "Internal Controls Over Payments Made in Iraq, Kuwait, and Egypt," May 22, 2008, determined that the Army made \$1.4 billion in commercial payments that lacked the minimum supporting documentation and information for a valid payment (minimum support would include such documents as certified vouchers, proper receiving reports, and invoices). In addition, the Army estimated that \$6.3 billion of commercial payments contained the minimum supporting documentation but did not comply with other statutory and regulatory requirements. Payments that are not properly supported do not provide the necessary assurance that funds were used as intended.

DoD Office of Inspector General Report No. D-2011-101, "Controls over Army Deployable Disbursing System Payments Need Improvement," August 17, 2011, further supports the conclusion that payment audit trails continue to be a weakness. Specifically, the Deployable Disbursing System did not maintain accurate lines of accounting information, accurate payment method information, or complete fundamental payment information, such as invoice line item information, contract or requisition numbers, and invoice numbers. Without accurate and complete data, DoD cannot maintain complete and documented audit trails, and DoD is at increased risk for improper payments.

Previously Identified Significant Deficiency

The following significant deficiency continued to exist.

Legal Representation Process

The Army legal representation process did not provide meaningful assessments of potential liabilities and was not linked to the Army process for reporting and disclosing contingent legal liabilities on the financial statements. This financial management deficiency may cause inaccurate management information. As a result, the Army General Fund management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DoD may also contain misstatements resulting from this deficiency.

These financial management deficiencies may cause inaccurate management information. As a result, Army management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DoD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determining compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether Army General Fund complied with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires DoD to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2011, Army General Fund management did not fully comply with the Federal Financial Management Improvement Act of 1996. Army General Fund management acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2011.

Government Performance and Results Act of 1993

Congress enacted GPRA to establish strategic planning and performance measurement in the Federal Government. Strategic plans, annual performance plans, and annual program performance reports are the main elements of GPRA. The financial information contained in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DoD strategic and performance plans required by GPRA. Because financial processes and systems do not correlate costs with performance measures, revenues and expenses are reported by appropriation categories. The Army did not comply with GPRA because it did not have cost accounting systems in place to collect, process, and report operating costs. This resulted in the Army being unable to present cost-of-operations data on the Army General Fund Statement of Net Cost that were consistent with the GPRA goals and measures.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341[1990]) limits the Army General Fund and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army General Fund or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2011, the Army reported seven cases of violation of the ADA. Therefore, the Army did not comply with 31 U.S.C. §§ 1341 (1990), 1351 (2004), and 1517 (2004).

DoD internal guidance limits the time from identification to reporting of ADA violations to 12 months.* Our review of the Army's ADA violations reported in FY 2011 showed that the Army did not process the seven ADA violation cases within 12 months. Additionally, two investigations of potential ADA violations have been open for more than 12 months. DoD internal guidance also states that preliminary reviews of potential violations should be reviewed within three months of initial discovery. The Army has not processed 22 of 30 violations within three months.

Audit Disclosures

The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us on May 2, 2011, that the Army General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, Prompt Payment Act, Improper Payments Information Act, and Provisions Governing Claims of the United States (including provisions of the Debt Collection Improvement Act of 1996).

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

* DoD Financial Management Regulation, Volume 14, Chapter 7, "Antideficiency Act Report," November 2010, extended the time limit from 12 months to 15 months.



Limitations

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, 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.

Principal Financial Statements, Notes, and Auditor's Report

Department of Defense - Army Working Capital Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2011 and 2010 (Amounts in thousands)

2011 Consolidated

2010 Consolidated

ASSETS (Note 2)

Intragovernmental:

Fund Balance with Treasury (Note 3)	\$	1,900,483	\$	1,808,081
Investments (Note 4)		0		0
Accounts Receivable (Note 5)		424,667		317,663
Other Assets (Note 6)		22,519		8,232
Total Intragovernmental Assets	\$	2,347,669	\$	2,133,976

Cash and Other Monetary Assets (Note 7)

0 0

Accounts Receivable, Net (Note 5)

15,684 39,193

Loans Receivable (Note 8)

0 0

Inventory and Related Property, Net (Note 9)

25,211,515 22,309,805

General Property, Plant and Equipment, Net (Note 10)

1,564,390 1,397,840

Investments (Note 4)

0 0

Other Assets (Note 6)

446,028 616,116

TOTAL ASSETS

\$ 29,585,286 \$ 26,496,930

LIABILITIES (Note 11)

Intragovernmental:

Accounts Payable (Note 12)	\$	125,110	\$	103,071
Debt (Note 13)		0		0
Other Liabilities (Note 15 & 16)		85,997		63,418
Total Intragovernmental Liabilities	\$	211,107	\$	166,489

Accounts Payable (Note 12)

658,288 659,167

Military Retirement and Other Federal Employment Benefits (Note 17)

221,632 219,913

Environmental and Disposal Liabilities (Note 14)

0 0

Loan Guarantee Liability (Note 8)

0 0

Other Liabilities (Note 15 and Note 16)

558,526 377,082

TOTAL LIABILITIES

\$ 1,649,553 \$ 1,422,651

COMMITMENTS AND CONTINGENCIES (NOTE 16)**NET POSITION**

Unexpended Appropriations - Earmarked Funds (Note 23)	\$	0	\$	0
Unexpended Appropriations - Other Funds		0		0
Cumulative Results of Operations - Earmarked Funds		0		0
Cumulative Results of Operations - Other Funds		27,935,733		25,074,279

TOTAL NET POSITION

\$ 27,935,733 \$ 25,074,279

TOTAL LIABILITIES AND NET POSITION

\$ 29,585,286 \$ 26,496,930

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Principal Financial Statements, Notes, and Auditor's Report

Department of Defense - Army Working Capital Fund

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2011 and 2010 (Amounts in thousands)

	2011 Consolidated	2010 Consolidated
Program Costs		
Gross Costs	\$ 29,629,581	\$ 29,068,710
Operations, Readiness & Support	\$ 29,629,581	\$ 29,068,710
(Less: Earned Revenue)	(33,261,795)	(29,693,624)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ (3,632,214)	\$ (624,914)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	0	0
Net Program Costs Including Assumption Changes	\$ (3,632,214)	\$ (624,914)
Costs Not Assigned to Programs	\$ 0	\$ 0
(Less: Earned Revenues) Not Attributed to Programs	0	0
Net Cost of Operations	\$ (3,632,214)	\$ (624,914)

