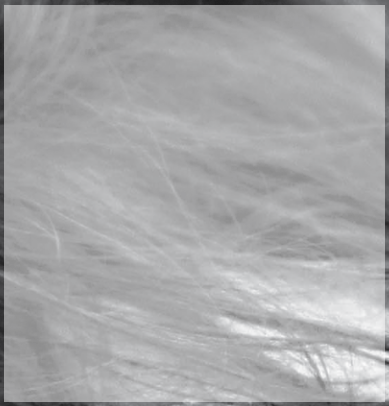
2010

Fiscal Year 2010
United States Army
Annual Financial Report

America's Army: Our Families Give Us Strength



America's Army: Our Families Give Us Strength

Army Family Covenant

We recognize…

…The commitment and increasing sacrifices that our Families are making every day.

…The strength of our Soldiers comes from the strength of their Families.

We are committed to…

…Providing Soldiers and Families a quality of life that is commensurate with their service.

…Providing our Families a strong, supportive environment where they can thrive.

…Building a partnership with Army Families that enhances their strength and resilience.

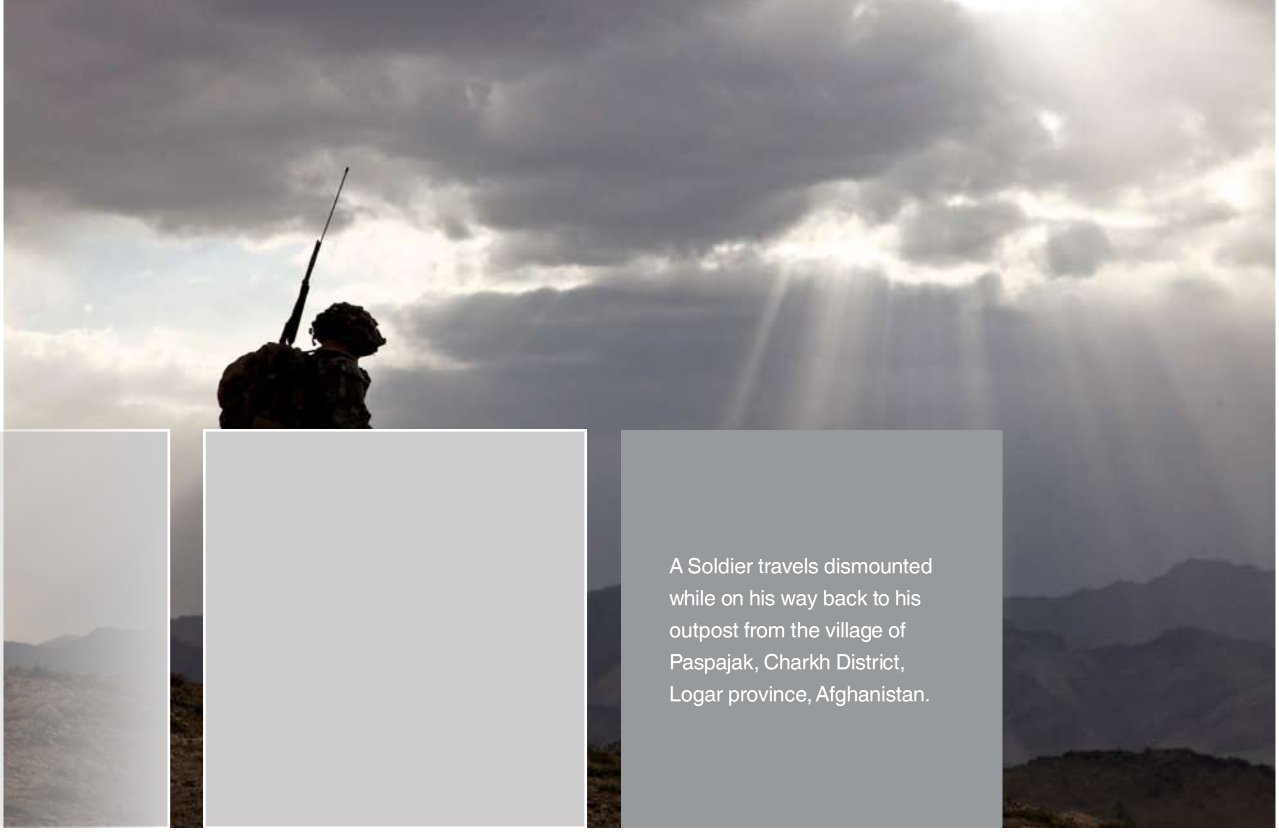
We are committed to improving family readiness by:

- Standardizing and funding existing Family programs and services
- Increasing accessibility and quality of health care
- Improving Soldier and Family housing
- Ensuring excellence in schools, youth services, and child care
- Expanding education and employment opportunities for Family members

ON THE COVER: [main] A daughter clings to her father during a welcome home ceremony. [inset right] A Soldier helps his son explore driver's seat options, including starting the vehicles, honking the horn, flipping switches and turning on blinkers and fans. [inset left] A family cries while watching the 86th Infantry Brigade Combat Team leave after their departure ceremony in Burlington, VT. DoD photo by Chad J. McNeeley

ON THE INSIDE: A Soldier playfully tosses his son, Hunter Johnson, up into the air following the brigade's deployment ceremony.

*Unless otherwise noted, all photos on the cover and inside pages are courtesy of the U.S. Army. (www.army.mil)



A Soldier travels dismounted while on his way back to his outpost from the village of Paspajak, Charkh District, Logar province, Afghanistan.

U.S. ARMY

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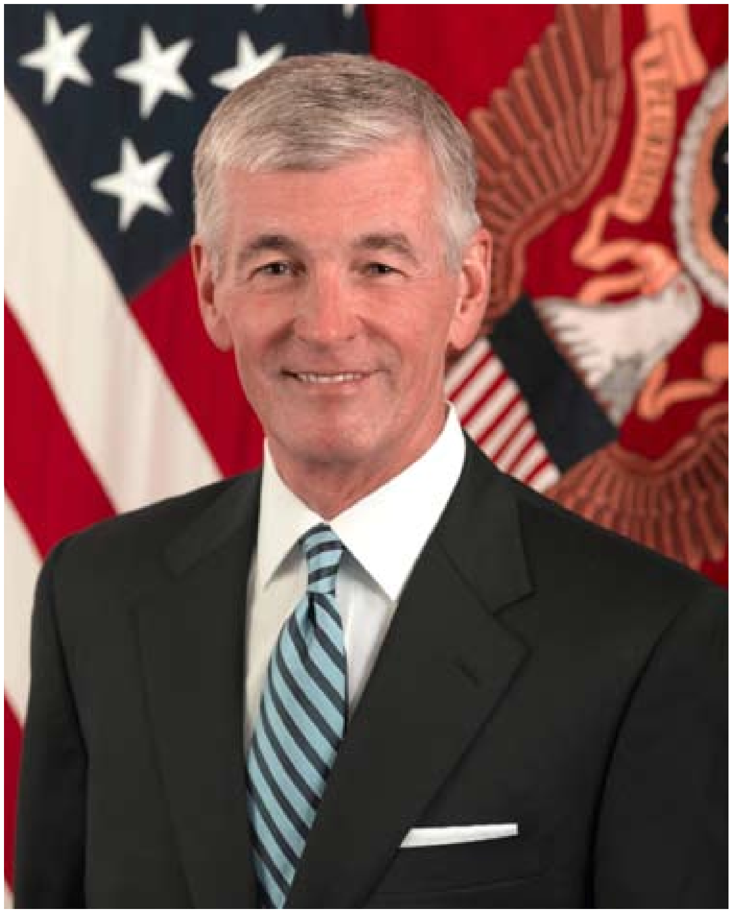


John M. McHugh
Secretary of the Army

This has been an amazing year for the United States Army. Not only were our men and women deployed in two theaters of war for the ninth straight year - ending combat operations in Iraq and ramping up the war effort in Afghanistan - they took on additional missions across the globe and here at home, bringing hope to the flood ravaged plains of Pakistan, Haiti's shores and New Orleans coast.

Those 1.1 million active, guard and reserve Soldiers, and 300,000 civilian employees, are making a difference around the world; serving willingly and selflessly, without fanfare or complaint, standing in harm's way to defend our way of life.

We must continue to ensure they have the best training, equipment and leadership; that their Families have the necessary programs and support back home; and that we care for our wounded and fallen in a manner befitting their service and sacrifice.

And we must make certain that the Army, as an organization, is as efficient and adaptable as the American Soldier in the field by being responsible and accountable to the American taxpayer.

The Army's fiscal year 2010 financial statements provide that accountability, disclosing how taxpayer dollars were used to lead, train, organize and equip America's Army.

We are grateful for your support, and mindful of our imperative to find new ways to be more responsive, more efficient and provide taxpayers the value they deserve.

We have already begun efforts to identify and implement efficiencies in everything we do, from our business practices and family programs, to our personnel management and equipment acquisitions. We are working as well to eliminate duplication, reduce overhead and excess, and instill a culture of savings and restraint so that we can maintain critical operational capabilities, sustain force structure, and invest in needed modernization.

From continuing our in-depth, cost-informed Capability Portfolio Reviews, to transforming the Army's Generating Force, we are bringing improved discipline to our programs, evaluating and realigning our requirements, and creating institutions and processes that can adapt just as quickly as our combat formations.

Despite this past year's achievements, we know there is more work to do. But with your continued support and partnership, America's Army can face any challenge, because we are the Strength of the Nation.

John M. McHugh
Secretary of the Army

Mary Sally Matiella

Assistant Secretary of the Army

(Financial Management and Comptroller)

In fiscal year 2010 (FY 2010), Army financial management responded adaptively to the changing operational needs generated by the drawdown in Iraq and continued initiatives in Afghanistan. In addition to executing the largest annual budget in Army history, we were able to derive efficiencies that will enable us to align resources more effectively from overhead to direct support of combat operations. While focusing on both budget execution and the efficiencies initiative, we have also made significant progress towards improved financial operations. As the leader of the Army Financial Management and Comptroller (FM&C) community, I am proud to say that we have focused on moving forward on several important initiatives and have seen measurable results. These initiatives include implementation of our new General Fund Enterprise Business System (GFEBS), better integration of cost analysis into the decision-making process, increased emphasis on audit readiness, and further development of our business transformation strategy.

As of year-end, the GFEBS has been successfully implemented with 5,500 end users and, in FY 2010, $6.4 billion was obligated using the system. In FY 2011, we anticipate adding over 37,000 additional end users. The GFEBS will provide our accounting and budgeting staffs with more timely data and a better tool to accomplish their responsibilities. Also and of great importance, GFEBS will provide new-to-the-Army cost accounting data that will enable leaders and managers to better focus on the effective as well as efficient use of resources in everyday business decisions across the Army.

Another major focus of our attention this year has been continuing the integration of cost analysis into our decision-making process. To cultivate this culture of cost-informed decision making, the Army is executing cost / benefit education and training programs for military and civilian personnel at all levels, supporting both resource management and functional communities. The Army established the graduate level Cost Management Certificate Course in FY 2010 and trained 137 students in this first year. The Army also developed a Cost-Benefit Analysis (CBA) training program to enable resource-informed decision making. Over 1,000 individuals completed the CBA training in FY 2010.

In FY 2010, the Army recorded significant accomplishments in several key areas related to audit readiness. The Assistant Secretary of the Army (FM&C) held the first annual Army FIP Conference / Workshop with more than 120 Army command- and field-level attendees and featuring presentations from many distinguished Department of Defense leaders. The Army also built momentum towards meeting the Under Secretary of Defense (Comptroller) priorities of improving the information reported on the Army's Statement of Budgetary Resources (SBR) and validating the existence and completeness of mission critical assets. Discovery work related to SBR testing and internal controls was completed on a total of 33 locations (including installations, commands, and headquarters). Relating to testing of existence and completeness, the Army completed physical inventories of 5,945 capital assets.

We have invested a great deal of time in the past year developing our concept of transformation: what the future of Army financial management should look like. Refinement of the Army Campaign Plan will continue into early FY 2011, and the resulting document will guide the transformation of the Army in coming years. The Army FM&C, as an organization, took the lead on the business operations transformation portion of the campaign plan. Fiscal Year 2010 was a year of great progress for the financial management community in the Army, and we expect that FY 2011 will be the same.

Mary Sally Matiella

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

A parachute, helmet, and goggles are prepared for Special Forces Soldiers for a jump during Menton Week.

“We have magnificent Soldiers, leaders and civilians. They are ordinary people who are doing extraordinary things for our country.”

General George Casey, Chief of Staff of the Army

Posting security just outside the walls of a Combined Security Checkpoint.

Overview

The last nine years have seen transformational efforts and operational tempo for our Army not experienced since its founding over 235 years ago. The Army of 2010 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. More than nine years of persistent conflict has placed a strain on the Army putting it out of balance, but the Army continues to meet each challenge and continues to be the premier defender of the nation.

The Army has completed 88 percent of the modular conversion of its brigades and will be 99 percent complete by the end of Fiscal Year (FY) 2011. The Army continues to adapt and change to become more versatile, expeditionary, agile, lethal, sustainable, and interoperable. The force achieved the Grow the Army end-strength goal of 1.1 million Soldiers, in all components by the end of 2009, resulting in the effective ending of 15-month combat tours in November 2009. Significantly, the Army also met 100 percent of its recruiting goals both numerically and qualitatively. The Army continues to reposition forces worldwide and will complete the requirements of the Base Realignment and Closure (BRAC) Commission by the end of FY 2011. Since BRAC, the Army has awarded 325 military construction projects, of which 113 are complete. Resetting equipment and units to full capacity through Army force generation (ARFORGEN) is in full swing, with the reset of 29 brigades worth of equipment in 2009, and an additional 25 brigades in 2010. The Army is also executing a responsible drawdown in Iraq that is redistributing, transferring, or disposing of 3.4 million pieces of equipment; redeploying 143,000 military and civilian personnel and 147,000 contractors; closing 22 supply support activities; and consuming or disposing of over 21,000 short tons of supplies.

In 2007, the Chief of Staff of the Army stated that the Army was "out of balance" in that the demand for forces exceeded the sustainable supply and the Army lacked sufficient strategic flexibility and operational depth to respond to other contingencies. While in a much better position today than in 2007, the Army continues its efforts to restore balance, depth, and flexibility to provide a predictable, sustainable tempo of deployments for Soldiers and their Families by the end of 2011. To that end, boots-on-the-ground in relation to dwell-time-at-home-station (BOG:Dwell) declined slightly from an average of 1:1.5 at the end of FY 2009 to its current rate of 1:1.38, but is projected to increase to 1:1.44 by the end of calendar year 2010 for the active component (AC). The build-up of 30,000 troops for Operation Enduring Freedom during 2010 has delayed the Army in achieving BOG:Dwell goals for the AC in 2010. The Army has attained its BOG:Dwell goal for the reserve component (RC) at 1:4. The Army's goal is to restore a 1:2 BOG:Dwell for the AC by

FY 2011 and is poised largely to meet that goal by the end of next year.

In FY 2010, the Army continued executing its plan to restore a balance that is founded on four imperatives:

(1) Sustain its Soldiers, Families, and civilians;

(2) Continue to prepare forces for success in the current conflict;

(3) Reset returning units to rebuild the readiness consumed in operations and to prepare for future deployments and contingencies; and

(4) Transform to meet the demands of the twenty-first century.

At the time, the Army acknowledged that implementing these imperatives would require several years, considerable resources, and sustained national commitment. Efforts to restore balance are continuing, and, by FY 2012, the Army expects to achieve acceptable balance between deployments and time spent at home; complete modular transformation and other rebalancing initiatives; and fully implement its force-generation model, all while sustaining the all-volunteer force and setting conditions for the future. As balance is achieved, the Army will focus its efforts on maintaining its combat edge while reconstituting the force for other missions and dealing with the impacts of over nine years of persistent conflict.

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 235-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.

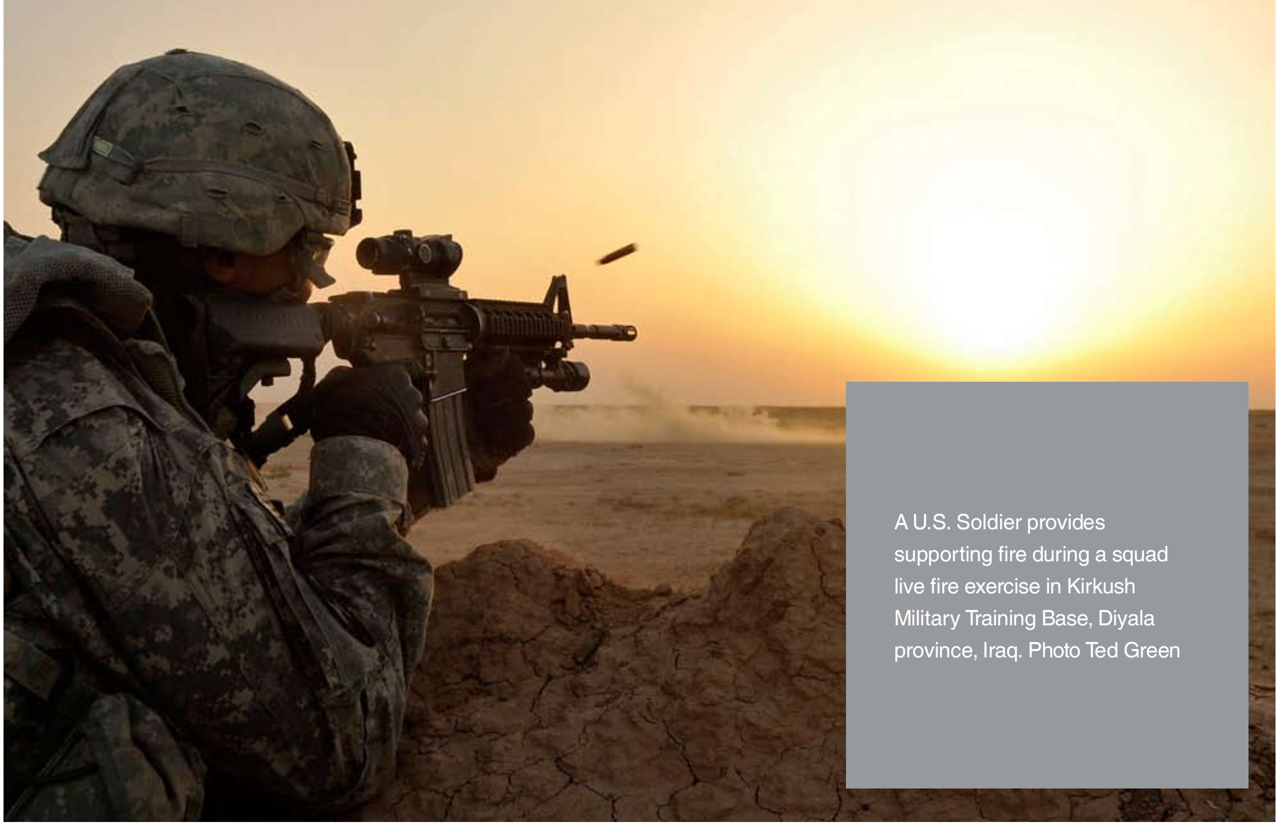
The Army is committed to remaining the world's preeminent land power—relevant and ready at all times to serve the nation and to support our allies. The Army will continue to supply combatant commanders with the forces necessary to defeat any adversary, in any situation, at any time. The Army, therefore, 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 AC and over 567,000 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 warfighting, 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 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.