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Department of Defense - Army Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

<i>As of September 30, 2011 (Amounts in thousands)</i>	2011 Earmarked Funds	2011 All Other Funds	2011 Eliminations	2011 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	\$ 0	\$ 25,074,279	\$ 0	\$ 25,074,279
Prior Period Adjustments:				
Changes in accounting principles (+/-)	0	0	0	0
Corrections of errors (+/-)	0	0	0	0
Beginning balances, as adjusted	\$ 0	\$ 25,074,279	\$ 0	\$ 25,074,279
Budgetary Financing Sources:				
Other adjustments (rescissions, etc.)	\$ 0	\$ 0	\$ 0	\$ 0
Appropriations used	0	54,636	0	54,636
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement	0	(700,000)	0	(700,000)
Other budgetary financing sources	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	(394,625)	0	(394,625)
Imputed financing from costs absorbed by others	0	208,360	0	208,360
Other (+/-)	0	60,869	0	60,869
Total Financing Sources	\$ 0	\$ (770,760)	\$ 0	\$ (770,760)
Net Cost of Operations (+/-)	0	(3,632,214)	0	(3,632,214)
Net Change	\$ 0	\$ 2,861,454	\$ 0	\$ 2,861,454
Cumulative Results of Operations	\$ 0	\$ 27,935,733	\$ 0	\$ 27,935,733
UNEXPENDED APPROPRIATIONS				
Beginning Balances	\$ 0	\$ 0	\$ 0	\$ 0
Prior Period Adjustments:				
Changes in accounting principles	\$ 0	\$ 0	\$ 0	\$ 0
Corrections of errors	0	0	0	0
Beginning balances, as adjusted	\$ 0	\$ 0	\$ 0	\$ 0
Budgetary Financing Sources:				
Appropriations received	\$ 0	\$ 54,636	\$ 0	\$ 54,636
Appropriations transferred-in/out	0	0	0	0
Other adjustments (rescissions, etc.)	0	0	0	0
Appropriations used	0	(54,636)	0	(54,636)
Total Budgetary Financing Sources	\$ 0	\$ 0	\$ 0	\$ 0
Unexpended Appropriations	0	0	0	0
Net Position	\$ 0	\$ 27,935,733	\$ 0	\$ 27,935,733

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Principal Financial Statements, Notes, and Auditor's Report

Department of Defense - Army Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

<i>As of September 30, 2010 (Amounts in thousands)</i>	2010 Earmarked Funds	2010 All Other Funds	2010 Eliminations	2010 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	\$ 0	\$ 24,263,999	\$ 0	\$ 24,263,999
Prior Period Adjustments:				
Changes in accounting principles (+/-)	0	0	0	0
Corrections of errors (+/-)	0	0	0	0
Beginning balances, as adjusted	\$ 0	\$ 24,263,999	\$ 0	\$ 24,263,999
Budgetary Financing Sources:				
Other adjustments (rescissions, etc.)	\$ 0	\$ 0	\$ 0	\$ 0
Appropriations used	0	490,613	0	490,613
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement	0	(280,280)	0	(280,280)
Other budgetary financing sources	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	(1,398,190)	0	(1,398,190)
Imputed financing from costs absorbed by others	0	209,352	0	209,352
Other (+/-)	0	1,163,871	0	1,163,871
Total Financing Sources	\$ 0	\$ 185,366	\$ 0	\$ 185,366
Net Cost of Operations (+/-)	0	(626,021)	(1,107)	(624,914)
Net Change	\$ 0	\$ 811,387	\$ 1,107	\$ 810,280
Cumulative Results of Operations	\$ 0	\$ 25,075,386	\$ 1,107	\$ 25,074,279
UNEXPENDED APPROPRIATIONS				
Beginning Balances	\$ 0	\$ 440,722	\$ 0	\$ 440,722
Prior Period Adjustments:				
Changes in accounting principles	\$ 0	\$ 0	\$ 0	\$ 0
Corrections of errors	0	0	0	0
Beginning balances, as adjusted	\$ 0	\$ 440,722	\$ 0	\$ 440,722
Budgetary Financing Sources:				
Appropriations received	\$ 0	\$ 50,002	\$ 0	\$ 50,002
Appropriations transferred-in/out	0	0	0	0
Other adjustments (rescissions, etc.)	0	(111)	0	(111)
Appropriations used	0	(490,613)	0	(490,613)
Total Budgetary Financing Sources	\$ 0	\$ (440,722)	\$ 0	\$ (440,722)
Unexpended Appropriations	0	0	0	0
Net Position	\$ 0	\$ 25,075,386	\$ 1,107	\$ 25,074,279

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Principal Financial Statements, Notes, and Auditor's Report

Department of Defense - Army Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2011 and 2010 (Amounts in thousands)	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2011 Combined	2010 Combined	2011 Combined	2010 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	\$ 1,022,350	\$ 1,822,851	\$ 0	\$ 0
Recoveries of prior year unpaid obligations	3,183,324	2,870,136	0	0
Budget authority				
Appropriation	54,636	50,002	0	0
Borrowing authority	0	0	0	0
Contract authority	8,598,144	10,090,779	0	0
Spending authority from offsetting collections				
Earned				
Collected	13,764,973	16,305,692	0	0
Change in receivables from Federal sources	68,361	(128,638)	0	0
Change in unfilled customer orders				
Advance received	(22,443)	10,184	0	0
Without advance from Federal sources	1,634,322	(375,042)	0	0
Anticipated for rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Expenditure transfers from trust funds	0	0	0	0
Subtotal	\$ 24,097,993	\$ 25,952,977	\$ 0	\$ 0
Nonexpenditure transfers, net, anticipated and actual	(700,000)	(280,280)	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(10,505,233)	(13,082,174)	0	0
Total Budgetary Resources	\$ 17,098,434	\$ 17,283,510	\$ 0	\$ 0
Status of Budgetary Resources:				
Obligations incurred:				
Direct	\$ 0	\$ 0	\$ 0	\$ 0
Reimbursable	14,948,424	16,261,161	0	0
Subtotal	\$ 14,948,424	\$ 16,261,161	\$ 0	\$ 0
Unobligated balance:				
Apportioned	\$ 2,150,010	\$ 1,022,349	\$ 0	\$ 0
Exempt from apportionment	0	0	0	0
Subtotal	\$ 2,150,010	\$ 1,022,349	\$ 0	\$ 0
Unobligated balance not available	0	0	0	0
Total status of budgetary resources	\$ 17,098,434	\$ 17,283,510	\$ 0	\$ 0
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	\$ 9,468,963	\$ 11,704,936	\$ 0	\$ 0
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(5,374,558)	(5,878,237)	0	0
Total unpaid obligated balance	\$ 4,094,405	\$ 5,826,699	\$ 0	\$ 0
Obligations incurred net (+/-)	14,948,424	16,261,161	0	0
Less: Gross outlays	(13,004,763)	(15,626,999)	0	0
Obligated balance transferred, net				
Actual transfers, unpaid obligations (+/-)	0	0	0	0
Actual transfers, uncollected customer	0	0	0	0
Total Unpaid obligated balance transferred, net	0	0	0	0
Less: Recoveries of prior year unpaid obligations, actual	(3,183,324)	(2,870,136)	0	0
Change in uncollected customer payments from Federal sources (+/-)	(1,702,683)	503,680	0	0
Obligated balance, net, end of period				
Unpaid obligations	\$ 8,229,300	\$ 9,468,962	\$ 0	\$ 0
Less: Uncollected customer payments from Federal sources (-)	(7,077,241)	(5,374,557)	0	0
Total, unpaid obligated balance, net, end of period	\$ 1,152,059	\$ 4,094,405	\$ 0	\$ 0
Net Outlays:				
Gross outlays	\$ 13,004,763	\$ 15,626,999	\$ 0	\$ 0
Less: Offsetting collections	(13,742,530)	(16,315,876)	0	0
Less: Distributed Offsetting receipts	0	0	0	0
Net Outlays	\$ (737,767)	\$ (688,877)	\$ 0	\$ 0

The accompanying notes are an integral part of these financial statements. Amounts may not sum due to rounding.

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

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

The Army WCF is unable to fully implement all elements of USGAAP and the OMB Circular No. A-136 due to limitations of financial and nonfinancial management processes and systems that support the financial statements. Although the Army WCF derives most reported values and information for major asset and liability categories from the Logistics Modernization Program (LMP) system, LMP contains some systems and posting deficiencies related to items such as source-accepted procurements, budgetary accounts, continuing resolution cash balances, and undeposited collections. In addition, LMP relies on some data from systems such as entitlement systems and property systems that compromise the ability to fully meet all USGAAP standards. The Army WCF continues to address additional USGAAP functionality and processes for items such as constructive receipts, funds certification, and debt management.

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

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

Working capital funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, the Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

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

1.D. Basis of Accounting

The Army WCF's financial management systems are unable to meet all full accrual accounting requirements. Some of the Army WCF's financial and nonfinancial feeder systems were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP.

The Army WCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army WCF's sub-entities. The underlying data is partially derived from budgetary transactions (obligations, disbursements, and collections) reported on status reports and accruals from nonfinancial feeder systems such as the Mechanization of Contract Administrative Services System, the Defense Payroll System, and from Federal Employees' Compensation Act (FECA) liabilities.

Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Army WCF level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the United States Standard General Ledger (USSGL). The Army has implemented the Logistics Modernization Program at all of the Army Materiel Command's activities except for Non-Army Managed Items (NAMI) and the U.S. Army Medical Materiel Agency (USAMMA). The Medical Materiel Agency is expected to transition to Operation and Maintenance, Army funding in fiscal year (FY) 2013. A decision on the disposition of NAMI has not been made as of this date. Until LMP functionality is fully implemented, and all of the Army WCF's processes are updated to report financial information as required by USGAAP, some of the Army WCF's financial data will be derived from a combination of budgetary transactions, nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The Army WCF Industrial Operations activities recognize revenue according to the percentage-of-completion method. Supply Management activities recognize revenue when an inventory item is sold.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. The Army WCF now derives the majority of its reported data from LMP which is designed to collect and record financial information for accruals. However, estimates are made for some major items such as payroll expenses, entitlement systems accruals, unbilled revenue, transportation expenses, and military interdepartmental purchase requests because LMP has not yet implemented full functionality to correctly record some transactions received from feeder systems. The Army WCF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

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

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and *Treasury Financial Manual*, Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While Army WCF is unable to fully reconcile intragovernmental transactions with all federal agencies, Army WCF is able to reconcile balances pertaining to FECA transactions with the Department of Labor and benefit program transactions with the Office of Personnel Management.

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

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

1.H. Transactions with Foreign Governments and International Organizations

Each year, Army WCF sells defense articles and services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense articles and services to

foreign countries and international organizations generally at no profit or loss to the federal government. Payment in U.S. dollars is required in advance.

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

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

In addition, DFAS sites 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, Army WCF's FBWT is adjusted to agree with the U.S. Treasury accounts.

1.J. Cash and Foreign Currency

Not Applicable.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. The allowance for uncollectible accounts due to the public is based upon an analysis of collection experience grouped by age categories. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/factsil/manuals/tfm-bulletin-2011-04.pdf>.

1.L. Direct Loans and Loan Guarantees

Not Applicable.

1.M. Inventories and Related Property

The Army WCF has transitioned approximately 94 percent of its resale inventory to LMP which includes moving average cost (MAC) functionality. However, the on-hand, transitioned balances were not properly baselined to MAC. Accordingly, the Army WCF cannot confirm the actual historical cost of this inventory and recognizes that a significant portion may not be currently compliant with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property."