A U.S. Soldier provides supporting fire during a squad live fire exercise in Kirkush Military Training Base, Diyala province, Iraq. Photo Ted Green

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

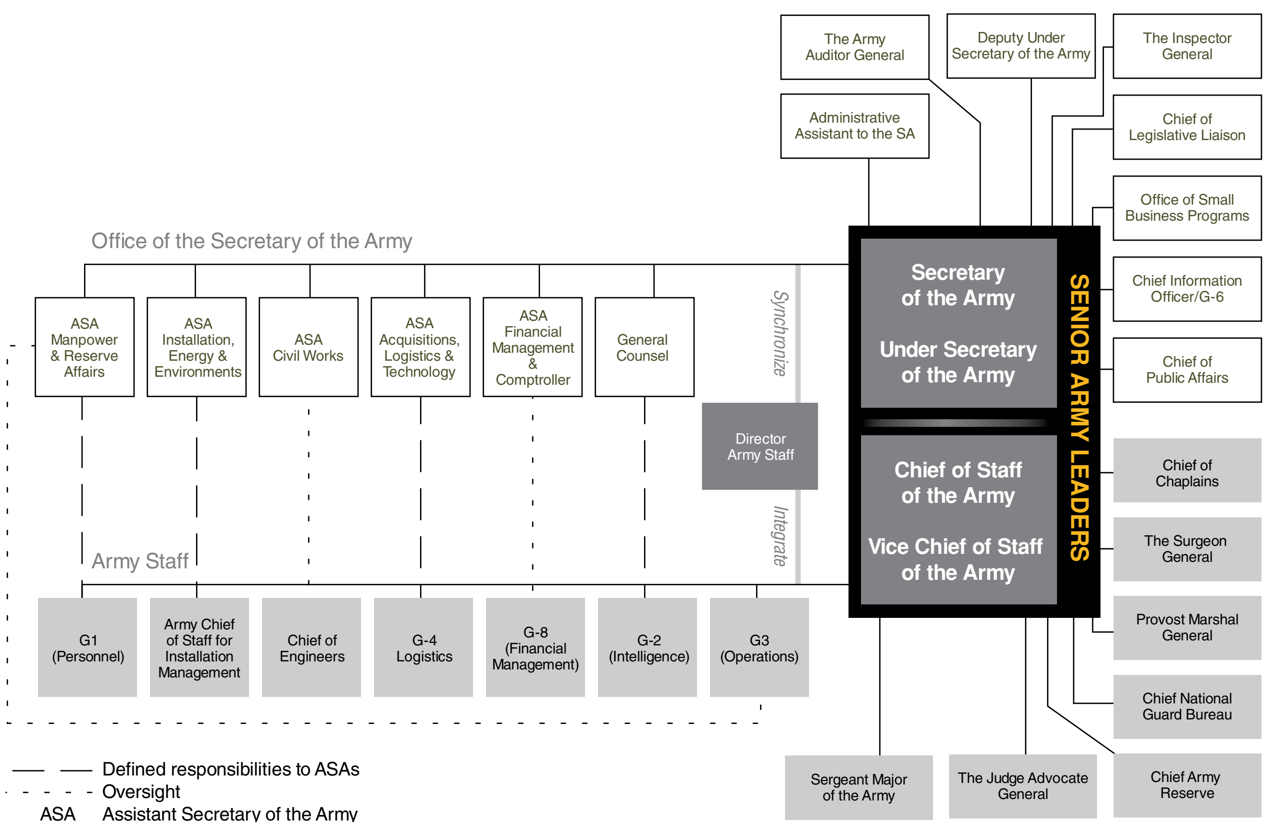
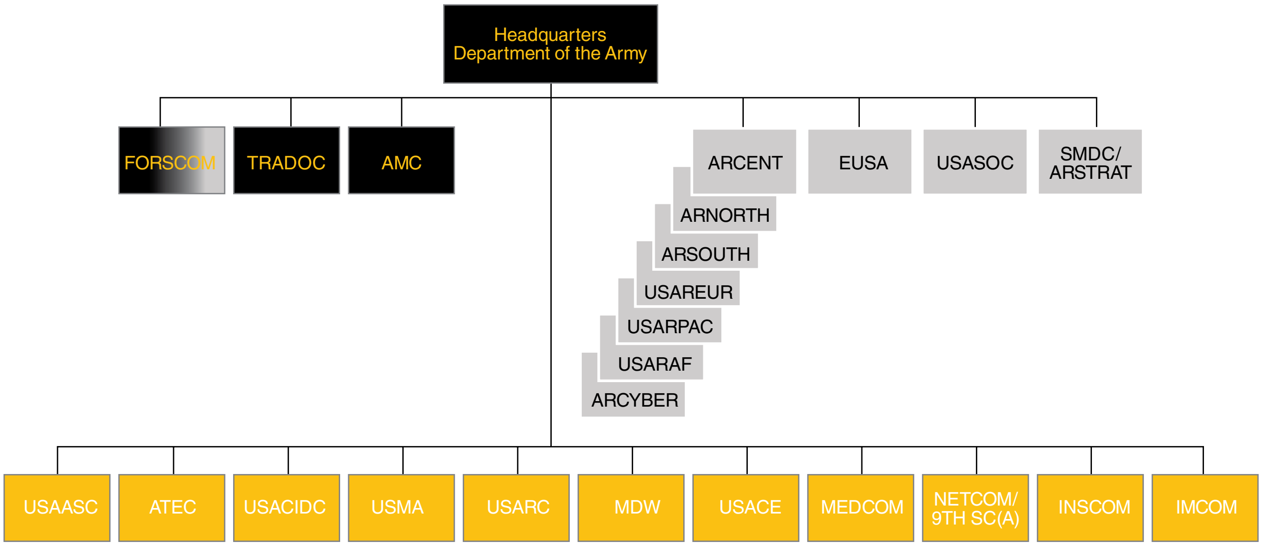


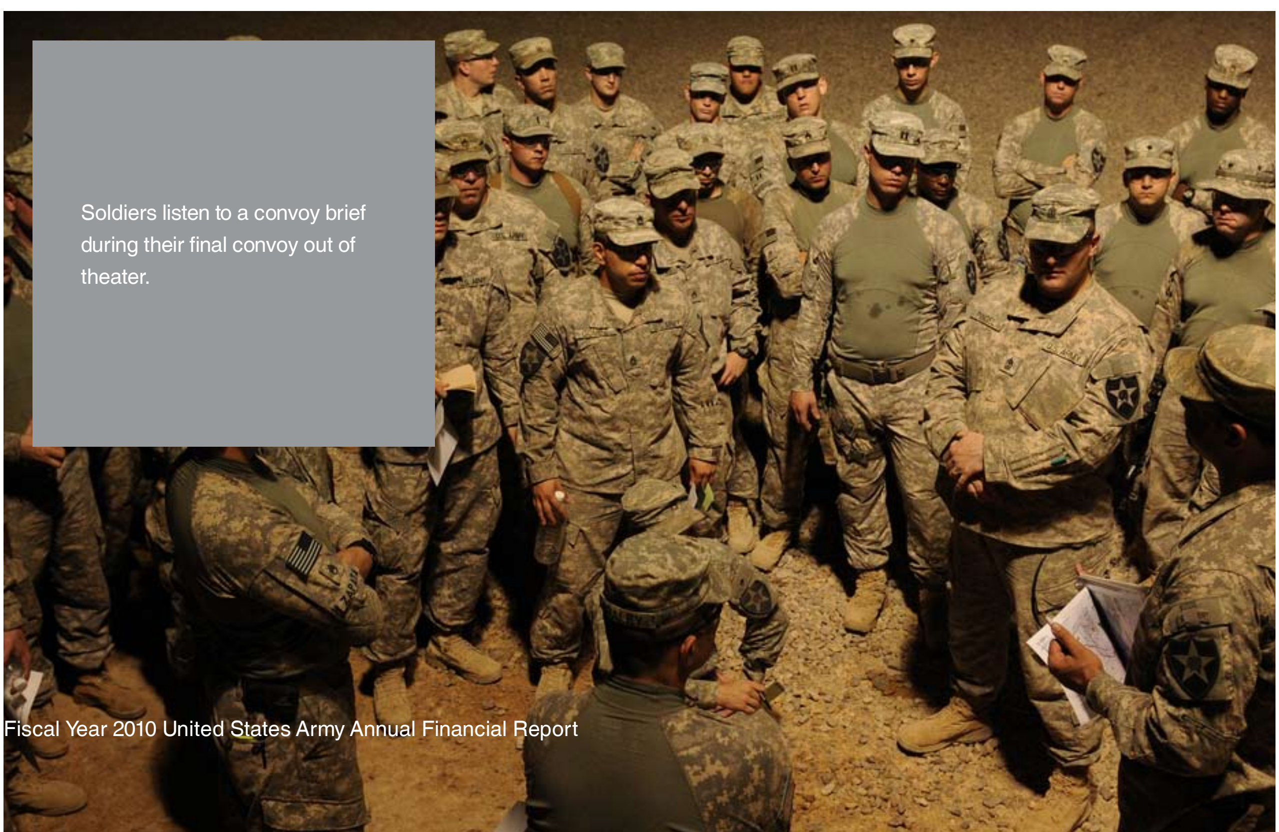
Figure 2 – Army Command Structure



LEGEND

Army Command
ASCC
DRU

FORSCOM	Force Command
TRADOC	Training and Doctrine Command
AMC	Army Materiel Command
ARCENT	Army Central
ARNORTH	Army North
ARSOUTH	Army South
USAREUR	US Army Europe
USARPAC	US Army Pacific
USARAF	US Army Africa
USAASA	US ARmy Acquisition Support Center
ARCYBER	Army Cyber Comman
USACIDC	US Army Criminal Investigation Command
USMA	US Military Academy
USARC	US Army Reserve Command
MDW	Military District of Washington
USACE	US Army Corps of Engineers
MEDCOM	Medical Command
NETCOM/9th SC	Network Command/9th Signal Command
INCOM	Installation Management Command
SMDC	Space and Missile Defense Command
ARSTRAT	Army Strategic Command



Soldiers listen to a convoy brief during their final convoy out of theater.

The operational Army provides the land-power capabilities for the combatant commander. Within the operational Army, the transition continues from a division-centric warfighting force to a brigade-centric force. At the heart of this change is the modularization and standardization of Army brigade combat teams (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 perform day-to-day Army missions. The RC consists of the Army National Guard (ARNG) and the United States Army Reserve (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 235 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 is in the midst of a long war, the longest in our nation's history. More than one million of our country's men and women have deployed to combat; more than 5,700 have sacrificed their lives; and more than 40,000 have been wounded. Our Army continues to be the leader in this war, protecting our national interests while helping others to secure their freedom. After more than nine years of continuous combat, our Army remains out of balance, straining our ability to sustain the all-volunteer force and maintain strategic depth. The stress on our force has not eased in 2010 as the demand on our forces remains high. In 2010, the Army made significant progress to restore balance. For FY 2011, we are funded and poised largely to meet our goals in restoring balance by the end of next year.

The Army must restore balance while simultaneously setting conditions for the future. Our future readiness demands that we continue to modernize, adapt our institutions, and transform Soldier and leader development to ensure our campaign capable force is versatile, expeditionary, agile, lethal, sustainable, and interoperable. Modernization efforts are essential to ensure technological superiority over our potential, diverse adversaries. Adapting our institutions increases efficiency and effectiveness in providing trained and ready forces for combatant commanders. Transforming how we train Soldiers and develop agile and adaptive leaders, based on the lessons we continue to learn in Afghanistan and Iraq, is paramount to the success of full-spectrum operations in dynamic and complex operating environments.

In FY 2010, 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 is what the Army should cost to operate in accordance with established Army Doctrine, fully staffed and equipped. The Army has found these top-down cost estimates valuable in comparing to the bottom-up PPBE results. 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 to renew or replace the assets. The estimate includes only peacetime costs, excluding overseas contingency operations (OCOs). The result is a Cost of the Doctrinal Army of $183.8 billion. We will continue to refine our 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 $1.01 billion in FY 2010 and $1.24 billion in FY 2011. The following sections discuss the four imperatives, goals, and program performance results.

Sustain

The Army must maintain the quality and viability of the all-volunteer force and 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 our ranks. Our goal is for Tier 1 Educational Credential Holders (e.g., those with high school diplomas or above) to comprise no less than 90 percent of new recruits. The Army achieved 98 percent Tier 1 recruits in FY 2010, which is a 3 percent increase from FY 2009 and a 15 percent increase from FY 2008. The overall attrition rates remained virtually unchanged over the last three years. The static rate and overall quality of recruits are positive signs that we are recruiting, training, and retaining a highly qualified force.

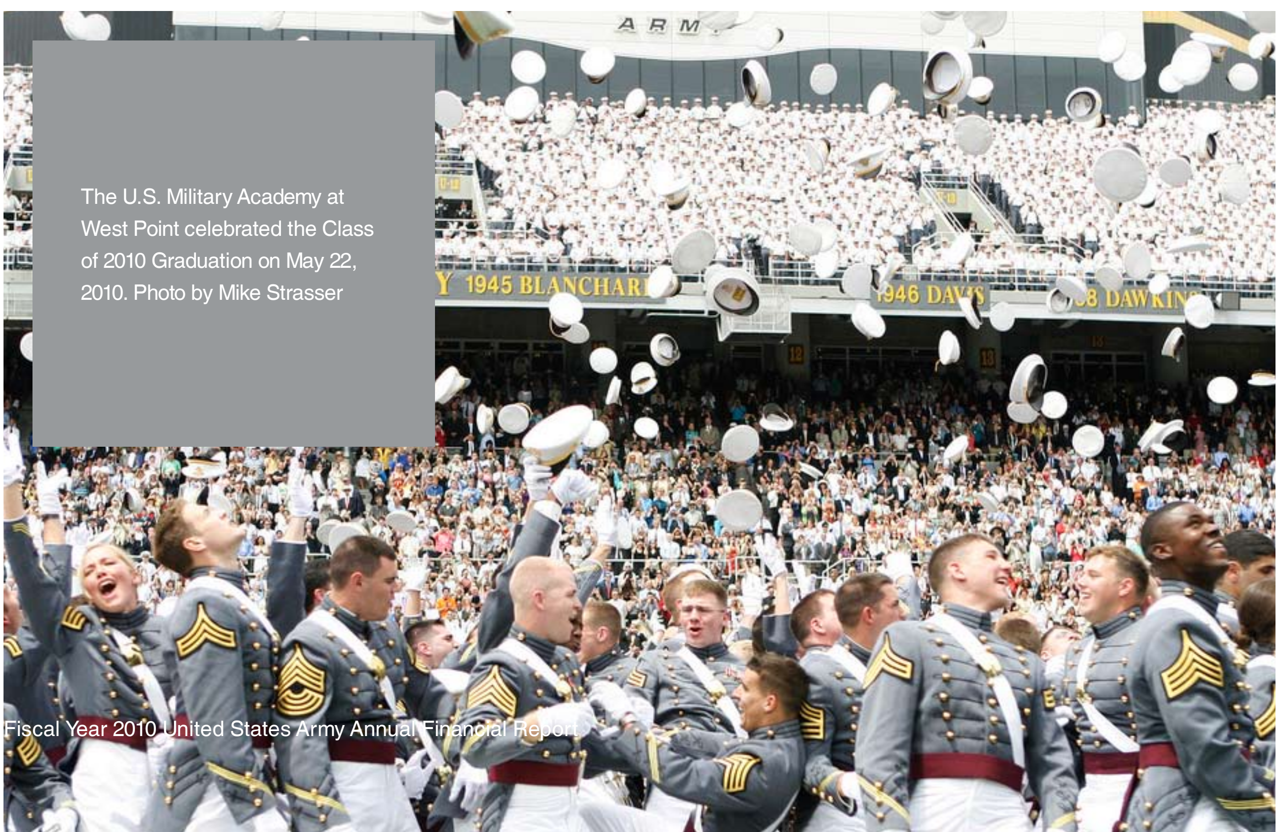
The Army was able to meet its recruiting requirements in all components. The ARNG reduced its FY 2010 recruiting requirement to avoid exceeding end strength limits. The Army adjusted several recruiting initiatives, such as Active

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

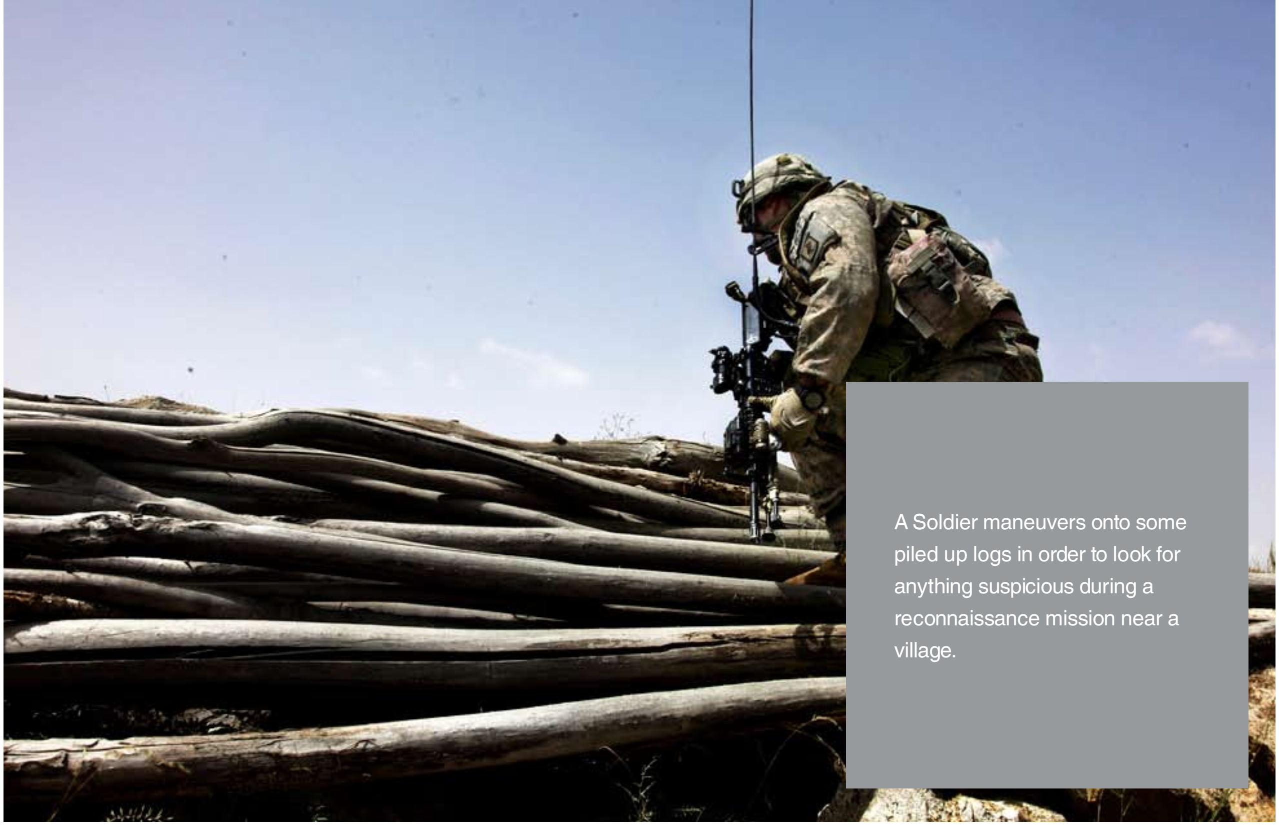
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Tier 1 Goal	90	90	90	90	90
Tier 1 Actual	83	79	83	95	98

Table 2 - Recruiting

	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Goal	FY 2010 Actual
Active Army	80,635	80,407	80,517	70,045	74,500	74,577
Army National Guard	69,042	62,914	62,397	52,014	57,000	57,204
Army Reserve	25,378	27,004	26,945	23,684	26,300	26,795



The U.S. Military Academy at West Point celebrated the Class of 2010 Graduation on May 22, 2010. Photo by Mike Strasser



A Soldier maneuvers onto some piled up logs in order to look for anything suspicious during a reconnaissance mission near a village.

First, the Army Prep School, and the Army Advantage Fund due to the current economy. The expected FY 2011 economy is also expected to yield high-quality recruits.

Due to OCO, several special skills remain in high demand. In FY 2010, the Army continued to maintain 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.

When the president declares a state of national emergency, end-strength limits are waiverable. The Army is trying to grow to relieve stress on the force and increase time between deployments.