The Army WCF reports the remaining 6 percent of resale inventories representing nonArmy managed items (NAMI) and the U.S. Army Medical Materiel Agency (USAMMA) at the latest Defense Logistics Agency (DLA) price or at an approximation of historical cost using latest acquisition cost (LAC) adjusted for holding gains and losses. The latest DLA price and the LAC method are used because legacy inventory systems were designed for materiel management rather than financial accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3. Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Management Improvement Act of 1996 (P.L. 104-208). It is expected that USAMMA will transfer from the Army WCF to Operation and Maintenance, Army funding in FY 2013. A decision for the disposition of NAMI remains pending.

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

The Army WCF is in agreement with SFFAS No 3, Interpretation 7, "Items Held for Remanufacture," that inventory held for repair should be accounted for as "inventory held for remanufacture." Inventory held for remanufacture capitalizes repair and rebuild costs, values unrepaired carcasses at cost, and provides for exchange pricing concepts for customer returns. The Army WCF is unable to comply with some of the accounting requirements for remanufacturing until such time as all LMP functionality is fully implemented and all inventory related tasks in the Army Financial Improvement Plan have been addressed.

The Army WCF recognizes excess, obsolete, and unserviceable inventory at net realizable value of \$0 pending development of an effective means of valuing such materiel.

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

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

Not Applicable.

1.O. General Property, Plant and Equipment

The DoD's General Property, Plant & Equipment (PP&E) capitalization threshold is \$100 thousand except for real property, which is \$20 thousand. The Army WCF has fully implemented the threshold for all property.

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

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

Not Applicable.

1.R. Other Assets

Army WCF other assets include credits due for returns and estimated future payments to contractors upon delivery and government acceptance of satisfactory products.

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

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

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by 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 loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Army WCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

1.T. Accrued Leave

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

1.U. Net Position

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

The Army WCF currently treats an appropriation as fully expended at the end of the fiscal year in which the appropriation is received. Beginning in FY 2012, Army WCF is implementing functionality in LMP which will identify and report obligations and disbursements to the original appropriation. Unobligated and unexpended amounts will be carried forward into subsequent fiscal years until the appropriation is fully expended.

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

1.V. Treaties for Use of Foreign Bases

Not Applicable.

1.W. Undistributed Disbursements and Collections

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

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.X. Fiduciary Activities

Not Applicable.

1.Y. Military Retirement and Other Federal Employment Benefits

Not Applicable.

1.Z. Significant Events

During 1st Quarter, FY 2011, the Army WCF converted TACOM LCMC and all of the other remaining Army WCF activities, except NAMI and USAMMA, to the Enterprise Resource Planning (ERP) system, LMP. Also, during FY 2011, major business processes and LMP programming changes were initiated to include (1) compliance with Treasury reporting attributes, (2) compliance with the SFIS, (3) full trial balance reporting to include budgetary accounts, and (4) functionality for all funds and budgetary resources distribution directly in LMP. These changes are scheduled as a major LMP system upgrade in December 2011 with testing and implementation through FY 2012.

Note 2. Nonentity Assets

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0	\$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 0	\$ 0
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0	\$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Nonfederal Assets	\$ 0	\$ 0
3. Total Nonentity Assets	\$ 0	\$ 0
4. Total Entity Assets	\$ 29,585,286	\$ 26,496,930
5. Total Assets	\$ 29,585,286	\$ 26,496,930

Note 3. Fund Balance with Treasury

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
1. Fund Balances		
A. Appropriated Funds	\$ 0	\$ 0
B. Revolving Funds	1,900,483	1,808,081
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	\$ 1,900,483	\$ 1,808,081
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 1,900,483	\$ 1,808,081
B. Fund Balance per Army WCF	1,900,483	1,808,081
3. Reconciling Amount	\$ 0	\$ 0

Status of Fund Balance with Treasury

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
1. Unobligated Balance		
A. Available	\$ 2,150,010	\$ 1,022,349
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	8,229,299	9,468,964
3. Nonbudgetary FBWT	0	0
4. Non-FBWT Budgetary Accounts	(8,478,826)	(8,683,232)
5. Total	\$ 1,900,483	\$ 1,808,081

Status of Fund Balance with Treasury Definitions

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. There are no restrictions on the Unobligated Balance.

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

NonFBWT Budgetary Accounts reduce the Status of FBWT. For the Army WCF, these balances include unfilled orders without advances, reimbursements earned-receivable, and contract authority.

Note 4. Investments and Related Interest

Not Applicable.

Note 5. Accounts Receivable

As of September 30

(Amounts in thousands)

	2011		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 424,667	N/A	\$ 424,667
2. Nonfederal Receivables (From the Public)	30,130	\$ (14,446)	15,684
3. Total Accounts Receivable	\$ 454,797	\$ (14,446)	\$ 440,351

As of September 30

(Amounts in thousands)

	2010		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 317,663	N/A	\$ 317,663
2. Nonfederal Receivables (From the Public)	49,365	\$ (10,172)	39,193
3. Total Accounts Receivable	\$ 367,028	\$ (10,172)	\$ 356,856

The accounts receivable represent the Army WCF's claim for payment from other entities. The Army WCF only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the intragovernmental business rules.

Note 6. Other Assets

As of September 30

(Amounts in thousands)

	2011	2010
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 3	\$ 0
B. Other Assets	22,516	8,232
C. Total Intragovernmental Other Assets	\$ 22,519	\$ 8,232
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 409,748	\$ 193,247
B. Advances and Prepayments	36,280	422,869
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	\$ 446,028	\$ 616,116
3. Total Other Assets	\$ 468,547	\$ 624,348

Other Assets Definition

Other Assets (Intragovernmental) consist of the turn-in of unserviceable and obsolete inventory awaiting credit dispositions from federal resources, e.g. Defense Logistics Agency.

Contract terms and conditions for certain types of contract financing payments convey certain rights to the government that protect the contract work from state or local taxation, liens or attachment by the contractor's 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 federal government. The federal government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army WCF is not obligated to make payment to the contractor until delivery and acceptance.

Outstanding Contract Financing Payments

The balance of Outstanding Contract Financing Payments includes \$392.7 million in contract financing payments and an additional \$17.0 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, *Other Liabilities*.

Note 7. Cash and Other Monetary Assets

Not Applicable.

Note 8. Direct Loan and Loan Guarantees

Not Applicable.

Note 9. Inventory and Related Property

As of September 30	2011		2010	
(Amounts in thousands)				
1. Inventory, Net	\$	25,211,515	\$	22,309,805
2. Operating Materiels & Supplies, Net		0		0
3. Stockpile Materiel, Net		0		0
4. Total	\$	25,211,515	\$	22,309,805

Inventory, Net

As of September 30	2011			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
(Amounts in thousands)				
1. Inventory Categories				
A. Available and Purchased for Resale	\$ 16,571,240	\$ (224,934)	\$ 16,346,306	LAC, MAC
B. Held for Repair	7,204,345	151,630	7,355,975	LAC, MAC
C. Excess, Obsolete, and Unserviceable	313,385	(313,385)	0	NRV
D. Raw Materiel	1,373,697	0	1,373,697	MAC, SP, LAC
E. Work in Process	135,537	0	135,537	AC
F. Total	\$ 25,598,204	\$ (386,689)	\$ 25,211,515	

As of September 30*(Amounts in thousands)***1. Inventory Categories**

	2010			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
A. Available and Purchased for Resale	\$ 17,569,742	\$ (2,385,249)	\$ 15,184,493	LAC, MAC
B. Held for Repair	6,860,360	(496,588)	6,363,772	LAC, MAC
C. Excess, Obsolete, and Unserviceable	467,906	(467,906)	0	NRV
D. Raw Materiel	710,627	0	710,627	MAC, SP, LAC
E. Work in Process	50,913	0	50,913	AC
F. Total	\$ 25,659,548	\$ (3,349,743)	\$ 22,309,805	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost

SP = Standard Price

AC = Actual Cost

MAC = Moving Average Cost

NRV = Net Realizable Value

LCM = Lower of Cost or Market

O = Other

Abnormal Balance

The Revaluation Allowance for Inventory Held for Repair has an abnormal balance of \$151.6 million as the result of current functionality in the Logistics Modernization Program (LMP). The issue is being addressed with a system change request.

Restrictions of Inventory Use, Sale, or Disposition

There are restrictions on the use, sale, and disposition of inventory classified as war reserve materiel of \$1.3 billion which includes petroleum products, subsistence items, spare parts, and medical materiel.

Other Information

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

Work-in-Process includes costs related to producing or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work-in-Process also includes the value of finished products or completed services pending the submission of bills to the customer. The work-in-process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including amounts withheld from payment to ensure performance, and amounts paid to other government plants for accrued costs of end items of materiel ordered but not delivered. Work-in-Process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

During FY 2011, Army WCF changed the inventory accounting method from latest acquisition cost to moving average cost for commands which migrated during the third deployment of LMP.

Operating Materiel and Supplies, Net

Not Applicable.

Stockpile Materiel, Net

Not Applicable.

Note 10. General PP&E, Net

As of September 30

(Amounts in thousands)	2011				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 0	N/A	\$ 0
B. Buildings, Structures, and Facilities	S/L	20 or 40	1,852,835	\$ (1,435,177)	417,658
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 or 10	1,001,228	(473,998)	527,230
E. General Equipment	S/L	5 or 10	1,547,279	(1,212,537)	334,742
F. Military Equipment	S/L	various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	284,760	N/A	284,760
J. Other			0	0	0
K. Total General PP&E			\$ 4,686,102	\$ (3,121,712)	\$ 1,564,390

As of September 30

(Amounts in thousands)	2010				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 0	N/A	\$ 0
B. Buildings, Structures, and Facilities	S/L	20 or 40	1,823,526	\$ (1,399,994)	423,532
C. Leasehold Improvements	S/L	lease term	1,427	(227)	1,200
D. Software	S/L	2-5 or 10	830,889	(371,359)	459,530
E. General Equipment	S/L	5 or 10	1,642,622	(1,207,037)	435,585
F. Military Equipment	S/L	various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	77,993	N/A	77,993
J. Other			0	0	0
K. Total General PP&E			\$ 4,376,457	\$ (2,978,617)	\$ 1,397,840

¹Note 15 for additional information on Capital Leases**Legend for Valuation Methods:**

S/L = Straight Line

N/A = Not Applicable

Assets Under Capital Lease

Not Applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2011		2010	
(Amounts in thousands)				
1. Intragovernmental Liabilities				
A. Accounts Payable	\$	0	\$	0
B. Debt		0		0
C. Other		63,765		45,627
D. Total Intragovernmental Liabilities	\$	63,765	\$	45,627
2. Nonfederal Liabilities				
A. Accounts Payable	\$	0	\$	0
B. Military Retirement and Other Federal Employment Benefits		221,632		219,913
C. Environmental Liabilities		0		0
D. Other Liabilities		0		0
E. Total Nonfederal Liabilities	\$	221,632	\$	219,913
3. Total Liabilities Not Covered by Budgetary Resources	\$	285,397	\$	265,540
4. Total Liabilities Covered by Budgetary Resources		1,364,156		1,157,111
5. Total Liabilities	\$	1,649,553	\$	1,422,651

Liabilities Not Covered by Budgetary Resources include amounts for which congressional action is needed before budgetary resources can be provided.

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

Military Retirement and Other Federal Employment Benefits comprise various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$221.6 million for the FECA actuarial reserve. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2011			
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	
1. Intragovernmental Payables	\$ 125,110	N/A	\$	125,110
2. Nonfederal Payables (to the Public)	658,288	\$ 0		658,288
3. Total	\$ 783,398	\$ 0	\$	783,398

As of September 30	2010			
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	
1. Intragovernmental Payables	\$ 103,071	N/A	\$	103,071
2. Nonfederal Payables (to the Public)	659,167	\$ 0		659,167
3. Total	\$ 762,238	\$ 0	\$	762,238

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by Army WCF. The Army WCF systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are

adjusted to agree with interagency seller-side accounts receivable. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

Not Applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

Not Applicable.