Table 3 - Active Component End Strength within 2 Percent

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Goal	502,400	518,400	529,191	552,400	562,400
Congressional Baseline	512,400	518,400	525,400	532,400	562,400
Actual	505,402	522,017	543,645	553,044	566,045
Percent Delta	-1.4%	+0.7%	+3.5%	+3.9%	+0.6%

Performance Measure: The number of Soldiers on active duty at the end of the year; data are as of the end-of-month (EOM), September 2010.

Table 4 - Reserve (ARNG and USAR) End Strength within 2 Percent

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Goal	555,000	550,000	556,300	563,200	563,200
Actual	536,263	542,589	557,375	563,688	567,296
Percent Delta	-3.4%	-1.3%	+0.2%	+0.1%	+0.7%

Performance Measure: The number of Soldiers in the ARNG and the USAR at the EOM, September 2010.

Table 5 - Active and Reserve Component Retention

	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Goal	FY 2010 Actual
Active Army	67,307	62,200	73,913	68,387	60,000	68,082
Army National Guard	41,083	37,578	29,618	36,672	30,472	32,156
Army Reserve	18,223	16,571	16,523	11,163	10,330	10,921

Performance Measure: Measures the number of Soldiers reenlisted during a given FY against the published goals. All components achieved their retention mission for FY 2010 as of the end of September. The Active Army FY 2010 Actual includes Soldiers who extended enlistments for deployment through the Deployment Extension Incentive Pay program.

The Army continues to offer reenlistment bonuses for high-demand specialties. These bonuses, which are a vital tool in keeping Soldiers who possess valuable combat experience, have helped the Army to exceed its retention goal for FY 2010. 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 twenty-first 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

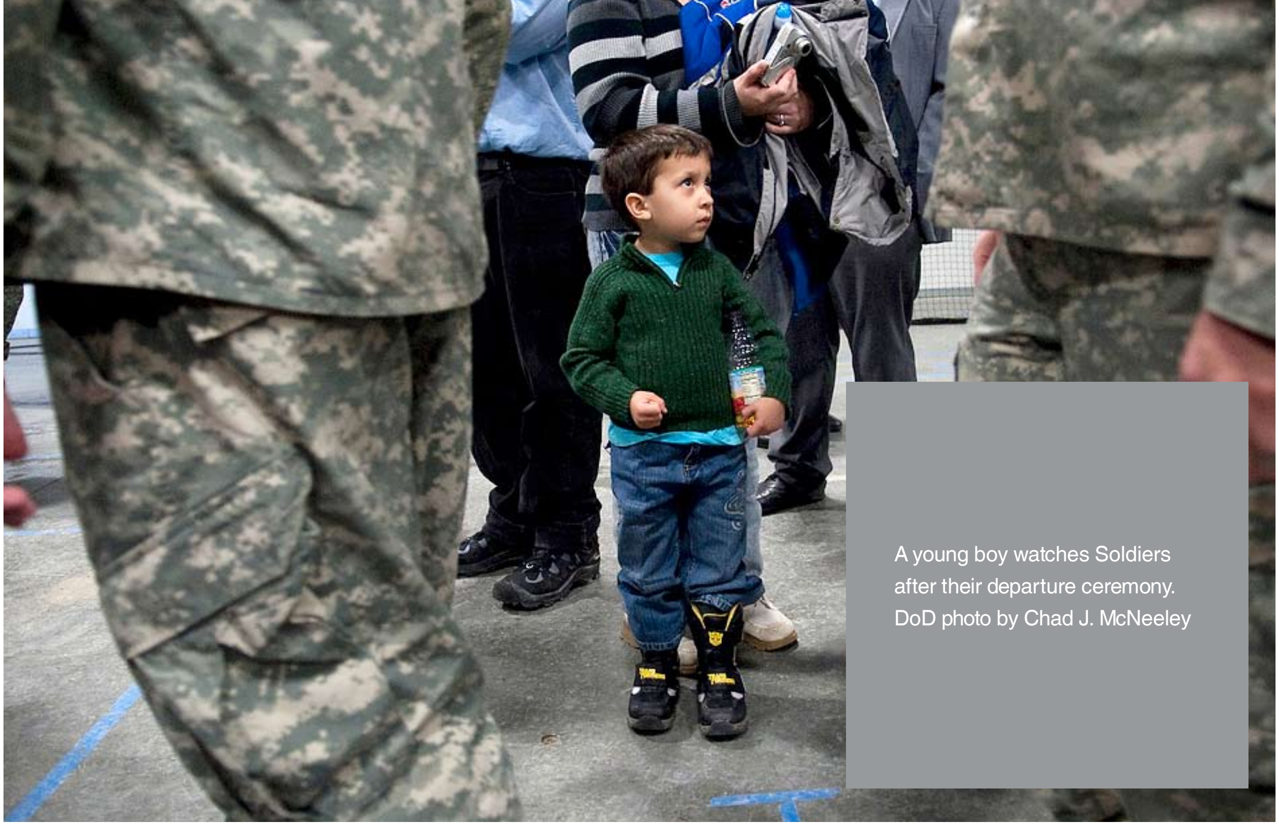
The Army must care for its Soldiers and their Families by providing exceptional programs and services that support their well-being to retain Soldiers and meet the needs of their Families. The Army is committed to improving the quality of life for Active, Guard, and Reserve Soldiers and their Families 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 2010, the Army standardized Army Community Service staffing and programs to meet operational and staffing shortfalls. Other improvements include adding 1,170 family readiness support assistant positions; increasing the number of military family life consultants from 112 (FY 2005) to 620 (FY 2010); completing 56 child development centers providing an additional 8,653 child care spaces and significantly reducing waiting lists at 31 installations; maintaining 100 percent national accreditation of Army child development centers; 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 50 states; providing funding for deployment and Exceptional Family Member Program respite care, 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. The Army dedicated $1.44 billion in FY 2010 to resource the WTC mission with cadre, 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, over 3,600 squad leaders, platoon sergeants, nurse case managers and support staff 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 16,300 Soldiers and veterans annually. The WTC's wounded warrior program cares for approximately 7,400 severely wounded Soldiers and veterans with cases spanning from Post-Traumatic Stress Disorder to double amputees. This population is being supported by 150 advocates in various locations across the country. There are over 1,500 wounded warriors supported at nine CBWTUs that allow them to heal in their home communities while remaining with their families. Approximately 7,400 more wounded warriors are supported at 29 WTU locations across the nation.

To support each warrior in transition's (WT) return to the force or transition to veteran status, the Army developed a systematic framework known as the comprehensive transition plan (CTP). The CTP is a 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 allows wounded, ill, and injured Soldiers to customize their recovery plan, enabling them to set and reach their personal goals. In FY 2010, 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 education and/or obtaining meaningful 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 sports (physical); the inauguration of the world class para-athlete



A young boy watches Soldiers after their departure ceremony. DoD photo by Chad J. McNeeley

competition warrior games (physical/mental); Outward Bound adventure training (physical/mental/spiritual), and other similar programs geared toward the holistic healing and mental and physical fitness of the Army's wounded, ill, and injured.

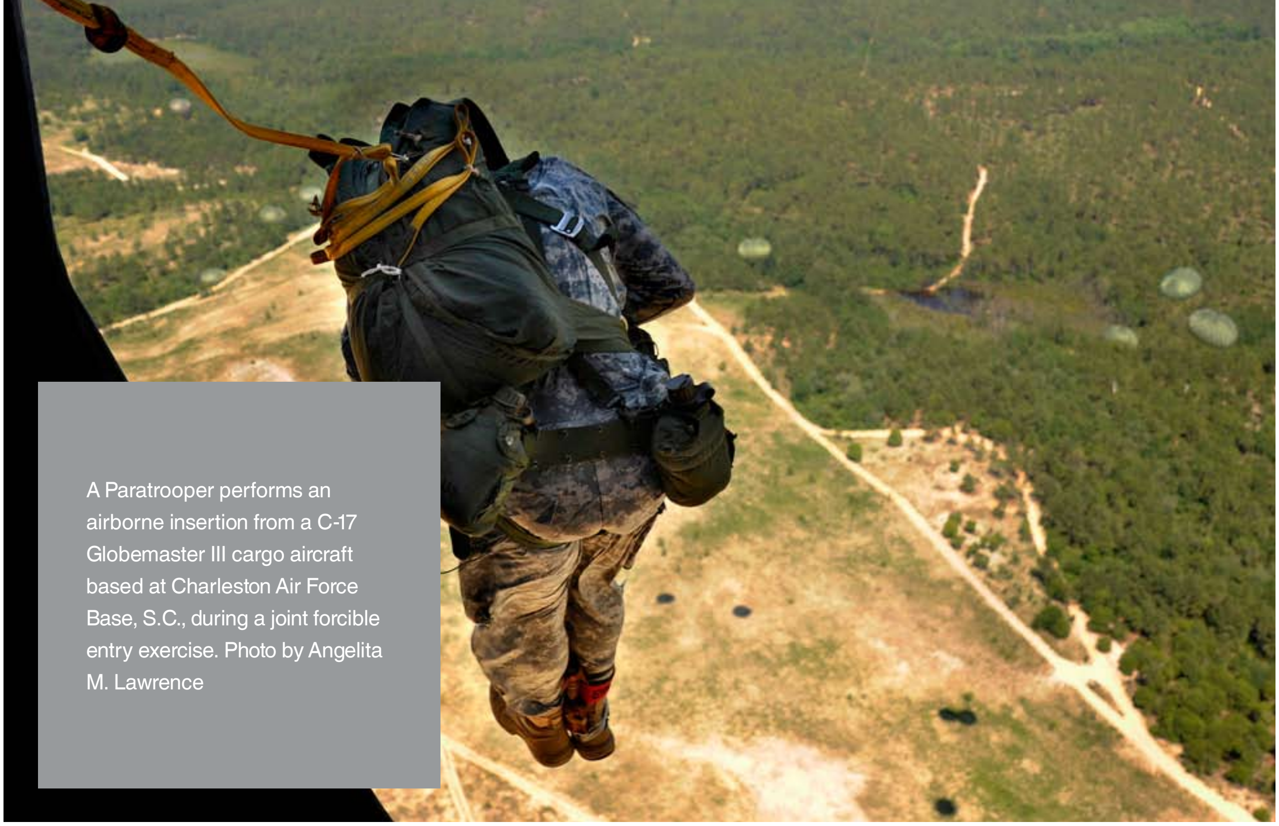
Improving Soldier and Family Housing

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, conventional military construction, demolition, and divestiture of uneconomical and excess units. At most enduring foreign locations, inadequate family housing was eliminated through military construction, demolition, and returning excess housing to host nations. However, at one enduring foreign location (Baumholder, Germany), funding to modernize the remaining inadequate government-controlled family housing inventory will continue through FY 2016. The Army will continue to improve or replace family housing residences worldwide in order to maintain adequate housing and will reflect these improvements in its property records.

In FY 2010, the Army privatized and conveyed 1,006 homes at Aberdeen Proving Ground, Maryland (December 2009). This effort completes the total number of installations scheduled to be privatized at 44, with an end-state inventory of 85,711 homes. At the end of FY 2010, all of the Residential Communities Initiative program will have moved into the portfolio and asset management phase. At the end of September 2010, the Army transferred 1,242 units to Joint Base Elmendorf-Richardson, Alaska; the residences will be subject to U. S. Air Force privatization in early FY 2011.

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 2010, the Army has 134,942 adequate spaces of the 149,919 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 2010, 46,914 spaces have been completed.



A Paratrooper performs an airborne insertion from a C-17 Globemaster III cargo aircraft based at Charleston Air Force Base, S.C., during a joint forcible entry exercise. Photo by Angelita M. Lawrence

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 apartments (1,394 bedrooms) 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 231,000 Soldiers are deployed or forward-stationed in nearly 80 countries overseas. As of the end of September 2010, approximately 566,000 personnel were serving in the AC, and approximately 60,100 RC Soldiers were on mobilization orders.

Repeated deployments affect recruiting and retention and have a very real impact on our 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 troops better for the future.

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
2008 Trained (actual)	81,274	32,132	96,557	16,390	1,953	2,769	993
2009 Trained (actual)	82,773	35,117	108,069	20,666	2,458	2,585	1,093
2010 Trained (interim)	63,915	21,872	83,659	11,772	1,742	2,081	645

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 2010 is counted as a 2010 trained Soldier and is not part of the numbers in the table above. The actual 2009 trained data is as of 4 October 2010. The interim 2010 trained data is as of 4 October 2010.

Table 7 - Ground and Air Operational Tempo (OPTEMPO)

	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Goal	FY 2010 Actual
AC Ground OPTEMPO (Mileage)	729.0	500.0	605.0	421.0	417.0
AC Air OPTEMPO (Flight Hours)	12.8	12.4	10.0	7.0	9.8
ARNG Ground OPTEMPO (Mileage)	127.0	150.0	119.0	110.0	122.0
ARNG Air OPTEMPO (Flight Hours)	10.1	9.7	9.4	6.0	7.9
USAR Ground OPTEMPO (Mileage)	138.0	152.0	146.0	109.0	114.0
USAR Air OPTEMPO (Flight Hours)	9.7	8.1	5.5	5.4	4.9

NOTE: The FY 2007 through FY 2010 data reflect home-station execution only. The FY 2010 amounts are estimates based on execution, as of August 2010

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 and the capacity to surge combat power for major operations. When fully operational, ARFORGEN will enable the Army to schedule effectively and efficiently fully-ready units for deployment, which will:

(1) Reduce uncertainty for Soldiers, Families, and the communities that support installations;

(2) Improve the availability of forces for combatant commanders;

(3) Generate a continuous number of available BCTs, augmented by all required supporting organizations (given appropriate mobilization authority); and

(4) 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 individual warrior tasks and battle drills. Every six months, the Army reviews and updates these tasks and drills to ensure that training is relevant to today's environment.

The Army continues to augment its ability to conduct irregular warfare through several 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.

In FY 2010, the Army continued to provide foreign language training for all four Services and other Department of Defense (DoD) activities conducting basic qualification, intermediate, and advance language training. The Defense Language Institute Foreign Language Center continued to execute the Proficiency Enhancement Program which enabled students to achieve higher levels of language proficiency through smaller instructor-to-student ratios in the classroom. We are also using our foreign language training detachments to assist our professional military education (PME) institutions. Culture topics have been imbedded into training throughout our schools.

Training Units

In FY 2010, 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 2010, they engaged in an appropriate mix of live, virtual, and constructive training. The AC and RC executed a focused and demanding ground and air training plan, which included actual miles driven and hours flown as well as virtual miles and hours associated with the use of simulators. In FY 2010, 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 at Training and Doctrine Command schools by creating realistic conditions that reflect the operational environment. These critical training enablers include 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 allow crews 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 terrain for training. This live training environment will be further enhanced with a Home Station Instrumentation Training System. This system links ranges, urban complexes, and training areas to Battle Command Training Centers (BCTCs), 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 augment 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.

The Army also is modernizing the BCTCs and training simulations to increase leader and battle-staff training and to improve mission-rehearsal capabilities for deploying units. The BCTCs provide units the ability to train and to sustain critical individual/operator and battle-staff skills on digital command, control, communications, computer, intelligence, and surveillance and reconnaissance systems. The BCTCs will also network with other installations and simulations to support joint training exercises. The BCTC 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. The reason for this is to support current operations, address ARFORGEN training and readiness requirements, and enable training for FSO.

Adapting Training

In FY 2010, the Army conducted 22 of 24 planned rotations at the CTCs due to current deployment demands. The CTCs provide realistic joint and combined-arms training that approximates actual combat according to 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. 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 from combat in Afghanistan and Iraq. The training environment emphasizes rapid change and adaptation to current activities and uses improved facilities, civilians on the battlefield, and realistic scenarios. The complex, event-driven scenarios challenge the BCTs to execute multiple, simultaneous missions that include integrated enablers from the Army and the joint community.

The modernization of CTCs lags behind Army modernization. As a result, CTC commanders are using OCO funds to improve their centers and provide conditions that reflect the current operational environment.

Growing Adaptive Leaders

The current operational environment proves that leaders must possess skills beyond those of pure tactical war fighting. It instead demands leaders who have developed skills in such disciplines as irregular warfare, information operations, negotiation, cultural awareness, stability and reconstruction operations, and foreign language proficiency without losing their warfighting focus. The Army initiated and will continue to maintain:

(1) Cultural awareness training and education in all levels of PME;

A Soldier walks the tarmac of the Mosul Airfield at Contingency Operating Base Diamondback, Iraq.

“Military success in this war is tied to the capabilities of our leaders and Soldiers, and we will not fail to prepare them for success.”

General George Casey, Chief of Staff of the Army

Table 8 - Professional Development (AC Schools Only)

	Warrior Leader Course	Advanced Leader Course	Senior Leader Course	Sergeants Major Course Resident and Distance Learning	Intermediate Level Education Resident, Common Core	Senior Service College Resident and Distance Learning
2008 Trained (actual)	27,272	12,087	10,242	592/780	957/739	443/389
2009 Trained (actual)	28,321	38,496	13,852	594/495	1,556/903	257/247
2010 Trained (interim)	30,188	24,016	11,082	0/601	0/631	263/302

NOTES: This data represents active Army, ARNG, and USAR students graduating from active component schools. The 2010 resident Sergeants Major Course does not graduate (328 inputs) until May 2011. The 2010 resident intermediate level education classes do not graduate (1,439 inputs) until December 2010 and June 2011. The 2010 resident SSC classes do not graduate (966 inputs) until June 2011. All data is based on start date (i.e., if a class starts in FY 2010 and graduates in FY 2011, it is counted as FY 2010 data). Actual 2009 trained data is as of 4 October 2010. Interim 2010 trained data is as of 4 October 2010.

(2) Expertise in irregular warfare and FSOs for Soldiers and leaders from the tactical to strategic level, emphasizing multinational, interagency, and joint operations; and

(3) Language training and cultural education throughout the Army, in schools, through self-development, online, and in training at CTCs.

Due to the current high operational demand, many of our leaders are unable to attend their 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 use of distributed learning

Table 9 - Civilian Professional Development			
	Army War College	Industrial College of the Armed Forces	Civilian Education System
2010 Inputs	12	9	15,604

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 and will begin reducing the current backlog.

The Civilian Education System (CES) will meet the Secretary of the Army's mandate that leaders of tomorrow be "adaptable and multi-skilled." This requires a new paradigm and 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 Army is keenly aware of the valuable contributions of its 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. To accomplish this, the Civilian Leader Development Program has been revamped into a system that is similar to the Military Leader Development Program.

The CES uses leadership competencies derived from those set by the Office of Personnel Management and those identified by the Center for Army Leadership. These courses provide leader development training and education that support civilian leaders' career path requirements and professional development, and promote lifelong learning and self-development.

During FY 2010, 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, Holdees, 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. Funding from the CTSA enables the losing command immediately to backfill against the position and mitigate disruptions to the organization mission.

Looking forward to FY 2011 and beyond, the CTSA will expand to include Army civilians enrolled in the Defense Senior Leader Development Program. Several new initiatives will be implemented to provide a more robust training program that improves access for all Army civilians. They include but are not limited to the following:

(1) Establish an Army-wide civilian training management system;

(2) Establish leader competency-based training in conjunction with the Army competency management system;

(3) Establish fellowships and Joint Interagency International and Multinational broadening assignments for senior Army civilians; and

(4) Increase outreach and communication to the Army Civilian Corps to increase CES participation.

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's Soldiers and commanders rely on and deserve the very best equipment that can be provided, and they play a large role in setting Army requirements. Since FY 2002, the Army has shifted resources in response to the many lessons learned from Operations Iraqi Freedom and Enduring Freedom. Force protection, communications, surveillance, and weapon systems programs were accelerated to meet Soldiers' urgent needs. To modernize the force, the Army invested in a variety of new equipment to replace the outdated and expensive-to-maintain equipment, including trucks and aircraft. For example, the Army plans to complete the divestiture of all M35 series trucks (2.5-ton) by the end of FY 2011 and replace all M809 series trucks (5-ton) with 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 body armor. 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 helicopters. There is also the new Ground Combat Vehicle program. The ground combat vehicle effort will initiate the modernization of the Army's fighting vehicles.