Note 15. Other Liabilities

As of September 30

(Amounts in thousands)

	2011			2010
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 2,543	\$ 0	\$ 2,543	\$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0	0
C. Disbursing Officer Cash	0	0	0	0
D. Judgment Fund Liabilities	0	0	0	0
E. FECA Reimbursement to the Department of Labor	19,620	44,145	63,765	45,626
F. Custodial Liabilities	0	0	0	0
G. Employer Contribution and Payroll Taxes Payable	19,689	0	19,689	17,792
H. Other Liabilities	0	0	0	0
I. Total Intragovernmental Other Liabilities	\$ 41,852	\$ 44,145	\$ 85,997	\$ 63,418
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 241,428	\$ 0	\$ 241,428	\$ 268,589
B. Advances from Others	94,166	0	94,166	71,376
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0	0
E. Temporary Early Retirement Authority	0	0	0	(20,703)
F. Nonenvironmental Disposal Liabilities	0	0	0	0
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0	0
H. Capital Lease Liability	0	0	0	0
I. Contract Holdbacks	30,769	0	30,769	471
J. Employer Contribution and Payroll Taxes Payable	31,620	0	31,620	24,571
K. Contingent Liabilities	101,199	16,978	118,177	32,778
L. Other Liabilities	42,366	0	42,366	0
M. Total Nonfederal Other Liabilities	\$ 541,548	\$ 16,978	\$ 558,526	\$ 377,082
3. Total Other Liabilities	\$ 583,400	\$ 61,123	\$ 644,523	\$ 440,500

Capital Lease Liability

Not Applicable.

Nonfederal Other Liabilities

Nonfederal Other Liabilities primarily consists of material returns of nonArmy managed items in the amount of \$38.2 million which cannot be identified to a specific trading partner.

Contingent Liabilities

Contingent liabilities includes \$17.0 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to a contractor's work vests with the federal government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Army WCF is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Army WCF has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

Note 16. Commitments and Contingencies

The Army WCF is a party in various administrative proceedings and legal actions, with claims, including environmental damage claims, equal opportunity matters, and contractual bid protests.

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

Other Information Pertaining to Commitments

The Army WCF is a party in numerous individual contracts that contain clauses, such as price escalation, award-fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, Army WCF has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present Army WCF's contingent liabilities.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30

(Amounts in thousands)

	2011			2010	
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	Unfunded Liabilities	
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0	\$ 0	
B. Military Pre Medicare Retiree Health Benefits	0	0	0	0	
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0	0	
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0	\$ 0	
2. Other Actuarial Benefits					
A. FECA	\$ 221,632	\$ 0	\$ 221,632	\$ 219,913	
B. Voluntary Separation Incentive Programs	0	0	0	0	
C. DoD Education Benefits Fund	0	0	0	0	
D. Other	0	0	0	0	
E. Total Other Actuarial Benefits	\$ 221,632	\$ 0	\$ 221,632	\$ 219,913	
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 221,632	\$ 0	\$ 221,632	\$ 219,913	

Federal Employees' Compensation Act

The Army WCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to Army WCF at the end of each fiscal year. The liability includes the estimated liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments. The projected annual benefit payments are discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments (COLAs) and consumer price index medical (CPIM) factors are applied to the calculation of projected future benefits. The actuarial liability for the Federal Employees' Compensation Act (FECA) increased \$1.7 million between FY 2010 and FY 2011.

Actuarial Cost Method

The estimate for future workers' compensation benefits 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 liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

Assumptions

Consistent with past practice, these projected annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Discount Rates

3.535% in Year 1
4.025% in Year 2 and thereafter

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 CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2011 were also used to adjust

the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2011	N/A	N/A
2012	2.10%	3.07%
2013	2.53%	3.62%
2014	1.83%	3.66%
2015	1.93%	3.73%
2016 +	2.00%	3.73%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison 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 2011 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2011 projection to the average pattern for the projections of the most recent three projections.

Other Disclosures

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

The actuaries calculate the actuarial liability annually based on the assumed interest rate of 3.54 percent that was approved by the DoD Board of Actuaries.

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue

As of September 30

(Amounts in thousands)

Operations, Readiness & Support

	2011	2010
1. Gross Cost		
A. Intragovernmental Cost	\$ 3,315,509	\$ 3,660,487
B. Nonfederal Cost	26,314,072	25,408,223
C. Total Cost	<u>\$ 29,629,581</u>	<u>\$ 29,068,710</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (14,497,643)	\$ (15,360,609)
B. Nonfederal Revenue	(18,764,152)	(14,333,015)
C. Total Revenue	(33,261,795)	(29,693,624)
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	0	0
4. Costs Not Assigned to Programs	0	0
5. (Less: Earned Revenues) Not Attributed to Programs	0	0
Total Net Cost	<u>\$ (3,632,214)</u>	<u>\$ (624,914)</u>

Definitions

Intragovernmental costs and revenue represent transactions made between two reporting entities within the federal government.

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

Other Information Regarding Costs

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

While Army WCF activities generally record transactions on an accrual basis, as is required by federal generally accepted accounting principles, the systems do not always capture actual costs. Some of the information presented on the Consolidated Statement of Net Cost is based on nonfinancial feeder systems, including property accountability and logistics systems. The Army WCF has converted to the Logistics Modernization Program to address this issue.

Additional Disclosure

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

Note 19. Disclosures Related to the Statement of Changes in Net Position

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

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 7,452,394	\$ 9,146,899
2. Available Borrowing and Contract Authority at the End of the Period	\$ 0	\$ 0

Apportionment Category

All Army WCF obligations represent reimbursable obligations in apportionment category B.

Presentation of Statement of Budgetary Resources

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

Legal Arrangements Affecting Use of Unobligated Balances

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

Abnormal Balance

Allotments - Realized Resources has an abnormal balance of \$2.3 billion. This abnormal balance needs additional research to determine the source.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 14,948,424	\$ 16,261,161
2. Less: Spending authority from offsetting collections and recoveries (-)	(18,628,537)	(18,682,332)
3. Obligations net of offsetting collections and recoveries	\$ (3,680,113)	\$ (2,421,171)
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	\$ (3,680,113)	\$ (2,421,171)
Other Resources:		
6. Donations and forfeitures of property	\$ 0	\$ 0
7. Transfers in/out without reimbursement (+/-)	(394,625)	(1,398,190)
8. Imputed financing from costs absorbed by others	208,360	209,352
9. Other (+/-)	60,869	1,163,871
10. Net other resources used to finance activities	\$ (125,396)	\$ (24,967)
11. Total resources used to finance activities	\$ (3,805,509)	\$ (2,446,138)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ 1,694,505	\$ 1,450,822
12b. Unfilled Customer Orders	1,611,879	(364,859)
13. Resources that fund expenses recognized in prior Periods (-)	0	(98,553)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
15. Resources that finance the acquisition of assets (-)	(7,249,639)	(7,488,952)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0	0
16b. Other (+/-)	333,756	234,319
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (3,609,499)	\$ (6,267,223)
18. Total resources used to finance the Net Cost of Operations	\$ (7,415,008)	\$ (8,713,361)

Principal Financial Statements, Notes, and Auditor's Report

As of September 30	2011	2010
<i>(Amounts in thousands)</i>		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 0	\$ 0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	19,857	0
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 19,857	\$ 0
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 214,143	\$ 132,592
26. Revaluation of assets or liabilities (+/-)	(3,562,869)	(1,482,128)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	12,758,695	9,525,406
27c. Operating Material and Supplies Used	0	0
27d. Other	(5,647,032)	(87,422)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 3,762,937	\$ 8,088,448
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	3,782,794	8,088,448
30. Net Cost of Operations	\$ (3,632,214)	\$ (624,913)

Required Disclosures

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

Resources that Finance the Acquisition of Assets were adjusted by \$889.1 million to bring the note schedule into agreement with the Statement of Net Cost.

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

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

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

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

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

Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable.

Note 23. Earmarked Funds

Not Applicable.

Note 24. Fiduciary Activities

Not Applicable.

Note 25. Other Disclosures

Not Applicable.

Note 26. Restatements

Not Applicable.



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2011

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

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund FY 2011 and FY 2010 Basic Financial Statements
(Report No. DODIG-2012-013)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army Working Capital Fund Consolidated Balance Sheet as of September 30, 2011 and 2010, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Army Working Capital Fund FY 2011 and FY 2010 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance With Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us that the Army Working Capital Fund FY 2011 and FY 2010 Basic Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Army financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2011. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended,^{*} to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Army has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in basic financial statements. Therefore, we are unable to express, and we do not express, an opinion on the basic financial statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information, presented with the basic financial statements. Accordingly, we express no opinion on that information.

^{*} OMB Memorandum No. 09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Summary of Internal Control

In planning our work, we considered the Army internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas:

- Financial Management Systems
- Inventory
- General Property, Plant, and Equipment
- Accounts Payable
- Abnormal Account Balances
- Statement of Net Cost
- Statement of Budgetary Resources
- Intragovernmental Eliminations
- Accounting Entries
- Reconciliation of Net Cost of Operations to Budget

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.

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The attachment offers additional details on significant deficiencies, all of which we consider to be material internal control weaknesses.

The Army reported the above weaknesses in its FY 2011 Statement of Assurance.

Summary of Compliance With Laws and Regulations

We limited our work to determining compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us that the Army financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Army complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Deputy Assistant Secretary of the Army (Financial Operations) who provided technical comments that we have incorporated as appropriate. Army officials expressed their continuing commitment to addressing the problems this report outlines.



Patricia A. Marsh, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment:
As stated



Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses, which could adversely affect the Army Working Capital Fund financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

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

On October 21, 2010, the Army completed full deployment of the Logistics Modernization Program system. However, DoD Inspector General Report D-2011-015, "Insufficient Governance Over Logistics Modernization Program System Development," November 2, 2010, reported that the system was not configured to comply with the U.S. Government Standard General Ledger or to record transactional data as required by the DoD Standard Financial Information Structure. The Army reported that a December 2011 system upgrade should bring the Logistics Modernization Program system into compliance with the U.S. Government Standard General Ledger and the DoD Standard Financial Information Structure.

The Army continues to derive a portion of its financial information for the Army Working Capital Fund from budgetary transactions and data from nonfinancial feeder systems, such as the Commodity Command Standard System. Although the final Logistics Modernization Program system deployment occurred, the Army did not include two Army Working Capital Fund activities, TACOM-Rock Island Non-Army Managed Inventory and U.S. Army Medical Material Agency, in the Logistics Modernization Program system deployment plan and continues to use the Commodity Command Standard System to report financial information for these activities.

The Government Accountability Office, DoD Office of Inspector General, and U.S. Army Audit Agency continue to issue audit reports that identify significant data integrity and system integration problems, questioning whether the Logistics Modernization Program system will record transaction-level data correctly to support the financial statements. The Army does not expect to complete all corrective actions to resolve the financial management systems weakness until FY 2015.

Inventory

As of September 30, 2011, the Army reported 94 percent of its resale inventory in the Logistics Modernization Program system, which is capable of recording inventory using moving average cost. However, the inventory valuation method used for the remaining 6 percent of the Army Working Capital Fund inventory does not produce an auditable approximation of historical cost as required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The Army uses the latest acquisition cost method of valuing this inventory because the Army designed the Commodity Command Standard System for materiel management, rather than for accounting in conformance with U.S. GAAP. In addition, because the Commodity Command Standard System was unable to produce financial transactions using the U.S. Government Standard General Ledger accounts, and neither the Defense Finance and Accounting Service (DFAS) nor the Army reconciled all differences between the accounting records and the logistical records, they accepted the data from the logistical records and adjusted the accounting records by \$1.4 billion.

The Army also reported that it did not properly baseline the transitioning on-hand balances into the Logistics Modernization Program system using moving average cost. Accordingly, the Army Working Capital Fund could not confirm the actual historical cost of this

inventory and recognized that a significant portion may not be currently compliant with Statement of Federal Financial Accounting Standards No. 3. In addition, Army Working Capital Fund incorrectly classified Operating Material and Supplies held at Army Working Capital Fund depots as Inventory. The Army does not expect to complete all corrective actions to resolve this weakness until FY 2015.