The Rapid Fielding Initiative (RFI) continues to enhance warfighting capabilities through modernized technology to address the Soldier's immediate requirements. Twenty-four BCTs and numerous other OCO-deploying units in the ARFORGEN operating cycle comprising 240,806 Soldiers were fielded RFI equipment during FY 2010.

The Rapid Equipping Force (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 in Afghanistan and Iraq to interact with deployed units to identify, equip, and evaluate their requirements and capability shortfalls. In FY 2010, the REF introduced over 845 different types of equipment, and provided more than 45,709 individual equipment items to deployed Soldiers and units in the past 12 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 weapons 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 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 2010, Reset was highly successful, despite a dynamic strategic environment. For the fiscal year, the Army received $10.9 billion in OCO funding from the Congress for Reset. The Army aggressively executed this funding to restore units' equipment readiness. The Army obligated 37 percent of procurement funding within eight months of receipt, while Operation and Maintenance, Army, obligations occur throughout the fiscal year as equipment returns. The Army completed the Reset of 25 brigades worth of equipment during the fiscal year and has 18 more brigades worth of equipment in progress.

A fully-funded Army Reset program ensures that equipment is operationally ready for use by combat forces. Reset funding should match Reset requirements and be provided in a timely manner at the beginning of each fiscal year to promote cost efficiencies and process effectiveness, while ensuring the timely return of equipment to support training and future deployments.

Drawdown in Iraq

The drawdown in Iraq is the largest logistics operation since World War II. It is important to remember that we are still engaged in Iraq and we do not want to take equipment that is essential for operations in Iraq until the operational commanders determine that the equipment is no longer needed to complete their missions.

While simultaneously supporting the warfighter, the Army is successfully executing coordinated and synchronized plans and processes for the retrograde and redistribution of equipment from Iraq under a responsible drawdown. All Phase IV-defined metrics for the responsible drawdown of forces and equipment out of Iraq were achieved prior to the change of mission, on 31 August 2010, to Operation New Dawn.

Some United States Forces-Iraq and Third Army/Army Central Command key accomplishments are as follows:

1. Closed/transferred 413 bases (from 505 to 92).
2. Reduced boots on ground by over 60 percent, achieving the 50,000 U.S. forces mandate (while downsizing contractor support by over 24 percent).
3. Retrograded over 1.1 million pieces of equipment out of Iraq to meet other theater and Army-wide requirements.
4. Reduced the number of vehicles by over 25,000 to 15,617, exceeding the 31 August 2010 goal of 16,500.
5. Shipped out 41,000 supply containers.
6. Reduced the supply support activities footprint by 68 percent, downsizing from 22 to 7.

The Army continues to work with U.S. Forces-Iraq to identify equipment for transfer that will enable the Iraqi Security Forces to reach minimum essential capabilities. Such equipment includes wheeled and tracked vehicles, weapons, ammunition, and repair parts. These items will be transferred to the Government of Iraq through various existing 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 warfighter functions across the Army. The Army continues to implement the Single Army Logistics Enterprise (SALE) as the Army's overarching logistics business and information technology framework providing Army-wide logistics efficiency gains, interoperability, traceability, accountability, and transparency. The Army continues a 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), and the Army Enterprise Systems Integration Program (formerly Product Lifecycle Management Plus).

The following are key accomplishments during FY 2010:

(1) The GCSS rolled out release 1.1 at the National Training Center in July 2010. Operational assessment continues to assess maintenance, supply, property book, finance, and material master data management and expanded hub services functionality.

(2) LMP finished rolling out deployment 2 at the Aviation and the Missile Command and deployment 3 roll-out at Tank and Automotive Command began in October 2010.

(3) The GCSS received Milestone B approval from the Under Secretary of Defense (Acquisition, Technology and Logistics) and began developing maintenance, ammunition, and property-book functionality.

(4) Fielding of bridging systems to the ARNG was almost 100 percent complete by the end of FY 2010.

The SALE initiatives provide a more effective support for Soldiers deployed overseas with the tactical Army, provide logistics management practices that are in line with commercial best business practices, and enable 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 and General Fund Enterprise Business System (GFEBS) financial solutions for the Army.

In FY 2010, more than 79,000 items were repaired at depot-level facilities. This includes, for example, more than 2,300 tracked vehicles (e.g., Abrams tanks, Bradleys, and M88 recovery vehicles), more than 2,500 tactical-wheeled vehicles (e.g., high-mobility, multipurpose, wheeled vehicles (HMMWVs) and medium and heavy tactical vehicles), and more than 15,700 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 over 490,000 items including small arms, night vision devices, and communications electronics, as well as chemical and biological gear. Furthermore, our Aviation Special Technical Inspection and Repair program restored more than 400 fixed and rotary wing aircraft to combat capability.

Table 10 - BCT Transformation Summary

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

Transform

To transform, the Army must continuously improve its ability to meet the combatant commanders' needs in a changing twenty-first century security environment. Transformation is a holistic effort to adapt how we fight, train, modernize, develop leaders, base our forces, and support our 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 that 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:

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

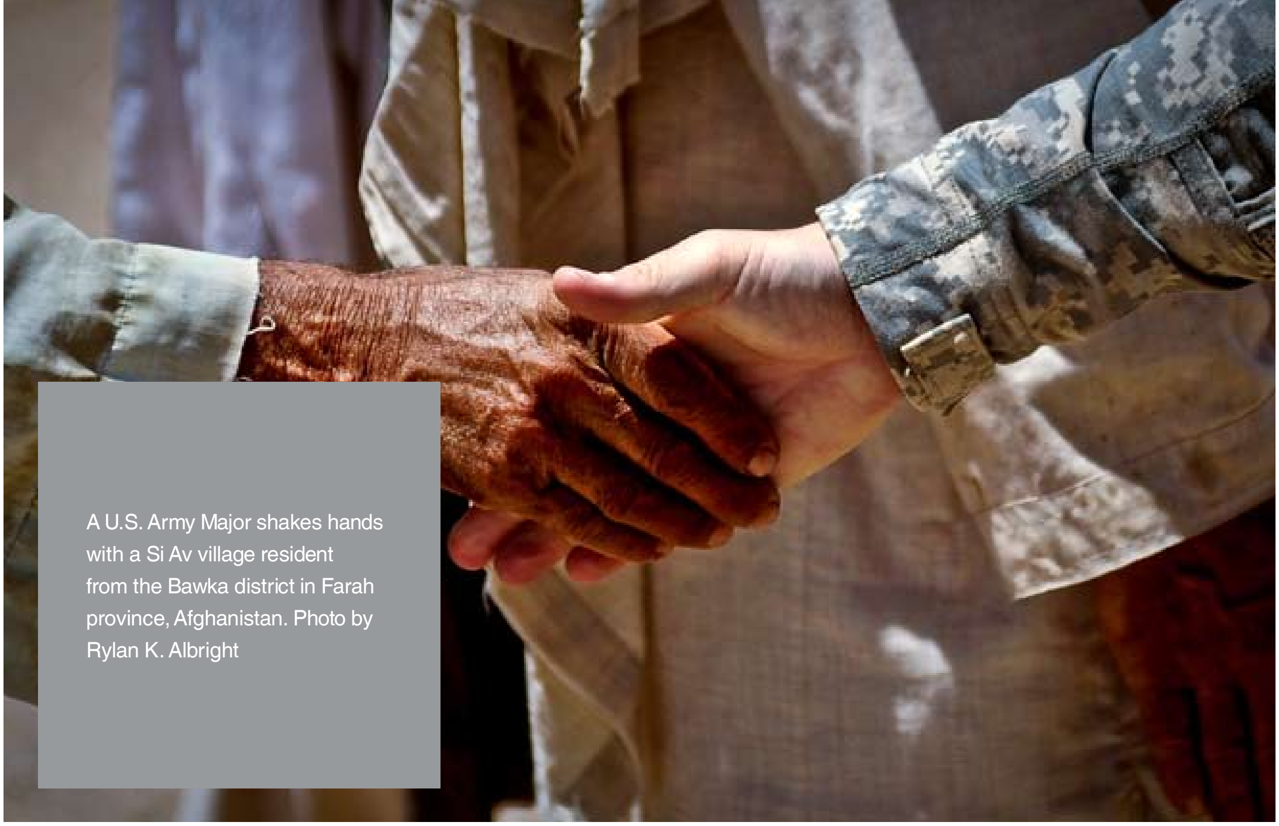
Of the 45 AC maneuver brigades programmed for the end of FY 2010, the Army finished converting 42 brigades to the modular design and was in the process of converting one to a heavy BCT. The conversion process can take up to 12 months for an AC-heavy BCT and infantry BCT, and as long as 24 months for a Stryker BCT.

The ARNG began transforming in FY 2005 with an accelerated plan allowing early reorganization, manning, and training under the new BCT designs. Transformation for an ARNG BCT can take as long as 48 months. At the end of FY 2010, the ARNG had fully converted 14 BCTs and was in the process of transforming an additional 14 BCTs. The ARNG is scheduled to complete 10 of the transforming BCTs by the end of FY 2011.

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

Utilizing the 2010 Army Modernization Strategy as a baseline, the Army will provide relevant capabilities that are required today and into the future. The Army intends to deliver the right capabilities to Soldiers and units at the best value given available resources. It includes the flexibility to



A U.S. Army Major shakes hands with a Si Av village resident from the Bawka district in Farah province, Afghanistan. Photo by Rylan K. Albright

"We're ultimately working toward an agile, globally responsive Army that's enhanced by modern networks, surveillance sensors, precision weapons and platforms that are lighter, less logistics-dependent and less manpower-intensive. It's a truly 21st century force."

General George Casey, Chief of Staff of the Army

adapt to the rapidly-changing operational environment and embraces both rapid and deliberative acquisition/equipping as a means to ensure all relevant capabilities are delivered. Key to this effort is validating requirements and disciplining requirements growth, clearly defining capability gaps, establishing a clear priority of needs, routinely reassessing the value of systems in development and in the field, and remaining flexible enough to take advantage of technological advances and emerging needs.

LandWarNet Operational Capabilities

To support an expeditionary Army, the Army is fundamentally changing and adapting its institutions, including LandWarNet (LWN) the Army's portion of the Global Information Grid. By 2017, using the Global Network Enterprise Construct (GNEC), the Army will transform LWN to a centralized, more secure, operational, and sustainable network capable of supporting an expeditionary Army in this era of persistent conflict. The GNEC is best described as the focused, time-phased, resource-sensitive, Army-wide strategy to transition LWN from many loosely affiliated independent networks into a truly global capability that functions as a single integrated enterprise. In response to today's operational complexity and the growing demand by the Army and its partners to get the right information at the right place at the right time, GNEC is concentrated on network access, utilization, security and control.

Developing the Global Network Infrastructure

The LWN transformation must be executed largely within existing programmed resources; duplication and inefficiencies must be eliminated. Over the past year, fidelity has been brought to the GNEC strategy with detailed plans for adopting industry standards and protocols; pursing data center consolidation; utilizing common operational environments for different echelons to accelerate software application development; improving global network operations; continuing operational evaluations to define and refine the network doctrine, tactics, techniques, and procedures; and standing up Army Forces Cyber Command to oversee the operation and defense of Army networks.

Recently, the focus has been on Army data centers and enterprise services. The Army Data Center Consolidation Plan (ADCCP) 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 ADCCP is a critical element of the transformation of the Army's network. Enterprise Services include enterprise service desk, enterprise e-mail, and enterprise Active Directory. All three are inextricably linked to GNEC success and will continue to evolve through an iterative process and will require regular updates based on changing circumstances.

Developing Force Generation Platforms in Support of Army Force Generation

Seven deployment infrastructure projects were executed or initiated in FY 2010. These projects support the "Flagships of Readiness" concept.

The first project, a rail line bypass project at Fort Riley, is a holdover from FY 2009 and provides a mainline bypass for commercial trains so that recently increased commercial rail traffic does not interfere with rail operations at Fort Riley. This project improves rail out-loading from 157 railcars per day to potentially 316 railcars per day and was completed in July 2010.

The second 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 will be done by constructing five additional spurs to handle the growth at Fort Carson as documented in the Grow the Army stationing plan. This second project will also include 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 will begin in November 2010, with a scheduled completion of November 2011.

The next three (of the seven) 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, which improves security for equipment and personnel during deployment and also helps protect equipment from damage. The contract has been awarded and construction will begin in January 2011, with completion in January 2012. The second of these three projects upgrade rail capabilities from 40 railcars per day to 60 railcars per day to meet rail requirements fully. Construction for this project begins around mid-October 2010, with a completion date of mid-December 2011. The third of these projects expands the pier and hardstand to be able adequately to position larger roll-on/roll-off and container ships. The contract for this project has been awarded with a start date of April 2011 and a completion date of April 2012.

The sixth project constructs a consolidated multi-class munitions handling, storage, and shipping facility at McAlester Army Ammunition Plant (AAP). This 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 scheduled to begin in December 2010, with a December 2011 completion.

The seventh project constructs 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. Construction is 15 percent complete, with a scheduled completion by the end of July 2011.

Implementing Base Realignment and Closure / Restationing Forces

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

Under BRAC 2005, the Army closes 13 AC installations, 387 RC installations, and 8 leased facilities. Additionally, BRAC 2005 realigns 53 installations and/or functions and enables the Army to establish multi-component headquarters, joint and Army training centers of excellence (COEs), joint bases, joint power projection platforms, a Human Resources COE, and joint technical and research facilities. To accommodate the relocating units from the closing RC installations, BRAC 2005 authorizes 125 new multi-component armed forces reserve centers and realigns the USAR command and control structure.

This BRAC 2005 is more than three times larger than the four previous Army BRAC rounds combined. The Army is in the fifth year of the six-year BRAC 2005 execution window and continues aggressively to implement its $18 billion portion (53 percent) of the overall DoD BRAC Program.

The Army developed 102 business plans to define further the BRAC 2005 Commission recommendations, including more than 1,100 actions. These actions represent the requirements for achieving full implementation. A majority of the BRAC 2005 actions are dependent on construction at gaining installations with 75 percent of the total resources dedicated to funding 330 major construction projects valued at $13.0 billion. In FY 2010, the Army awarded 85 construction projects valued at $1.7 billion, adding to the 240 already awarded in FYs 2006-2009. The Army will award the last five BRAC 2005 construction projects in FY 2011. To date, the Army has completed 113 of these projects. The Army also completed 185 National Environmental Policy Act actions, closed 6 active installations and 37 USAR centers, and disposed of 19,047 excess acres from BRAC 2005 properties.

The program is on track to meet the September 2011 deadline. With over 200 construction projects still to be completed and over 400 unit/activity realignments remaining, successful execution of BRAC 2005 remains an Army leadership priority.

In-sourcing program

Contracted services comprise a growing proportion of the Army's top line. There is a consensus at the strategic level that the Army's reliance on contractors is out-of-balance. Namely, there are concerns that we may have contracted inherently governmental functions and have eroded organic intellectual capital required for proper oversight of contracted work.

In response to this challenge, the Army established a contractor inventory review process to identify appropriate in-sourcing candidates that was endorsed by the Congress and set the standard for other Defense Components to follow. To date, this process identified about 41,000 positions with tasks closely associated with inherently governmental functions. The Army planned to in-source 7,162 positions in FY 2010, and as of 30 September 2010 had filled 5,930 of those positions. It is expected that the remainder will be filled by the end of the calendar year. The Army is programmed to in-source 11,084 positions from FY 2011 through FY 2015. Most of these functions are closely associated with inspector general functions and 3,988 are acquisition positions. This exceeds the Secretary of Defense goals for all years from FYs 2010-2015.

Implementing Business Transformation Initiatives

The 2008 National Defense Authorization Act established the position of the Chief Management Officer and directed the Under Secretary of the Army as the primary manager of business operations within the Army. In this capacity, the Chief Management Officer focuses on managing and improving business processes. As mandated in the 2009 Duncan Hunter National Defense Authorization Act, the Secretary of the Army, acting through the Chief Management Officer, is responsible for carrying out an initiative for the business transformation of the Army. The objectives of the business transformation initiative are to develop a comprehensive business transformation plan to achieve an integrated management system for Army business operations; develop business systems architecture and transition plan encompassing end-to-end business processes; and implement the business transformation plan and business systems architecture and transition plan.

To assist the Chief Management Officer in executing the requirements of the 2009 National Defense Authorization Act, the Secretary of the Army established the Office of Business Transformation. The primary role of the Office of Business Transformation is to engage and assist the Army actively to achieving an integrated management system.

The purpose of the integrated management system is to help leadership make better resource-informed decisions resulting in "Readiness at Best Value" rather than "Readiness at Any Cost." Much more than just measuring performance, the system focuses the entire Army toward results.

The Army chose Lean Six Sigma (LSS) as its continuous process improvement (CPI) methodology. The Army selected LSS because its methodology is applicable to the vast majority of Army process improvement opportunities. The LSS process also provides a common business lexicon that both increases the business acumen of the workforce and creates a common framework in which to discuss, report, and approach process improvement. Progress in FY 2010 validated the Army's approach to CPI. The Army now has trained over 7,800 military personnel (AC, RC and Department of the Army civilians). Army organizations within the Continental U.S. (FY 2010) and Third Army/Army Central Command outside the Continental U.S. (FYs 2009 and 2010) have completed process improvements with a combined return on investment of $1.0 billion in cost savings and $7.1 billion in cost avoidance.

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 transforms business processes to enable better-informed decisions, better manage resources, and better support 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 and provides real-time visibility of data for the active Army, the ARNG, and the USAR. This solution will enable the Army to move to a cost and performance culture. During FY 2010, the Army implemented GFEBS functionality with users at Fort Bragg, North Carolina; Fort Gordon and Fort McPherson, Georgia; Fort Knox and Fort Campbell, Kentucky; Fort Polk, Louisiana; Fort Rucker, Alabama; Fort Drum, New York; and the ARNG, Kentucky. Additionally, GFEBS implemented headquarters functionality with the Army Medical Command, Army Network Enterprise Technology Command, National Guard Bureau, and the USAR. The GFEBS remains on schedule and on budget to be completed in 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 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 137 students in the CMCC in FY 2010, achieving 91 percent of its training goal. The Army also developed a four-hour cost-benefit analysis (CBA) training program of instruction in February 2010 to enable resource-informed decision making within HQDA. Over 1,000 individuals from HQDA completed the CBA training in FY 2010. Additionally, the Army provided Cost Management 101 training, a program of instruction designed to educate GFEBS sites on cost management principles in advance of system deployment, to over 1,500 individuals in FY 2010.

Conclusion

During the last 12 months, the Army has successfully transitioned from Operation Iraqi Freedom to Operation New Dawn, while completing one of the largest wartime retrogrades in our nation's history. At the same time, the Army surged troops into Afghanistan in support of a new direction in that vital theater. Meanwhile, the Army has nearly completed transformation of the operational force from a division-centric to a brigade-centric one and made significant progress in restoring balance. Despite these efforts, much remains to be done. An area ripe for opportunities to utilize precious taxpayer dollars responsibly can be found within the generating force. Efforts have begun to develop a system of plans to transform and improve business practices to establish a generating force that is sufficiently agile to create and support Soldiers who can operate with comfort and confidence in an environment of uncertainty. The Army has also begun a review and analysis of where its money goes and the value it gets in return. This effort is critical given America's difficult economic circumstances that will cause harsher scrutiny on military spending in the foreseeable future. To support these efforts, the Army's financial managers are balancing resources among myriad competing, but critical, demands.

The Army continues to implement its four imperatives to restore balance. As we reach a point by the end of 2011, when we will have a more sustainable deployment tempo for our forces, the Army faces a key challenge in maintaining its combat edge while reconstituting the force for other missions and dealing with the continuing impacts of war. Our focus will be building resilience in the force, refining our understanding of full-spectrum operations, reducing the backlog of PME programs, revitalizing home-station training programs, and undertaking some basic recovery after a decade of combat and transformation. The continuing challenge is to establish balance between current readiness and future investments, while keeping risk at moderate levels as the Army supports its global commitments and maintains programs that improve the quality of life for our Soldiers and their Families. The resources and support provided in FY 2011 and beyond will determine whether the Army can continue to accomplish its mission, maintain momentum of the key programs, and prepare to succeed in whatever tasks the Army faces today and tomorrow.