General Property, Plant, and Equipment

The reported value of Army Working Capital Fund General Property, Plant, and Equipment is unreliable because the Army lacks the documentation needed to support the historical acquisition costs of its assets. In addition, because of system limitations, the Army has not fully implemented DoD policy that requires an entity to maintain information in its property systems on all property furnished to contractors. The Army has not fully implemented a methodology to baseline acquisition costs for all property, plant, and equipment. Army Working Capital Fund activities sometimes recorded the acquisition data and cost incorrectly or received incorrect information from the feeder systems.

The Army Assistant Chief of Staff for Installation Management directed that Army Working Capital Fund activities conduct a 100-percent inventory of real property and establish auditable documentation, using the methodology established in the Real Property Audit Readiness Handbook. As of September 30, 2011, the Office of Assistant Chief of Staff for Installation Management reported that it had completed asset existence validation assistance visits and file assembly assistance visits to all 26 Army Working Capital Fund activities to develop supportable cost documentation for each asset inventoried.

The DoD Financial Management Regulation, volume 4, chapter 6, annex 4, "Real Property Financial Reporting," requires the recording of the acquisition value of real property assets and associated depreciation on the financial statements of the DoD entity that funded the acquisition. Entities that use assets they did not fund must recognize their share of the assets' depreciation and sustainment and maintenance costs by either reimbursing the entity who records the asset on its financial statements or recording the imputed costs incurred on their financial statements. The Army had not taken actions to assess the assets reported in the Army Working Capital Fund real property accounts to determine whether the Army Working Capital Fund acquired the assets reported on the financial statements. The Army plans to correct this weakness by FY 2015.

Accounts Payable

The Logistics Modernization Program system did not establish accounts payable in accordance with Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," which required the Army to establish an Account Payable when it accepts title to goods or services. Consequently, DFAS adjusted Accounts Payable balances to derive the reported balances. The Army Working Capital Fund activities could not reconcile their Accounts Payable transactions with the corresponding Intragovernmental Accounts Receivable that generated the payables. As a result, DFAS made \$18.1 million in unsupported adjustments, which decreased Intragovernmental Accounts Payable, forcing the amounts to agree with Army Working Capital Fund trading partners. In addition, DFAS adjusted Accounts Payable with the Public downward by \$147.4 million for undistributed disbursements.

Abnormal Account Balances

In FY 2011, the Army Working Capital Fund Industrial Operations and Supply Management activities (limit-level) reported 27 abnormal account balances, valued at \$983 million. The Army and DFAS used the 27 abnormal balances to compute the amounts reported on the Balance Sheet for such items as General Property, Plant, and Equipment; Inventory; Accounts Payable; and Other Assets. In addition, the posting accounts used to develop the trial balances in the Logistics Modernization Program system contained at least 976 abnormal account balances valued at \$135.2 billion. Army financial statement reporting practices hid these balances.

Statement of Net Cost

The Army did not present the Army Working Capital Fund's Statement of Net Cost by major program, as required by OMB Circular No. A-136, "Financial Reporting Requirements," September 29, 2010. The Army Working Capital Fund's programs should align with the major goals and outputs described in the strategic and performance plans required by the Government Performance and Results Act of 1993. Financial management systems did not accurately capture costs for Army Working Capital Fund programs or properly account for intragovernmental transactions and related eliminations. In addition, the Army used budgetary obligations, collections, and disbursement data to present some of the information reported on the Army Working Capital Fund's Statement of Net Cost.

Statement of Budgetary Resources

OMB Circular No. A-136 states that the entity should develop the Statement of Budgetary Resources predominantly from the budgetary general ledger accounts in accordance with budgetary accounting rules. The Army did not use data received from the Army Working Capital Fund budgetary general ledger accounts reported by the Logistics Modernization Program system to populate the Statement of Budgetary Resources. Instead, DFAS continued to use budget execution data contained in status reports. In addition, DFAS made \$201.6 million in adjustments to the budgetary accounts because the accounting systems did not correctly record budgetary transactions related to Advances and Prepayments. The Army's target date to correct this weakness is FY 2015.

Intragovernmental Eliminations

DoD was unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that were not verifiable. The Logistics Modernization Program system did not capture the correct Standard Financial Information Structure business partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. DoD procedures require that the Army adjust its buyer-side transaction data to agree with seller-side transaction data from other Government entities, without the entities performing proper reconciliations. As a result, DFAS made \$2 billion in adjustments to Army Working Capital Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners.

Accounting Entries

DFAS made unsupported accounting adjustments, valued at \$219.1 million, to force amounts to agree with other sources of information and records used in preparing the FY 2011 Army Working Capital Fund Financial Statements. The unsupported accounting adjustments present a material uncertainty regarding the line item balances on the FY 2011 Army Working Capital Fund Financial Statements.

Reconciliation of Net Cost of Operations to Budget

Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. The Army could not reconcile the information reported in Note 21 with the Army Working Capital Fund's Statement of Net Cost without preparing \$889.1 million in unsupported adjustments to the general ledger accounts to force costs to match obligation information.

These financial management deficiencies may cause inaccurate management information. As a result, Army management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DoD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determining compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Army complied with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires DoD to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The Federal Financial Management Improvement Act also requires DoD to develop a remediation plan when its financial management systems do not comply with Federal financial management systems requirements. The remediation plan is to include remedies, resources required, and milestones. For FY 2011, the Army did not comply with the Federal Financial Management Improvement Act and acknowledged that its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2011.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341[1990]) limits the Army and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken.

DoD internal guidance limits the time from identification to reporting of ADA violations to 12 months.* Our review of the Army ADA violations reported in FY 2011 showed that the Army did not process one ADA violation case within 12 months. The Army Materiel Command closed the formal investigation of a potential ADA violation at Blue Grass Army Depot on June 14, 2011 finding that no violation had occurred. Therefore, Army did comply with 31 U.S.C. §§ 1341 (1990) and 1351 (2004).

Audit Disclosures

The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us on April 29, 2011, that the Army financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Government Performance and Results Act, Prompt Payment Act, Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act), Federal Credit Reform Act, Improper Payments Information Act, and the Pay and Allowance System for Civilian Employees.

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

* DoD Financial Management Regulation, Volume 14, Chapter 7, "Antideficiency Act Report," November 2010, extended the time limit from 12 months to 15 months.



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

Department of the Army

**Office of the Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)**

Office of the Financial Reporting Directorate
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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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