Everything the Army does is directly tied to enabling Soldiers to continue to fight and win the nation's wars. We owe our Soldiers the very best, and the financial management community remains dedicated to serving them as they serve the nation.

U.S. Army Soldiers gather around a fire to stay warm during an operation in Helmand province, Afghanistan. Photo by Efren Lopez

Analysis of Financial Statements and Stewardship Information

As discussed in the accompanying independent auditor's report, longstanding financial management challenges prevent the Army from producing auditable financial statements for the Army General Fund (GF) or the Army Working Capital Fund (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 General Fund Financial Results and Balance Sheet

The Army GF balance sheet includes total assets that exceed $379.3 billion. Two asset categories, Fund Balance with Treasury (FBWT) and General Property, Plant and Equipment (PP&E), comprise 88 percent of total assets, with values of $166.9 billion and $165.0 billion, respectively.

Figure 3 - Composition of General Fund Assets and Liabilities

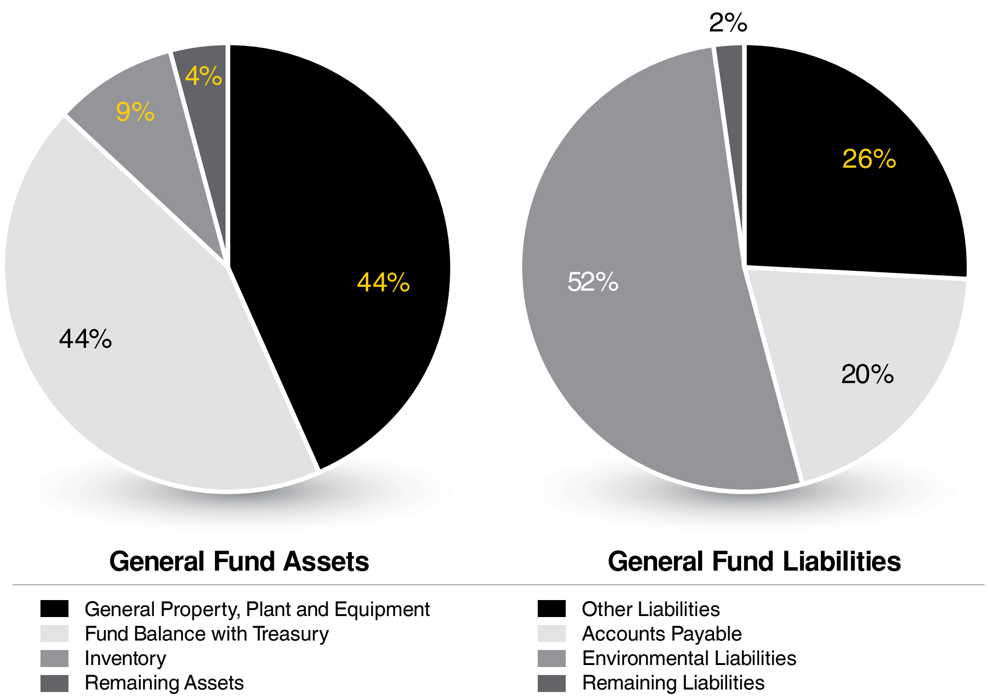


Table 11 - Select General Fund Assets and Liabilities

(Amounts in billions)

Asset Type	FY 2010	FY 2009 Restated	Change	Percentage of FY 2010 Assets
Fund Balance with Treasury	$166.9	$163.4	$3.5	44%
General Property, Plant and Equipment	165.0	128.9	36.1	44%
Inventory	34.1	34.5	(0.4)	9%
Remaining Assets	13.3	12.0	1.3	4%
Total Assets	**$379.3**	**$338.8**	**$40.5**	**100%**

Liability Type	FY 2010	FY 2009 Restated	Change	Percentage of FY 2010 Liabilities
Environmental Liabilities	$33.4	$37.4	($4.0)	52%
Accounts Payable	12.6	15.8	(3.2)	20%
Other Liabilities	16.5	15.5	1.0	26%
Remaining Liabilities	1.3	1.3	0.0	2%
Total Liabilities	**$63.8**	**$70.0**	**($6.2)**	**100%**

Liabilities primarily consist of $33.4 billion in Environmental Liabilities and $12.6 billion in Accounts Payable.

The General PP&E account increased $36.1 billion due to additions of military equipment (e.g., MRAP, HMMV, Stryker vehicles).

Army Working Capital Fund 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 U.S.C. § 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 7 to 10 days of operational disbursements, plus adequate cash to meet 6 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 2010 with a cash balance of $1,808.1 million, $641.9 million above the 10-day cash level of $1,166.2 million. The Army WCF cash balance will return to a balance closer to the 10-day level when operations in Afghanistan and Iraq 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 offset by transfers out. The Army WCF received

Table 12 - Army Working Capital Fund Cash

Cash (Amounts in millions)	FY 2008	FY 2009	FY 2010
Collections	$16,352.9	$16,676.7	$16,315.7
Disbursements	15,934.9	17,421.0	15,626.9
Net Outlay	$418.0	($744.3)	$688.8
Appropriations Received	1,324.4	545.4	50.0
Transfers Out	1,450.0	1,023.0	280.0
Net Cash Transactions	$292.4	($1,221.9)	$458.7
Cash Balance	$2,571.4	$1,349.5	$1,808.1

Amounts may not sum due to rounding.

Table 13 - Net and Accumulated Operating Results by Activity Group

Operating Results (Amounts in millions)	FY 2008	FY 2009	FY 2010
Industrial Operations NOR	$158.8	($31.6)	$57.3
Industrial Operations AOR*	$481.5	$462.6	$525.6
Supply Management NOR	$411.0	$516.5	($125.1)
Supply Management AOR	($56.4)	$460.1	$335.0

** Includes prior-period AOR adjustments.*

Table 14 - Army Working Capital Fund Carryover			
(Amounts in millions)	FY 2008	FY 2009	FY 2010
New Orders	$6,990.6	$6,393.1	$6,196.5
Allowable Carryover	$3,653.7	$3,327.3	Note 1
Carryover	$2,862.1	$3,146.0	Note 1

NOTE 1: Amounts not available at time of printing

direct appropriations for war reserve materiel, inventory augmentation, replacement of inventory combat losses, and higher fuel costs. Transfers were made to several appropriations in support of urgent, unfunded combat requirements. At some point, part or all of the transfers will require repayment to ensure that the fund has sufficient cash on hand.

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.

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 2010 to be less than the maximum allowable amount.

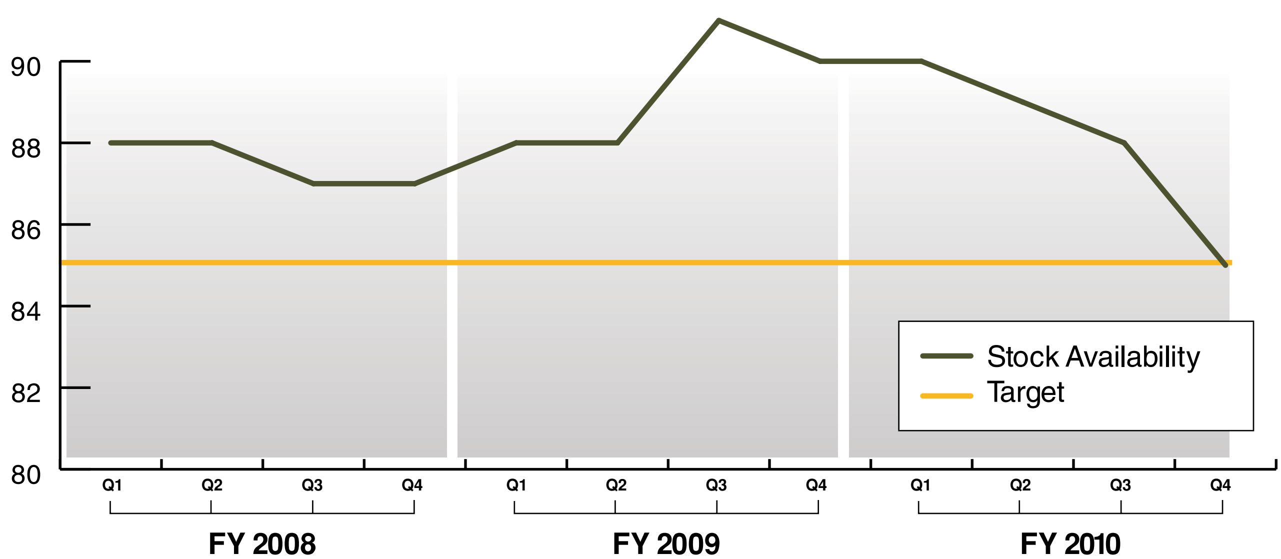
Stock Availability

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 FY 2010 and has done so since FY 2008.

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 Iraq and Afghanistan place tremendous demands on equipment. As a result of higher operating

Figure 4 - Stock Availability (percentage)



tempo, rough desert environments, and limited depot maintenance available in theater, operational fleets age at a far greater pace than expected. To counter this, the Army established a reset program designed to reverse the effects of combat stress on equipment and to prepare equipment for future missions.

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

The aircraft and radar increases shown in FY 2010 of Table 15 are due to increases in production requirements. Track shoe production levels increased from FY 2009 to FY 2010 due to increases in expected operational levels for the M1 and Bradley fighting vehicles.

Army Working Capital Fund Balance Sheet

The Army WCF balance sheet shows assets exceeding $26.4 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 workers' compensation.

Table 15 - Annual Production Throughput[1]

	Pre-War	FY 2008	FY 2009	FY 2010
Aircraft	4	82	70	74
Helicopter Engines	<200	781	817	468
Bradleys	144	1,038	1,384	758
HMMWVs	<100	9,471	9,813	6,189
Firefinder Radars	<1	50	30	61
Track Shoes	120,000	250,660	110,293	120,667

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

Figure 5 - Army Working Capital Fund Assets and Liabilities

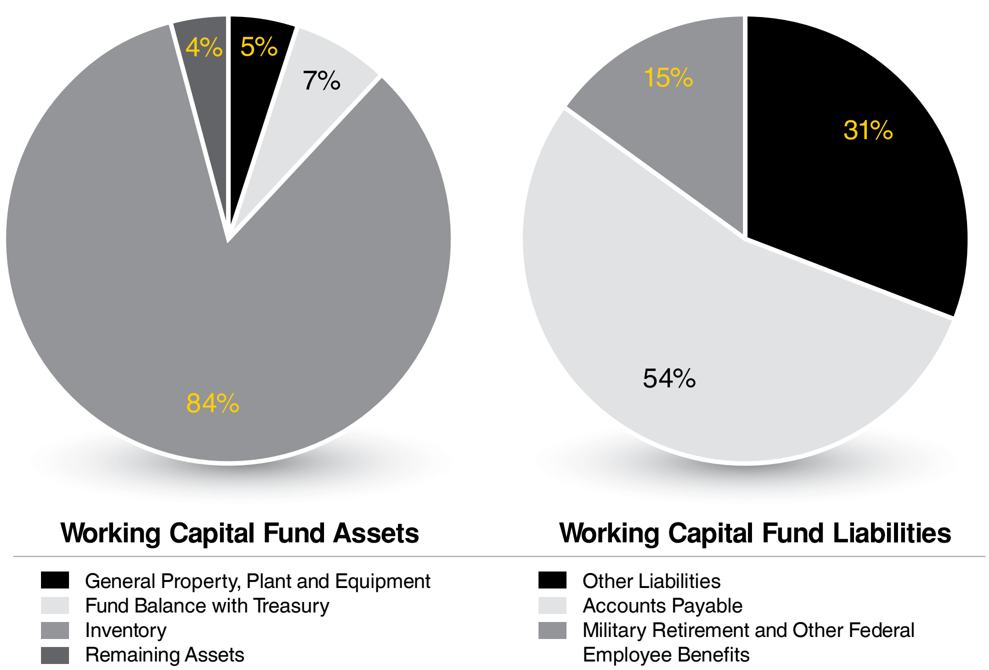


Table 16 - Army Working Capital Fund Assets and Liabilities

(Amounts in millions)

Asset Type	FY 2010	FY 2009	Change	Percentage of FY 2010 Assets
Inventory	$22,309.8	$23,164.3	($854.5)	84%
Fund Balance with Treasury	1,808.0	1,349.5	458.5	7%
General Property, Plant and Equipment	1,397.8	1,260.2	137.6	5%
Remaining Assets	981.3	1,278.1	(296.7)	4%
Total Assets	**$26,496.9**	**$27,052.2**	**($555.2)**	**100%**

Liability Type	FY 2010	FY 2009	Change	Percentage of FY 2010 Liabilities
Accounts Payable	$762.2	$1,690.9	($928.6)	54%
Other Liabilities	440.5	422.1	18.4	31%
Military Retirement and Other Federal Employee Benefits	219.9	231.2	11.2	15%
Total Liabilities	**$1,422.6**	**$2,344.2**	**($921.5)**	**100%**

Amounts may not sum due to rounding.

Required Supplementary Stewardship Information and Required Supplementary Information

Stewardship information relates to expenditures involving a substantial investment by the Army for the benefit of the nation. When made, these expenditures are treated as expenses in the financial statements. Since these expenses are intended to provide long-term benefits to the public, they are reported as supplemental information in the financial statements.[1] There are four 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 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 2010, the Army reported approximately $39.0 million in deferred real property maintenance on facilities with a replacement value of approximately $260.0 billion. Real property deferred maintenance totals approximately 16 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 2010. Electronic and communication systems equipment represented the largest category of deferred equipment maintenance at approximately $825.0 million.

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 740. Found at http://www.fasab.gov/pdffiles/codification_report2008.pdf on October 27, 2010.*

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

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

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[2] *ibid. Statement of Federal Financial Accounting Standards 29: Heritage Assets and StewardshipLand, 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/pdffiles/sffas_29.pdf on October 27, 2010. Technical Release 9 found at http/fasab.gov/aapc/technicl.html on October 27, 2010.*

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.

Department of Defense - Army General Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2010 and 2009 (Amounts in thousands)	2010 Consolidated	Restated 2009 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 166,987,504	$ 163,425,416
Investments (Note 4)	3,218	3,241
Accounts Receivable (Note 5)	1,006,385	530,847
Other Assets (Note 6)	1,033,623	1,401,723
Total Intragovernmental Assets	$ 169,030,730	$ 165,361,227
Cash and Other Monetary Assets (Note 7)	1,776,209	1,965,004
Accounts Receivable, Net (Note 5)	819,603	635,969
Loans Receivable (Note 8)	0	93
Inventory and Related Property, Net (Note 9)	34,113,653	34,497,598
General Property, Plant and Equipment, Net (Note 10)	165,019,692	128,946,696
Other Assets (Note 6)	8,570,058	7,439,337
TOTAL ASSETS	$ 379,329,945	$ 338,845,924
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 1,890,428	$ 1,717,108
Debt (Note 13)	1	1,060
Other Liabilities (Note 15 & 16)	2,924,663	2,988,874
Total Intragovernmental Liabilities	$ 4,815,092	$ 4,707,042
Accounts Payable (Note 12)	10,753,970	14,107,839
Military Retirement and Other Federal Employment Benefits (Note 17)	1,350,559	1,325,170
Environmental and Disposal Liabilities (Note 14)	33,352,731	37,374,583
Loan Guarantee Liability (Note 8)	3,640	2,436
Other Liabilities (Note 15 and Note 16)	13,532,369	12,548,364
TOTAL LIABILITIES	$ 63,808,361	$ 70,065,434
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 158,281,584	$ 150,169,657
Cumulative Results of Operations - Earmarked Funds	58,686	58,132
Cumulative Results of Operations - Other Funds	157,181,314	118,552,701
TOTAL NET POSITION	$ 315,521,584	$ 268,780,490
TOTAL LIABILITIES AND NET POSITION	$ 379,329,945	$ 338,845,924

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

Department of Defense - Army General Fund

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2010 and 2009 (Amounts in thousands)	2010 Consolidated	Restated 2009 Consolidated
Program Costs		
Gross Costs	$ 209,719,324	$ 217,960,813
(Less: Earned Revenue)	(11,960,786)	(12,397,729)
Net Program Costs	$ 197,758,538	$ 205,563,084
Net Cost of Operations	$ 197,758,538	$ 205,563,084

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

Department of Defense - Army General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2010 (Amounts in thousands)	2010 Earmarked Funds	2010 All Other Funds	2010 Eliminations
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 57,671	$ 118,171,296	$ 0
Prior Period Adjustments			
Correction of errors	461	381,405	
Beginning balances, as adjusted	$ 58,132	$ 118,552,701	$ 0
Budgetary Financing Sources:			
Appropriations used	$ 0	$ 229,297,580	$ 0
Nonexchange revenue	4,362	0	0
Donations and forfeitures of cash and cash equivalents	8,190	0	0
Transfers-in/out without reimbursement	0	280,280	0
Other budgetary financing sources	0	(323,902)	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	2,292,891	0
Imputed financing from costs absorbed by others	0	1,240,470	0
Other (+/-)	(606)	3,588,440	0
Total Financing Sources	$ 11,946	$ 236,375,759	$ 0
Net Cost of Operations (+/-)	11,392	197,747,146	0
Net Change	$ 554	$ 38,628,613	$ 0
Cumulative Results of Operations	$ 58,686	$ 157,181,314	$ 0
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 0	$ 150,540,142	$ 0
Prior Period Adjustments			
Corrections of errors	0	(370,485)	0
Beginning balances, as adjusted	$ 0	$ 150,169,657	$ 0
Budgetary Financing Sources:			
Appropriations received	$ 0	$ 231,889,806	$ 0
Appropriations transferred-in/out	0	9,227,449	0
Other adjustments (rescissions, etc)	0	(3,707,748)	0
Appropriations used	0	(229,297,580)	0
Total Budgetary Financing Sources	$ 0	$ 8,111,927	$ 0
Unexpended Appropriations	0	158,281,584	0
Net Position	$ 58,686	$ 315,462,898	$ 0

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2009 (Amounts in thousands)	2009 Earmarked Funds	2009 Restated All Other Funds	2009 Eliminations	Restated 2009 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 52,946	$ 98,560,990	$ 0	$ 98,613,936
Prior Period Adjustments				
Correction of errors	461	381,405	0	381,866
Beginning balances, as adjusted	$ 53,407	$ 98,942,395	$ 0	$ 98,995,802
Budgetary Financing Sources:				
Appropriations used	$ 0	$ 228,796,596	$ 0	$ 228,796,596
Nonexchange revenue	12,308	0	0	12,308
Donations and forfeitures of cash and cash equivalents	6,426	0	0	6,426
Transfers-in/out without reimbursement	0	1,023,000	0	1,023,000
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	(2,462,951)	0	(2,462,951)
Imputed financing from costs absorbed by others	0	1,067,410	0	1,067,410
Other (+/-)	(1,114)	(3,263,560)	0	(3,264,674)
Total Financing Sources	$ 17,620	$ 225,160,495	$ 0	$ 225,178,115
Net Cost of Operations (+/-)	12,895	205,550,189	0	205,563,084
Net Change	$ 4,725	$ 19,610,306	$ 0	$ 19,615,031
Cumulative Results of Operations	$ 58,132	$ 118,552,701	$ 0	$ 118,610,833
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 153,860,352	$ 0	$ 153,860,352
Prior Period Adjustments				
Corrections of errors	0	(2,258,668)	0	(2,258,668)
Beginning balances, as adjusted	$ 0	$ 151,601,684	$ 0	$ 151,601,684
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 228,203,093	$ 0	$ 228,203,093
Appropriations transferred-in/out	0	4,052,068	0	4,052,068
Other adjustments (rescissions, etc)	0	(4,890,592)	0	(4,890,592)
Appropriations used	0	(228,796,596)	0	(228,796,596)
Total Budgetary Financing Sources	$ 0	$ (1,432,027)	$ 0	$ (1,432,027)
Unexpended Appropriations	0	150,169,657	0	150,169,657
Net Position	$ 58,132	$ 268,722,358	$ 0	$ 268,780,490

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2010 and 2009 (Amounts in thousands)	Budgetary Financing Accounts 2010 Combined	Budgetary Financing Accounts Restated 2009 Combined	Non-Budgetary Financing Accounts 2010 Combined	Non-Budgetary Financing Accounts Restated 2009 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	$ 42,835,509	$ 39,265,028	$ 290	$ 318
Recoveries of prior year unpaid obligations	22,661,187	24,785,208	0	0
Budget authority				
Appropriation	231,902,473	228,221,133	0	0
Borrowing authority	0	0	1	193
Spending authority from offsetting collections				
Earned				
Collected	26,540,103	25,547,587	4,547	18
Change in receivables from Federal sources	(640,368)	834,711	0	0
Change in unfilled customer orders				
Advance received	46,537	170,061	0	0
Without advance from Federal sources	2,612,167	194,781	0	0
Subtotal	$ 260,460,912	$ 254,968,273	$ 4,548	$ 211
Nonexpenditure transfers, net, anticipated and actual	$ 9,507,729	$ 5,075,068	$ 0	$ 0
Permanently not available	(3,707,748)	(4,890,592)	(1,060)	0
Total Budgetary Resources	$ 331,757,589	$ 319,202,985	$ 3,778	$ 529
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 253,349,257	$ 246,900,034	$ 137	$ 239
Reimbursable	30,097,522	29,466,855	0	0
Subtotal	$ 283,446,779	$ 276,366,889	$ 137	$ 239
Unobligated balance:				
Apportioned	$ 42,153,378	$ 38,032,024	$ 3,510	$ 290
Exempt from apportionment	54,633	54,677	0	0
Subtotal	$ 42,208,011	$ 38,086,701	$ 3,510	$ 290
Unobligated balance not available	6,102,799	4,749,395	131	0
Total status of budgetary resources	$ 331,757,589	$ 319,202,985	$ 3,778	$ 529
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 143,712,640	$ 144,392,278	$ 0	$ 0
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(23,600,975)	(22,571,944)	0	0
Total unpaid obligated balance	$ 120,111,665	$ 121,820,334	$ 0	$ 0
Obligations incurred net (+/-)	283,446,779	276,366,889	137	239
Less: Gross outlays	(260,577,017)	(252,261,322)	(137)	(239)
Less: Recoveries of prior year unpaid obligations, actual	(22,661,187)	(24,785,208)	0	0
Change in uncollected customer payments from Federal sources (+/-)	(1,971,798)	(1,029,492)	0	0
Obligated balance, net, end of period				
Unpaid obligations	$ 143,921,215	$ 143,712,637	$ 0	$ 0
Less: Uncollected customer payments from Federal sources (-)	(25,572,773)	(23,601,436)	0	0
Total, unpaid obligated balance, net, end of period	$ 118,348,442	$ 120,111,201	$ 0	$ 0
Net Outlays:				
Gross outlays	$ 260,577,017	$ 252,261,322	$ 137	$ 239
Less: Offsetting collections	(26,586,641)	(25,717,648)	(4,547)	(18)
Less: Distributed Offsetting receipts	(142,173)	(416,926)	0	0
Net Outlays	$ 233,848,203	$ 226,126,748	$ (4,410)	$ 221

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

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army General Fund (GF), 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 GF 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 GF 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 GF 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 GF 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 GF continues to implement process and system improvements addressing these limitations.

The Army GF 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 (PP&E); (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 United States Code (U.S.C.), to preserve the peace and security and provide for the defense of the U.S., its territories, commonwealths, and possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 235-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 GF receives appropriations and funds as general, trust, special, and deposit funds. The Army GF uses these appropriations and funds to execute its missions and subsequently report on resource usage.

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

These GFs 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. Special fund accounts are used to record government receipts reserved for a specific purpose. 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 GF 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 GF and, as such, are not available for the Army GF's operations. The Army GF is acting as an agent or a custodian for funds awaiting distribution.

The Army GF 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 (EOP), and all other funds specifically designated by OMB.

The Army GF receives allocation transfers for the following agencies: Federal Highway Administration and the U.S. Forestry Service.

Additionally, the Army GF receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Army GF's financial statements, e.g., the EOP.

The Army GF receives allocation transfers for the Foreign Military Sales (FMS) trust fund which meets the OMB exception; however, activities for this fund are reported separately from the DoD financial statements. All activities meeting the OMB exception related to the FMS trust fund are reported in the Army GF financial statements.

As a parent, the Army GF 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 GF's financial management systems are unable to meet all full accrual accounting requirements. Many of the Army GF'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 GF's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The Army GF's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army GF 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 GF 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 GF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, the Army GF'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 GF receives congressional appropriations as financing sources for GFs 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 GF 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 GF's standard policy for services provided as required by OMB Circular A-25, *User Charges*. The Army GF recognizes revenue, when earned, within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

The Army GF 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 GF 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 GF cannot accurately identify intragovernmental transactions by customer because the Army GF's systems do not track buyer and seller data at the transaction level. 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 GF is unable to fully reconcile intragovernmental transactions with all federal agencies, the Army GF 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 GF 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 GF'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 GF'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 GF'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 GF conducts a significant portion of operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five GF appropriations: (1) operation and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated as the variance between the 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 GF 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. Allowances for uncollectible accounts due from the public are based on the estimate of uncollectible accounts receivable from the public on a percentage of aged receivables by category. The allowance is calculated by using 50 percent of aged receivables in the 181-day to 2-year category and 100 percent of aged receivables in the greater than 2-year 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/tfm/vol/07-03.pdf.

1.L. Direct Loans and Loan Guarantees

The Army GF operates the Armament Retooling and Manufacturing Support Initiative under Title 10, U.S.C. 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 GF 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 GF materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Army GF 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 with a completion date of FY 2011 year-end reporting.

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 GF 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 GF uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2010 and FY 2009, the Army GF 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 and 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 GF 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 GF 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 GF reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method obtaining similar results. The Army GF'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 GF 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 GF 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 disposals information.

The DoD's general PP&E capitalization threshold is $100,000 except for real property, which is $20,000. The Army GF is in process of fully implementing the $20,000 threshold for real property

With the exception of the USACE Civil Works and Working Capital Fund, 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 GF provides government property to contractors to complete contract work. The Army GF 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 GF'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 GF 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 GF 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 GF has implemented this policy for advances identified in contract feeder systems, but has not fully implemented the policy 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 GF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Army GF 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 GF, as the lessee, receives the use and possession of leased property (e.g., 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 GF are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future-year projections use the Consumer Price Index.

1.R. Other Assets

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

The Army GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army GF may provide financing payments. Contract financing payments are defined in the *Federal Acquisition Regulations*, 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 GF 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

Statement of Federal Financial Accounting Standards (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 GF 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 GF'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 GF's 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 GF reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

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 GF 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 GF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated, 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 intransit 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, 2010.

1.Y. Fiduciary Activities

Fiduciary cash and other assets are not assets of the Army GF 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	2010	Restated 2009
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 123,946	$ 205,496
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	$ 123,946	$ 205,496
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 1,776,209	$ 1,965,004
B. Accounts Receivable	63,530	21,049
C. Other Assets	0	0
D. Total Nonfederal Assets	$ 1,839,739	$ 1,986,053
3. Total Nonentity Assets	$ 1,963,685	$ 2,191,549
4. Total Entity Assets	$ 377,366,260	$ 336,654,375
5. Total Assets	$ 379,329,945	$ 338,845,924

The Army identified errors of $0.5 million, which impacted the FY 2009 ending balance of Entity Assets. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Entity and Nonentity Assets on Note 2. Refer to Note 26, *Restatements*, for additional details.

Nonentity assets are assets for which the Army GF maintains stewardship accountability and reporting responsibility, but are not available for the Army GF'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 U.S. 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, and 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. 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		2010		Restated 2009
(Amounts in thousands)				
1. Fund Balances				
A. Appropriated Funds	$	166,799,025	$	163,159,254
B. Revolving Funds		7,644		4,292
C. Trust Funds		1,469		1,405
D. Special Funds		55,420		54,968
E. Other Fund Types		123,946		205,497
F. Total Fund Balances	$	166,987,504	$	163,425,416
2. Fund Balances Per Treasury Versus Agency				
A. Fund Balance per Treasury	$	168,960,972	$	165,844,086
B. Fund Balance per Army		166,987,504		163,425,416
3. Reconciling Amount	$	1,973,468	$	2,418,670

The Army identified errors which impacted ending FY 2009 Fund Balance with Treasury (FBWT) Budgetary Accounts. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. The errors did not impact the FBWT Budgetary Accounts total balance; however, to correct the errors, the Army restated Unobligated Balance, Obligated and Non FBWT Budgetary Accounts on Note 3. Refer to Note 26, *Restatements*, for additional details.

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 U.S. and other nations, and deposits from unencumbered oil-for-food program funds.

Reconciling Amount

The U.S. Treasury reported $2.0 billion more in FBWT than reported by the Army GF. This variance includes a decrease of $24.9 million in net differences due to the U.S. Treasury treatment of allocation transfers, an increase of $16.9 million in fiduciary activity, an increase of $1.8 billion in canceling year authority and an increase of $205.4 million in unavailable receipts. 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	2010	Restated 2009
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 42,211,520	$ 38,086,991
B. Unavailable	6,102,930	4,749,393
2. Obligated Balance not yet Disbursed	143,921,217	143,712,640
3. Nonbudgetary FBWT	327,829	481,037
4. NonFBWT Budgetary Accounts	(25,575,992)	(23,604,645)
5. Total	$ 166,987,504	$ 163,425,416

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 invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. 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, such as 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	2010				
(Amounts in thousands)	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
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
C. Total Intragovernmental Securities	$ 3,296		$ (78)	$ 3,218	$ 3,222
2. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

As of September 30	2009				
(Amounts in thousands)	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. 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	(50)	3,209	3,215
5. Total Nonmarketable, Market-Based	$ 3,259		$ (50)	$ 3,209	$ 3,215
B. Accrued Interest	32			32	32
C. Total Intragovernmental Securities	$ 3,291		$ (50)	$ 3,241	$ 3,247
4. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

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 GF along with the interest received from the investment of such donations. The related earnings are allocated to the appropriate Army GF activities to be used in accordance with the directions of the donor. These funds are recorded as Nonmarketable Market-Based U.S. Treasury Securities, which are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

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

The U.S. Treasury securities provide the Army GF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Army GF requires redemption of these securities to make expenditures, the government finances the securities out of accumulated cash balances, by raising taxes or other receipts, borrowing from the public or 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	2010		
(Amounts in thousands)	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	$ 1,992,746	$ (166,758)	$ 1,825,988

As of September 30	Restated 2009		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 530,847	N/A	$ 530,847
2. Nonfederal Receivables (From the Public)	802,324	$ (166,355)	635,969
3. Total Accounts Receivable	$ 1,333,171	$ (166,355)	$ 1,166,816

The Army identified errors of $0.5 million, which impacted the FY 2009 ending balances of both Intragovernmental and Nonfederal Receivables. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Intragovernmental and Nonfederal Receivables on Note 5. Refer to Note 26, *Restatements*, for additional details.

The accounts receivable represent the Army GF's claim for payment from other entities. The Army GF 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	2010	2009
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 1,033,623	$ 1,401,723
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 1,033,623	$ 1,401,723
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 7,898,060	$ 7,352,077
B. Advances and Prepayments on behalf of Foreign Governments	671,998	87,260
C. Advances and Prepayments	0	0
D. Total Nonfederal Other Assets	$ 8,570,058	$ 7,439,337
3. Total Other Assets	$ 9,603,681	$ 8,841,060

Other Assets Definition

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

Outstanding Contract Financing Payment

The Outstanding Contract Financing Payment balance of $8.0 billion is comprised of $7.6 billion in contract financing payments and an additional $0.4 billion in estimated future payments that will be paid to the contractor upon future 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	2010	2009
(Amounts in thousands)		
1. Cash	$ 402,605	$ 573,906
2. Foreign Currency	1,373,604	1,391,098
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,776,209	$ 1,965,004

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 GF cash and foreign currency are nonentity and are restricted.

Note 8. Direct Loan and Loan Guarantees

Direct Loan and/or Loan Guarantee Program

The Army GF operates a loan guarantee program, the Armament Retooling and Manufacturing Support (ARMS) Initiative Loan Guarantee Program, 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 new and amended direct loan obligations and loan guarantee commitments made after FY 1991. The Army GF 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 GF to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Army GF including origination and other fees, penalties, and recoveries.

Armament Retooling and Manufacturing Support Initiative

The ARMS, which is authorized by Title 10, United States Code 4551-4555, is a loan guarantee program. It is designed 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 GF, by means of ARMS initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army and U.S. Department of Agriculture Rural Business-Cooperative Service (RBS) established a memorandum of understanding for the RBS to administer the ARMS initiative loan guarantee program.

Loan Guarantees

In an effort to preclude additional Army GF loan liability, the Assistant Secretary of the Army (Acquisition, Logistics and Technology) instituted an ARMS loan guarantee moratorium in 2004. The Army GF 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	2010	2009
(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	3,640	2,436
4. Total Loan Guarantee Liability	$ 3,640	$ 2,436

The Loan Guarantee Liability represents the present value of the estimated cash inflows less cash outflows of nonacquired loan guarantees. The $3.6 million 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 GF does not operate direct loan programs; therefore, this schedule is not applicable.

Total Amount of Direct Loans Disbursed

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

Subsidy Expense for Direct Loan by Program

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

Subsidy Rate for Direct Loans by Program

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

Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans

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

Defaulted Guaranteed Loans

As of September 30	2010	2009
(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)	(642)
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 0	$ 93
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0	$ 93

Guaranteed Loans Outstanding

As of September 30	2010		2009	
(Amounts in thousands)	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding				
1. Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0
2. Armament Retooling & Manufacturing Support Initiative	2,716	2,308	2,988	2,429
3. Foreign Military Liquidating Account	0	0	0	0
4. Total	$ 2,716	$ 2,308	$ 2,988	$ 2,429
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 GF. The face value does not include any interest that is due to be paid on the debt instruments.

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

Liabilities for Loan Guarantees

As of September 30	2010	2009
(Amounts in thousands)		
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	3,640	2,436
5. Total Loan Guarantee Liability (Post-FY 1991)	$ 3,640	$ 2,436
6. Total Loan Guarantee Liability	$ 3,640	$ 2,436

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 $3.6 million 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)

2010	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

2009	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

2010	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	0	0	0	0
Totals	$ 0	$ 0	$ 0	$ 0	$ 0

2009	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	93	0	93	93
Totals	$ 0	$ 93	$ 0	$ 93	$ 93

	2010	2009
5. Total Loan Guarantee:		
Military Housing Privatization Initiative	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	93
Totals	$ 0	$ 93

In an effort to preclude additional Army GF loan liability, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) instituted an ARMS loan guarantee moratorium in 2004. The Army GF 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%

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	2010	2009
(Amounts in thousands)		
Beginning Balance, Changes, and Ending Balance:		
1. Beginning Balance of the Loan Guarantee Liability	$ 2,436	$ 2,337
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	127	8
G. Other	1,077	(2)
H. Total of the above Adjustments	$ 1,204	$ 6
4. Ending Balance of the Loan Guarantee Liability before Reestimates	$ 3,640	$ 2,343
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	$ 0	$ 93
B. Technical/default Reestimate	0	0
C. Total of the above Reestimate Components	$ 0	$ 93
6. Ending Balance of the Loan Guarantee Liability	$ 3,640	$ 2,436

Administrative Expenses

Administrative expense of $4,000 is an annual amount for salary and expense which normally occurs during the last quarter of the fiscal year.

Note 9. Inventory and Related Property

As of September 30	2010	2009
(Amounts in thousands)		
1. Inventory, Net	$ 0	$ 0
2. Operating Materiels & Supplies, Net	34,113,653	34,497,598
3. Stockpile Materiel, Net	0	0
4. Total	$ 34,113,653	$ 34,497,598

Inventory, Net

Not Applicable.

Operating Materiel and Supplies, Net

As of September 30 (Amounts in thousands)	2010 OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
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	

As of September 30 (Amounts in thousands)	2009 OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 34,497,598	$ 0	$ 34,497,598	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	509,531	(509,531)	0	NRV
D. Totals	$ 35,007,129	$ (509,531)	$ 34,497,598	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost	NRV = Net Realizable Value
SP = Standard Price	LCM = Lower of Cost or Market
AC = Actual Cost	O = Other
MAC = Moving Average Cost	

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 GF 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 (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	$ 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

As of September 30 (Amounts in thousands)	2009 Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 519,153	N/A	$ 519,153
B. Buildings, Structures, and Facilities	S/L	20 or 40	53,909,702	$ (32,113,494)	21,796,208
C. Leasehold Improvements	S/L	lease term	23,896	(19,418)	4,478
D. Software	S/L	2-5 or 10	501,718	(207,025)	294,693
E. General Equipment	S/L	5 or 10	3,984,679	(1,834,810)	2,149,869
F. Military Equipment	S/L	various	141,160,620	(45,266,083)	95,894,537
G. Shipbuilding	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	166,617	(160,238)	6,379
I. Construction-in-Progress	N/A	N/A	8,281,379	N/A	8,281,379
J. Other			0	0	0
K. Total General PP&E			$ 208,547,764	$ (79,601,068)	$ 128,946,696

Legend for Valuation Methods:

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

General Property, Plant and Equipment

The Army GF 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 program disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposals information.

Heritage Assets and Stewardship Land

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

Heritage assets within the Army GF consist of buildings and structures, archeological sites, and museum collections. The Army GF defines these 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

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	28,031	14,116	1,814	40,333
Archeological Sites	Each	8,201	269	2,130	6,340
Museum Collection Items (Objects, Not Including Fine Art)	Each	564,818	9,344	1,293	572,869
Museum Collection Items (Objects, Fine Art)	Each	0	0	0	0

The schedule above reflects the beginning and ending number of heritage assets as of October 1, 2009, and September 30, 2010, respectively.

The Army GF held 7 million acres of stewardship land at September 30, 2010.

(Acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government-Owned Land	4,983	3,445	426	8,002
9111	State-Owned Land	12	12	12	12
9120	Withdrawn Public Land	6,505	54	55	6,504
9130	Licensed and Permitted Land	1,871	428	203	2,096
9140	Public Land	11	11	11	11
9210	Land Easement	215	27	27	215
9220	In-leased Land	178	106	106	178
9230	Foreign Land	158	1	1	158
				Grand Total	17,176
				Total All Other Lands	10,649
				Total Stewardship Lands	6,527

The schedule above reflects the beginning and ending balance of stewardship land as of October 1, 2009, and September 30, 2010, respectively.

The mission of the Army is to provide the military forces needed to deter war and protect the security of the U.S. 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 GF, 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).

Assets Under Capital Lease

As of September 30	2010	2009
(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	(162,635)	(160,238)
D. Total Capital Leases	$ 3,982	$ 6,379

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2010	Restated 2009
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	602,734	450,792
D. Total Intragovernmental Liabilities	$ 602,734	$ 450,792
2. Nonfederal Liabilities		
A. Accounts Payable	$ 211,211	$ 194,560
B. Military Retirement and Other Federal Employment Benefits	1,350,560	1,325,169
C. Environmental Liabilities	30,095,842	34,679,660
D. Other Liabilities	7,818,996	6,256,400
E. Total Nonfederal Liabilities	$ 39,476,609	$ 42,455,789
3. Total Liabilities Not Covered by Budgetary Resources	$ 40,079,343	$ 42,906,581
4. Total Liabilities Covered by Budgetary Resources	23,729,018	27,158,853
5. Total Liabilities	$ 63,808,361	$ 70,065,434

The Army identified errors of $10.9 million, which impacted ending FY 2009 Total Liabilities Covered by Budgetary Resources. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Total Liabilities Covered by Budgetary Resources on Note 11. Refer to Note 26, *Restatements*, for additional details.

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

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

Nonfederal Other Liabilities, Other consist of unfunded annual leave and conventional munitions disposals.

Military Retirement and Other Federal Employment Benefits not covered by budgetary resources are comprised of various employee actuarial liabilities. These liabilities are comprised of FECA benefits liability of $1.4 billion. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

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	2010		
(Amounts in thousands)	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

As of September 30	Restated 2009		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 1,717,108	N/A	$ 1,717,108
2. Nonfederal Payables (to the Public)	14,101,651	$ 6,188	14,107,839
3. Totals	$ 15,818,759	$ 6,188	$ 15,824,947

The Army identified errors of $9.0 million, which impacted ending FY 2009 Nonfederal Payables. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Nonfederal Payables on Note 12. Refer to Note 26, *Restatements*, for additional details.

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by the Army GF. The Army GF 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	2010			2009		
(Amounts in thousands)	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)						
A. Debt to the Treasury	$ 1,060	$ (1,059)	$ 1	$ 833	$ 227	$ 1,060
B. Debt to the Federal Financing Bank	0	0	0	0	0	0
C. Total Agency Debt	$ 1,060	$ (1,059)	$ 1	$ 833	$ 227	$ 1,060
2. Total Debt	$ 1,060	$ (1,059)	$ 1	$ 833	$ 227	$ 1,060

The Army GF, 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 GF 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 $1,000 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	2010	2009
(Amounts in thousands)		
1. Environmental Liabilities - Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 2,339,511	$ 2,181,086
2. Active Installations—Military Munitions Response Program (MMRP)	1,930,687	2,653,805
3. Formerly Used Defense Sites—IRP and BD/DR	3,426,263	3,452,907
4. Formerly Used Defense Sites—MMRP	11,811,902	13,545,816
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	274,591	356,897
2. Environmental Closure Requirements	343,655	353,625
3. Environmental Response at Operational Ranges	107,287	144,469
4. Asbestos	240,559	247,537
5. Non-Military Equipment	0	0
6. Other	66,168	96,456
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	871,671	690,977
2. Military Munitions Response Program	861,312	951,853
3. Environmental Corrective Action / Closure Requirements	289,094	295,327
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)	5,286,908	6,955,981
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	5,503,123	5,447,847
3. Other	0	0
2. Total Environmental Liabilities	$ 33,352,731	$ 37,374,583

Applicable Laws and Regulations

The Army GF 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 codified in Title 10, U.S.C., 2700 et.seq., establishes requirements. The

Army GF 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 published Technical Bulletin 2006-1 (FASAB 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 GF 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 1993 Defense Authorization Act (PL 102-484) required the establishment of the Nonstockpile Chemical Material Project to safely dispose of all nonstockpile chemical material. The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations.

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. It should be noted that they 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 Conversation and Recovery Act
- Toxic Substances Control Act
- Medical Waste Tracking Act
- Atomic Energy Act
- Nuclear Waste Policy Act
- National Defense Authorization Acts

Types of Environmental Liabilities and Disposal Liabilities Identified

The Army GF has cleanup requirements for DERP sites at active installations, BRAC installations, Formerly Used Defense Sites 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 GF 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 GF relies upon the Air Force, the RACER executive agent, to validate the model in accordance with DoD Instruction 5000.61 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 GF uses the real property inventory and engineering estimates of costs for environmental closure liabilities. Most liabilities for individual facilities are below the Army's $42,000 materiality threshold for a single environmental site, but environmental closure liabilities are reported 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 GF 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 GF will continue coordination 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 GF 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 GF 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 GF has reported asbestos survey costs but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, per FASAB TB 2006-1, presents too much uncertainty to recognize on the Balance Sheet.

The Army GF is also uncertain regarding the costs for remediation activities in conjunction with returning overseas military facilities to host nations. The Army GF 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	2010			Restated 2009
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	$ 86,346	$ 0	$ 86,346	$ 88,608
B. Deposit Funds and Suspense Account Liabilities	251,088	0	251,088	339,861
C. Disbursing Officer Cash	1,779,631	0	1,779,631	1,968,492
D. Judgment Fund Liabilities	0	0	0	0
E. FECA Reimbursement to the Department of Labor	121,364	153,532	274,896	277,536
F. Custodial Liabilities	50,916	9,192	60,108	17,561
G. Employer Contribution and Payroll Taxes Payable	135,973	0	135,973	122,643
H. Other Liabilities	336,621	0	336,621	174,173
I. Total Intragovernmental Other Liabilities	$ 2,761,939	$ 162,724	$ 2,924,663	$ 2,988,874
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 2,857,487	$ 0	$ 2,857,487	$ 3,156,983
B. Advances from Others	1,760,221	0	1,760,221	1,773,464
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	76,841	0	76,841	141,176
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	2,072,316	2,072,316	2,072,316
G. Accrued Unfunded Annual Leave	4,520,402	0	4,520,402	3,673,059
H. Capital Lease Liability	3,587	3,453	7,040	11,061
I. Contract Holdbacks	421,941	0	421,941	332,204
J. Employer Contribution and Payroll Taxes Payable	150,546	0	150,546	390,499
K. Contingent Liabilities	61,882	1,603,304	1,665,186	997,448
L. Other Liabilities	389	0	389	154
M. Total Nonfederal Other Liabilities	$ 9,853,296	$ 3,679,073	$ 13,532,369	$ 12,548,364
3. Total Other Liabilities	$ 12,615,235	$ 3,841,797	$ 16,457,032	$ 15,537,238

Capital Lease Liability

As of September 30 (Amounts in thousands)	2010 Land and Buildings	2010 Equipment	2010 Other	2010 Total	Restated 2009 Total
1. Future Payments Due					
A. 2011	$ 4,509	$ 0	$ 0	$ 4,509	$ 5,376
B. 2012	2,413	0	0	2,413	4,510
C. 2013	1,612	0	0	1,612	2,413
D. 2014	148	0	0	148	1,612
E. 2015	0	0	0	0	148
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	$ 8,682	$ 0	$ 0	$ 8,682	$ 14,059
H. Less: Imputed Interest Executory Costs	1,642	0	0	1,642	2,996
I. Net Capital Lease Liability	$ 7,040	$ 0	$ 0	$ 7,040	$ 11,063
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 7,040	$ 9,500
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 0	$ 1,562

The Army identified errors of $2.0 million, which impacted ending FY 2009 Total Nonfederal Other Liabilities. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Total Nonfederal Other Liabilities on Note 15. Refer to Note 26, *Restatements*, for additional details.

Intragovernmental Other Liabilities Composition

Intragovernmental Other Liabilities consist of unemployment compensation liability.

Nonfederal Other Liabilities Composition

Nonfederal Other Liabilities consist of miscellaneous liabilities incurred by the U.S. Army Corps of Engineers.

Estimated Future Contract Financing Payments

Contingent liabilities include $371.1million 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 GF 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 GF 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 GF 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 GF 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 GF reports Judgment Fund liabilities in Note 12, *Accounts Payable*, and Note 15, *Other Liabilities*.

Nature of Contingency

The FY 2010 Army Legal Representation Letter outlines claims against the Army GF totaling $366.0 million for which the Army OGC is unable to express an opinion. The historical payout percentage for these cases is less than 1 percent. To determine the historical payout, the Army OGC divides the total amount reported as a payout in the fiscal year by the total amount claimed in the Army Legal Representation Letter.

The Army GF has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army GF's financial statements. As of September 30, 2010, the Army GF had $996.4 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. Additionally, the Army GF has coordinated with the Army OGC to ensure that estimates agree with the legal representation letters and management summary schedule.

(Amounts in thousands)

Type of Contingent Liabilities	Estimate
Army Environmental Law Division	$512,700
Army Contract Appeals	7,584
U.S. Army Claims Service	50,122
Litigation Division	425,973
Total	**$996,379**

Other Information Pertaining to Commitments

The Army GF has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations, undelivered orders, and cancelled accounts payable. The amount of contractual commitments for 4th Quarter, FY 2010 is presented in the following schedule:

(Amounts in thousands)

Type of Contractual Commitments	
Long-term lease obligations	$7,040
Undelivered orders	$135,339,652
Cancelled accounts payable	$23,548

The Army GF 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 GF 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 GF's contingent liabilities.

Contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to Note 15, *Other Liabilities*, for further details.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2010			2009
(Amounts in thousands)	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	$ 1,350,559	$ 0	$ 1,350,559	$ 1,325,170
B. Voluntary Separation Incentive Programs	0	0	0	0
C. DoD Education Benefits Fund	0	0	0	0
D. Other	$ 0	$ 0	$ 0	$ 1,325,170
E. Total Other Actuarial Benefits	1,350,559	0	1,350,559	0
3. Total Military Retirement and Other Federal Employment Benefits:	$ 1,350,559	$ 0	$ 1,350,559	$ 1,325,170

Federal Employees' Compensation Act

The Army's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The actuarial liability for the Federal Employees' Compensation Act increased $25.4 million between FY 2009 and FY 2010.

Actuarial Cost Method

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

Assumptions

The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost-of-living adjustments and medical inflation factors 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:

2009 - 4.223%
2010 - 4.715% and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2009 were used to adjust the methodology's historical payments to current year constant dollars.

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

CBY	COLA	CPIM
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014	2.00%	3.71%

The model's resulting projections were analyzed to ensure 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 by agency 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 2009 to the average pattern observed during the most current three CBYs, and (4) a comparison of the estimated liability per case in the 2009 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		2010		Restated 2009
(Amounts in thousands)				
1. Intragovernmental Costs	$	62,623,714	$	55,453,482
2. Public Costs		147,095,610		162,507,331
3. Total Costs	$	209,719,324	$	217,960,813
4. Intragovernmental Earned Revenue	$	(9,717,784)	$	(10,252,879)
5. Public Earned Revenue		(2,243,002)		(2,144,850)
6. Total Earned Revenue	$	(11,960,786)	$	(12,397,729)
7. Net Cost of Operations	$	197,758,538	$	205,563,084

Definitions

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the federal government.

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

Other Information Regarding Costs

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the federal government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by 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 SNC are based on funding, obligation, accrual, and disbursing transactions, which are not always recorded using accrual accounting. The Army GF's 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 capture all cost and financing sources for the Army GF.

Additional Disclosures

The Army identified errors of $822.0 million, which impacted ending FY 2009 Public Costs. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Public Costs on Note18. Refer to Note 26, *Restatements*, for additional details.

The Army GF 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.

The Army GF accounting system does not capture information relative to heritage assets separately and distinctly from normal operations. The Army GF 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

Restatements

Adjustment #1: During 3rd Quarter, FY 2010, Army implemented an automated interface from the monthly reporting system to the quarterly reporting system. Previously amounts were manually cross walked to accounts for quarterly reporting. During the implementation it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2009. A prior-period adjustment was recognized to correct the beginning 2010 balances. The adjustment impacted cumulative results of operations, unexpended appropriations, and net position.

Adjustment #2: Separately, during 4th Quarter FY 2010, restatements related to the Chief Financial Officer Load Reconciliation System – Audited Financial Statements initiative revealed adjustment irregularities associated with the trading partner process. The Army GF determined that the trading partner adjustments originally should have established advances instead of reclassifying advances as performed in 4th Quarter, FY 2009. As a result, prior-period adjustments were made to correct these trading elimination adjustments. The adjustment impacted total budgetary financing sources, net cost of operations, and net position.

(Amounts in thousands)

FY 2009 4th Quarter Statement of Changes in Net Position		
Cumulative Results of Operations		Rounded
Prior Period Adjustments:		
Corrections of Errors – Adjustment #1	$	381,865.7
Budgetary Financing Sources: – Adjustment #2		
Appropriations Used – Adjustment #2	$	(822,313.2)
Other Financing Sources:		
Other (+/-) – Adjustment #1		19.3
Total Financing Sources	$	(822,293.9)
Net Cost of Operations (+/-)	$	(822,293.9)
Cumulative Results of Operations	**$**	**381,865.7**
Unexpended Appropriations		
Prior Period Adjustments:		
Corrections of Errors – Adjustment #1	$	(1,192,798.4)
Beginning Balances, as adjusted – Adjustment #1	$	(1,192,798.4)
Budgetary Financing Sources:		
Appropriations Used – Adjustment #2		822,313.2
Total Budgetary Financing Sources	$	822,313.2
Unexpended Appropriations	**$**	**(370,485.3)**
Net Position	**$**	**11,380.5**

Amounts may not sum due to rounding

See Note 26 for additional details.

Other Financing Sources, Other

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

Appropriations Received

Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with the Appropriations Received on the Statement of Budgetary Resources (SBR). The total difference is $12.5 million and is due to additional resources included in the Appropriation Received on the SBR. Refer to Note 20, *Disclosures Related to the SBR*, for additional details.

Eliminations

In the SCNP, all offsetting balances (i.e., transfers-in and transfers-out, revenues, and expenses) for intradepartment activity between earmarked and other (nonearmarked) 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

Earmarked Cumulative Results of Operations ending balance on the SCNP do 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	2010	Restated 2009
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 136,696,725	$ 130,875,021
2. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

The Army identified errors of $425.2 million, which impacted ending FY 2009 Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period on Note 20. Refer to Note 26, *Restatements*, for additional details.

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

Appropriations received as reported on the SBR do not agree with appropriations received as reported on the Statement of Changes in Net Position because of differences between proprietary and budgetary accounting concepts and reporting requirements. These differences, totaling $12.5 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	$186.65	$0.00
Category B	66.68	30.10
Exempt from Apportionment	0.01	0.00
Total	$253.34	$30.10

(Amount in thousands)

Non-Budgetary	Direct	Reimbursable
Category A	$136.70	$0.00

The above disclosure agrees with the aggregate of the related information as reported on the Budgetary Execution Report and 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 Borrow 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 GF ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army GF, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army GF 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, 2010.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2010	Restated 2009
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 283,446,916	$ 276,367,128
2. Less: Spending authority from offsetting collections and recoveries (-)	(51,224,173)	(51,532,366)
3. Obligations net of offsetting collections and recoveries	$ 232,222,743	$ 224,834,762
4. Less: Offsetting receipts (-)	(142,173)	(416,926)
5. Net obligations	$ 232,080,570	$ 224,417,836
Other Resources:		
6. Donations and forfeitures of property	$ 0	$ 0
7. Transfers in/out without reimbursement (+/-)	2,292,891	(2,462,951)
8. Imputed financing from costs absorbed by others	1,240,470	1,067,410
9. Other (+/-)	3,587,834	(3,264,674)
10. Net other resources used to finance activities	$ 7,121,195	$ (4,660,215)
11. Total resources used to finance activities	$ 239,201,765	$ 219,757,621
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 (-)	$ (5,821,728)	$ 2,174,477
12b. Unfilled Customer Orders	2,658,704	364,842
13. Resources that fund expenses recognized in prior Periods (-)	(4,030,203)	(5,251,214)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	146,719	416,944
15. Resources that finance the acquisition of assets (-)	(35,780,900)	(26,767,400)
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 (+/-)	(5,870,104)	4,672,908
17. Total resources used to finance items not part of the Net Cost of Operations	$ (48,697,512)	$ (24,389,443)
18. Total resources used to finance the Net Cost of Operations	$ 190,504,253	$ 195,368,178

As of September 30	2010	Restated 2009
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 764,838	$ 328,097
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 (-)	16,035	0
23. Other (+/-)	1,001,654	185,903
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 1,782,527	$ 514,000
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 10,400,454	$ 9,637,151
26. Revaluation of assets or liabilities (+/-)	0	19
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	(4,928,696)	43,736
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 5,471,758	$ 9,680,906
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 7,254,285	$ 10,194,906
30. Net Cost of Operations	$ 197,758,538	$ 205,563,084

The Army identified errors of $822.3 million, which impacted ending FY 2009 Net Cost of Operations. The errors were identified while migrating from a manual to an automated interface between budget execution and financial statement reporting systems. To correct the errors, the Army restated Net Cost of Operations on Note 21. Refer to Note 26, *Restatements*, for additional details.

Required Disclosures

Due to the Army GF'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 $762.5 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 other gains and losses resulted from adjustments necessary to balance the Army GF'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. The Iraqi Relief and Reconstruction Fund is a transfer fund in which the Army GF 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 GF financial statements.

Note 22. Disclosures Related to Incidental Custodial Collections

The Army GF does not collect incidental custodial revenues.

Note 23. Earmarked Funds

BALANCE SHEET **As of September 30** *(Amounts in thousands)*	2010 Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
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

BALANCE SHEET As of September 30 *(Amounts in thousands)*	2009 Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	$ 0	$ 56,662	$ 0	$ 56,662
Investments	0	0	3,241	0	3,241
Accounts and Interest Receivable	0	0	2,849	(2,756)	93
Other Assets	0	0	0	0	0
Total Assets	$ 0	$ 0	$ 62,752	$ (2,756)	$ 59,996
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	$ 0	$ 0	$ 0	$ 0	$ 0
Other Liabilities	0	0	5,081	(211)	4,870
Total Liabilities	$ 0	$ 0	$ 5,081	$ (211)	$ 4,870
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	57,671	0	57,671
Total Liabilities and Net Position	$ 0	$ 0	$ 62,752	$ (211)	$ 62,541
STATEMENT OF NET COST **For the period ended September 30**					
Program Costs	$ 0	$ 0	$ 12,293	$ 0	$ 12,293
Less: Earned Revenue	0	0	602	0	602
Net Program Costs	$ 0	$ 0	$ 12,895	$ 0	$ 12,895
Less: Earned Revenue Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	$ 0	$ 12,895	$ 0	$ 12,895
STATEMENT OF CHANGES IN NET POSITION **For the period ended September 30**					
Net Position Beginning of the Period	$ 0	$ 0	$ 52,946	$ 0	$ 52,946
Net Cost of Operations (+/-)	0	0	12,895	0	12,895
Budgetary Financing Sources	0	0	18,734	0	18,734
Other Financing Sources	0	0	(1,114)	0	(1,114)
Change in Net Position	$ 0	$ 0	$ 4,725	$ 0	$ 4,725
Net Position End of Period	$ 0	$ 0	$ 57,671	$ 0	$ 57,671

Earmarked Funds

Earmarked Funds represent funds received from outside sources for specific purposes. The Army GF 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 funds for this purpose and distribute the funds for the intended purposes.

- **Restoration of Rocky Mountain Arsenal.** Funds are received from private industry for the cleanup of contamination 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.** These funds are produced from the sale of forest products that are in excess of operation and maintenance expenses at fiscal year-end for the payment of entitlements to states. The authority and directive for this fund originates from Title 10, USC 2665.
- **National Science Center.** Funds received from the collection of fees for the use of the National Science Center and use 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 for the use of purchasing supplies and equipment for the library at 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	2010	2009
(Amounts in thousands)		
1. Fiduciary net assets, beginning of year	$ 135,244	$ 128,313
2. Fiduciary revenues	$ 0	$ 0
3. Contributions	171,329	188,004
4. Investment earnings	12,169	12,615
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	(198,857)	(193,688)
8. Increase/(Decrease) in fiduciary net assets	$ (15,359)	$ 6,931
9. Fiduciary net assets, end of period	$ 119,885	$ 135,244

Schedule of Fiduciary Net Assets

As of September 30	2010	2009
(Amounts in thousands)		
Fiduciary Assets		
1. Cash and cash equivalents	$ 119,885	$ 135,244
2. Investments	0	0
3. Other Assets	0	0
Fiduciary Liabilities		
4. Less: Liabilities	0	0
5. Total Fiduciary Net Assets	$ 119,885	$ 135,244

Fiduciary activities are those federal government activities that relate to the collection or receipt, and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which nonfederal individuals or entities have an ownership interest that the federal government must uphold. The DoD has a fiduciary duty to the Savings Deposit Program in which the Army GF 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 U.S. or its possessions in designated areas. The Army GF collects the savings and allotments of soldiers, and the collections and accrued earned interest are transferred to the program's executive agent, the Navy GF. These fiduciary assets are not assets of the Army GF and are not recognized on the Army GF's balance sheet.

Note 25. Other Disclosures

As of September 30	2010			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
1. ENTITY AS LESSEE-Operating Leases				
Future Payments Due				
Fiscal Year				
2010	$ 0	$ 0	$ 0	$ 0
2011	67	0	0	67
2012	67	0	0	67
2013	67	0	0	67
2014	67	0	0	67
2015	67	0	0	67
After 5 Years	15,284	0	0	15,284
Total Future Lease Payments Due	$ 15,619	$ 0	$ 0	$ 15,619

Note 26. Restatements

Adjustment #1: During 3rd Quarter, FY 2010, the Army GF implemented an automated interface from the monthly reporting system to the quarterly reporting system, also known as the Chief Financial Officer Load Reconciliation System – Audited Financial Statements (CLRS-AFS) initiative. Previously, amounts were manually crosswalked to accounts for quarterly reporting. During the implementation, it was discovered that the crosswalk logic for many accounts was flawed, resulting in incorrect ending balances from FY 2009. A prior-period adjustment was recognized to correct the beginning FY 2010 balances. The adjustment impacted assets, liabilities, unexpended appropriations, and cumulative results of operations. It impacted the Balance Sheet, the Statement of Net Cost, the Statement of Changes in Net Position (SCNP), and the Statement of Budgetary Resources.

Adjustment #2: Separately, during 4th Quarter FY 2010, restatements related to the CLRS-AFS initiative revealed adjustment irregularities associated with the trading partner process. The Army GF determined that the trading partner adjustments originally should have established advances instead of reclassifying advances as performed in 4th Quarter, FY 2009. As a result, prior-period adjustments were made to correct these trading elimination adjustments. These adjustments affected assets, unexpended appropriations, and program costs, which, in turn, affected the Balance Sheet, the SCNP, and the Statement of Net Cost.

The following chart reflects the cumulative effect on the Army GF's balances reported in the comparative period:

(Amounts in thousands)

FY 2009 4th Quarter Balance Sheet		
		Rounded
Accounts Receivable – Adjustment #1	$	460.5
Other Assets – Adjustment #1		(822,313.2)
Other Assets – Adjustment #2		822,313.2
Total Assets	**$**	**460.5**
Accounts Payable – Adjustment #1	$	(8,964.0)
Other Liabilities – Adjustment #1		(1,955.9)
Total Liabilities	**$**	**(10,920.0)**
Unexpended Appropriations - Other Funds – Adjustment #1	$	(1,192,798.4)
Unexpended Appropriations - Other Funds – Adjustment #2		822,313.2
Cumulative Results of Operations - Earmarked Funds – Adjustment #1		460.5
Cumulative Results of Operations - Other Funds – Adjustment #1		381,405.2
Total Net Position	**$**	**11,380.5**
Total Liabilities and Net Position	**$**	**460.5**

FY 2009 4th Quarter Statement of Changes in Net Position		
Cumulative Results of Operations		Rounded
Prior Period Adjustments:		
Corrections of Errors – Adjustment #1	$	381,865.7
Budgetary Financing Sources: – Adjustment #2		
Appropriations Used – Adjustment #2	$	(822,313.2)
Other Financing Sources:		
Other (+/-) – Adjustment #1		19.3
Total Financing Sources		(822,293.9)
Net Cost of Operations (+/-)		(822,293.9)
Cumulative Results of Operations	**$**	**381,865.7**
Unexpended Appropriations		
Prior Period Adjustments:		
Corrections of Errors – Adjustment #1	$	(1,192,798.4)
Beginning Balances, as adjusted – Adjustment #1	$	(1,192,798.4)
Budgetary Financing Sources:		
Appropriations Used – Adjustment #2		822,313.2
Total Budgetary Financing Sources	$	822,313.2
Unexpended Appropriations	**$**	**(370,485.3)**
Net Position	**$**	**11,380.5**

Amounts may not sum due to rounding

(Amounts in thousands)

FY 2009 4th Quarter Statement of Budgetary Resources		
Budgetary Resources		Rounded
Unobligated Balance, brought forward, October 1 – Adjustment #1	$	(1,287,931.3)
Budget Authority:		
Earned:		
Change in receivables from Federal sources – Adjustment #1		460.5
Change in unfilled customer orders:		
Advance received – Adjustment #1		(230.2)
Subtotal – Adjustment #1		230.4
Total Budgetary Resources	**$**	**(1,287,700.9)**
Status of Budgetary Resources		
Obligations Incurred:		
Direct – Adjustment #1	$	(1,682,403.3)
Reimbursable – Adjustment #1		424,186.0
Subtotal – Adjustment #1		(1,258,217.3)
Unobligated Balance:		
Exempt from apportionment – Adjustment #1		460.5
Subtotal – Adjustment #1		460.5
Unobligated Balance not Available – Adjustment #1		(29,944.1)
Total Status of Budgetary Resources	**$**	**(1,287,700.9)**
Change in Obligated Balance		
Obligations Incurred Net (+/-)– Adjustment #1	$	(1,258,217.3)
Less: Gross Outlays – Adjustment #1		1,288,161.4
Change in uncollected customer payments from Federal sources (-)– Adjustment #1		(460.5)
Obligated balance, net, end of period:		
Unpaid obligations – Adjustment #1		29,944.1
Less: Uncollected customer payments from Federal sources (-)– Adjustment #1		(460.5)
Total, unpaid obligated balance, net, end of period – Adjustment #1	**$**	**29,483.6**
Net Outlays		
Gross Outlays – Adjustment #1	$	(1,288,161.4)
Less: Offsetting Collections – Adjustment #1		230.1
Net Outlays	**$**	**(1,287,931.3)**

FY 2009 4th Quarter Statement of Net Cost		
Program Costs		Rounded
Gross Costs – Adjustment #1	$	19.3
Gross Costs – Adjustment #2		(822,313.2)
Net Program Costs – Adjustment #1		19.3
Net Program Costs – Adjustment #2		(822,313.2)
Net Cost of Operations	**$**	**(822,293.9)**

Amounts may not sum due to rounding

FY 2010 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 Investment in State and Local Governments for Fiscal Years 2006 through 2010

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	**FY 2010**	**FY 2009**	**FY 2008**	**FY 2007**	**FY 2006**
Transferred Assets:					
1. National Defense Mission Related	$ 22.2	$26.7	$34.2	$23.0	$66.5
Funded Assets:					
2. National Defense Mission Related	0	0	0	0	0
Totals	$ 22.2	$26.7	$34.2	$23.0	$66.5

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.

Investments in Research and Development Yearly Investment in Research and Development for Fiscal Years 2006 through 2010

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	**FY 2010**	**FY 2009**	**FY 2008**	**FY 2007**	**FY 2006**
Basic Research	$405.5	$392.7	$345.9	$348.9	$355.4
Applied Research	728.3	1,191.1	1,147.4	1,115.2	1,006.8
Development					
Advanced Technology Development	941.0	1,341.8	1,336.5	1,576.2	1,369.3
Advanced Component Development and Prototypes	781.3	1,023.8	719.8	585.3	659.7
Systems Development and Demonstration	1,913.7	4,883.9	4,981.4	5,026.1	4,963.5
Research, Development, Test and Evaluation Management Support	726.3	1,387.1	1,317.1	1,336.7	1,287.5
Operational Systems Development	690.2	1,700.9	1,459.2	1,380.5	1,218.7
Totals	$6,186.3	$11,921.4	$11,307.3	$11,368.9	$10,860.9

Narrative Statement:

Investment values included in this report are based on research and development (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 warfighting 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-centrictechnologies, 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 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.

1. **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.

2. **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.

3. **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.

4. **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.

5. **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 protection technologies for tactical wireless networks against modern network attacks; smart communication technologies to network and control unmanned systems anywhere on the battlefield, enabling timely sensor-decider-engagement linkage to defeat critical targets; advanced antenna technologies for greater communications mobility, range, and throughput; and 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 improving the effectiveness of maintenance and servicing operations through validating new maintenance concepts to improve man and machine interfaces; improving aircraft maintenance processes; reducing operation and support costs; , and 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 U.S., 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 FY 2003 and beyond, and encouraged early implementation.

FY 2010 Required Supplementary Information (RSI)

General Property, Plant, and Equipment Real Property Deferred Maintenance Amounts for Fiscal Year Ended September 30, 2010

(Amounts in millions)

	Current Fiscal Year		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance)	Percentage
Category 1	$213,135	$29,192	14%
Category 2	$36,664	$9,823	27%
Category 3	$1,138	$0	0%

Narrative Statement:

In accordance with DoD Financial Management Regulation 7000.14-R (September 2009), Volume 6B, chapter 12; paragraph 120303.B.1., the Army's deferred maintenance estimates for FY 2010 include all facilities in which DoD has ownership interest under the control of the Army. Previous deferred maintenance estimates did not include non-Army assets.

The deferred maintenance estimates are based on the facility Q-ratings found in the Army's real property inventory. For FY 2010, 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.

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. Acceptable operating condition represents facilities with no deferred maintenance.

The business rule Q-rating assignment of 85 for facilities between 5 and 15 years old and the business rules for nonfunctional facilities are new for the FY 2010 report.

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

-Category 2: Buildings, structures, and utilities that are excess to requirements or planned for replacement or disposal including multi-use heritage assets

-Category 3: Buildings, structures, and utilities that are heritage assets

Military Equipment Deferred Maintenance for Fiscal Year Ended September 30, 2010

(Amounts in thousands)

Major Categories	
Aircraft	$ 738,539
Automotive Equipment	173,434
Combat Vehicles	284,244
Construction Equipment	60,982
Electronics and Communications Systems	824,855
General Purpose Equipment	84,188
Missiles	126,233
Ordnance Weapons and Munitions	72,895
Other	19,705
Ships	61,645
Grand Total	**$2,446,720**

The OP-30 from the FY 2010 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 POM10-15 requirements build, the Army aligned depot maintenance requirements and priorities in support of the ARFORGEN process. One of the planning assumptions used for the POM10-15 requirements build was to assume that drawdown in Iraq would begin by FY 2012. Consequently, the Army adjusted programs to reflect continuance of the war and sustainment efforts.

Additionally, the Army's depot maintenance program requirements for FY 2010 were calculated based on input from stakeholders through forums such as weapons systems reviews to support fleet management strategies and the OP-29 requirements submission process. The OP-29 reviews further refined requirements and program evaluation groups validated and approved critical requirements to be funded. Funding decisions were made in accordance with the Army's priorities in support of ARFORGEN and the ongoing war effort. This resulted in depot maintenance base requirement funded at 23 percent. The Army was able to assume this risk due to a robust OCO-funded reset program which maintained readiness for equipment that was either in use in support of Operation Iraqi Freedom and Operation Enduring Freedom or redeploying back to home station.

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2010

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 9, 2010

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

SUBJECT: Independent Auditor's Report on the Army General Fund FY 2010 and FY 2009 Basic Financial Statements (Report No. D-2011-003)

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, 2010 and 2009, 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 2010 and FY 2009 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 2010 and FY 2009 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, 2010. 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.

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

Prior audits have identified, and 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 Circular No. A-136, "Financial Reporting Requirements," states that prior-period financial statements should be restated if the financial statements would be materially misstated absent correction of the errors. During FY 2010, the Defense Finance and Accounting Service (DFAS) adjusted the Army General Fund Basic Financial Statements' beginning balances for prior-year errors.

DFAS personnel explained that the transition from the manual Chief Financial Officer Load and Reconciliation System–Audited Financial Statements compilation process to the Defense Departmental Reporting System–Budgetary compilation process resulted in U.S. Government Standard General Ledger account variances. These variances made it necessary to adjust the prior-period beginning balances.

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 material weaknesses continue 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. One previously identified significant deficiency, the legal representation process, continued 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 weaknesses in its FY 2010 Statement of Assurance.

Summary of Compliance With Laws and Regulations

We limited our work in 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

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

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 material weaknesses continue 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.

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.

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 (FFMIA).

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 Intragovernrnental 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 2010 year-end, DFAS did not adequately support $27.9 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 Costs.

Contingency Payment Audit Trails

The Army reported contingency payment audit trails as an uncorrected material weakness in its FY 2010 Statement of Assurance. The Army first reported the matter as a material weakness in FY 2008. 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.

Previously Identified Significant Deficiency

We noted the following significant deficiency that 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 related to financial reporting because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether Army General Fund management 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

FFMIA 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 2010, Army management did not fully comply with FFMIA. Army General Fund management acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2010.

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 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. During FY 2010, the Army reported four cases of violation of the ADA. Therefore, the Army did not comply with 31 U.S.C. § 1341(1990). In addition, the Army did not report the four ADA violations within 12 months of being identified as required by DOD internal guidance.

Audit Disclosures

The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us on April 2, 2010, 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 testing 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, 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.

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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.

Department of Defense - Army Working Capital Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2010 and 2009 (Amounts in thousands)	2010 Consolidated	2009 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,808,081	$ 1,349,591
Accounts Receivable (Note 5)	317,663	343,430
Other Assets (Note 6)	8,232	0
Total Intragovernmental Assets	$ 2,133,976	$ 1,693,021
Accounts Receivable, Net (Note 5)	39,193	49,624
Inventory and Related Property, Net (Note 9)	22,309,805	23,164,252
General Property, Plant and Equipment, Net (Note 10)	1,397,840	1,260,198
Other Assets (Note 6)	616,116	885,062
TOTAL ASSETS	$ 26,496,930	$ 27,052,157
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 103,071	$ 84,576
Other Liabilities (Note 15 & 16)	63,418	82,570
Total Intragovernmental Liabilities	$ 166,489	$ 167,146
Accounts Payable (Note 12)	659,167	1,606,340
Military Retirement and Other Federal Employment Benefits (Note 17)	219,913	231,234
Other Liabilities (Note 15 and Note 16)	377,082	342,716
TOTAL LIABILITIES	$ 1,422,651	$ 2,347,436
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 0	$ 440,722
Cumulative Results of Operations - Other Funds	25,074,279	24,263,999
TOTAL NET POSITION	$ 25,074,279	$ 24,704,721
TOTAL LIABILITIES AND NET POSITION	$ 26,496,930	$ 27,052,157

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 NET COST

As of September 30, 2010 and 2009 (Amounts in thousands)	**2010 Consolidated**	**2009 Consolidated**
Program Costs		
Gross Costs	$ 29,068,710	$ 30,247,547
(Less: Earned Revenue)	(29,693,624)	(29,560,443)
Net Program Costs	$ (624,914)	$ 687,104
Net Cost of Operations	$ (624,914)	$ 687,104

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2010 (Amounts in thousands)	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
Beginning balances, as adjusted	$ 0	$ 24,263,999	$ 0	$ 24,263,999
Budgetary Financing Sources:				
Appropriations used	$ 0	$ 490,613	$ 0	$ 490,613
Transfers-in/out without reimbursement	0	(280,280)	0	(280,280)
Other Financing Sources:				
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
Beginning balances, as adjusted	$ 0	$ 440,722	$ 0	$ 440,722
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 50,002	$ 0	$ 50,002
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.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2009 (Amounts in thousands)	2009 Earmarked Funds	2009 All Other Funds	2009 Eliminations	2009 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 0	$ 22,376,164	$ 0	$ 22,376,164
Prior Period Adjustments:				
Changes in accounting principles (+/-)	0	1,689,600	0	1,689,600
Beginning balances, as adjusted	$ 0	$ 24,065,764	$ 0	$ 24,065,764
Budgetary Financing Sources:				
Appropriations used	$ 0	$ 824,578	$ 0	$ 824,578
Transfers-in/out without reimbursement	0	(1,023,000)	0	(1,023,000)
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	0	(119,665)	0	(119,665)
Imputed financing from costs absorbed by others	0	174,567	0	174,567
Other (+/-)	0	1,028,859	0	1,028,859
Total Financing Sources	$ 0	$ 885,339	$ 0	$ 885,339
Net Cost of Operations (+/-)	0	687,104	0	687,104
Net Change	$ 0	$ 198,235	$ 0	$ 198,235
Cumulative Results of Operations	$ 0	$ 24,263,999	$ 0	$ 24,263,999
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 719,900	$ 0	$ 719,900
Beginning balances, as adjusted	$ 0	$ 719,900	$ 0	$ 719,900
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 545,400	$ 0	$ 545,400
Other adjustments (rescissions, etc)	0	0	0	0
Appropriations used	0	(824,578)	0	(824,578)
Total Budgetary Financing Sources	$ 0	$ (279,178)	$ 0	$ (279,178)
Unexpended Appropriations	0	440,722	0	440,722
Net Position	$ 0	$ 24,704,721	$ 0	$ 24,704,721

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2010 and 2009 (Amounts in thousands)	Budgetary Financing Accounts 2010 Combined	Budgetary Financing Accounts 2009 Combined	Non-Budgetary Financing Accounts 2010 Combined	Non-Budgetary Financing Accounts 2009 Combined
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	$ 1,822,851	$ 3,359,578	$ 0	$ 0
Recoveries of prior year unpaid obligations	2,870,136	708,538	0	0
Budget authority				
Appropriation	50,002	545,400	0	0
Contract authority	10,090,779	9,779,733	0	0
Spending authority from offsetting collections				
Earned				
Collected	16,305,692	16,681,563	0	0
Change in receivables from Federal sources	(128,638)	99,300	0	0
Change in unfilled customer orders				
Advance received	10,184	(4,834)	0	0
Without advance from Federal sources	(375,042)	(158,236)	0	0
Subtotal	$ 25,952,977	$ 26,942,926	$ 0	$ 0
Nonexpenditure transfers, net, anticipated and actual	(280,280)	(1,023,000)	0	0
Permanently not available	(13,082,174)	(11,269,622)	0	0
Total Budgetary Resources	$ 17,283,510	$ 18,718,420	$ 0	$ 0
Status of Budgetary Resources:				
Obligations incurred:				
Reimbursable	$ 16,261,161	$ 16,895,570	$ 0	$ 0
Subtotal	$ 16,261,161	$ 16,895,570	$ 0	$ 0
Unobligated balance:				
Apportioned	1,022,349	1,822,850	0	0
Subtotal	$ 1,022,349	$ 1,822,850	$ 0	$ 0
Total status of budgetary resources	$ 17,283,510	$ 18,718,420	$ 0	$ 0
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 11,704,936	$ 12,938,885	$ 0	$ 0
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(5,878,237)	(5,937,173)	0	0
Total unpaid obligated balance	$ 5,826,699	$ 7,001,712	$ 0	$ 0
Obligations incurred net (+/-)	16,261,161	16,895,570	0	0
Less: Gross outlays	(15,626,999)	(17,420,981)	0	0
Less: Recoveries of prior year unpaid obligations, actual	(2,870,136)	(708,538)	0	0
Change in uncollected customer payments from Federal sources (+/-)	$ 503,680	$ 58,938	$ 0	$ 0
Obligated balance, net, end of period				
Unpaid obligations	$ 9,468,962	$ 11,704,936	$ 0	$ 0
Less: Uncollected customer payments from Federal sources (-)	(5,374,557)	(5,878,237)	0	0
Total, unpaid obligated balance, net, end of period	$ 4,094,405	$ 5,826,699	$ 0	$ 0
Net Outlays:				
Gross outlays	$ 15,626,999	$ 17,420,981	$ 0	$ 0
Less: Offsetting collections	(16,315,876)	(16,676,731)	0	0
Net Outlays	$ (688,877)	$ 744,250	$ 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 (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. The Army WCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory systems 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 WCF continues to implement process and system improvements addressing these limitations. The Army WCF currently has ten auditor-identified financial statement material weaknesses : (1) Financial management systems; (2) Inventory; (3) General Property, Plant and Equipment (PP&E); (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 WCF 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 (WCFs) receive 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.

In fiscal year (FY) 2008, the Army WCF received, for the first time, a three-year appropriation for $719.9 million. The primary purpose of this appropriation was the financing of war reserve materiel in support of operations in Afghanistan and Iraq. These funds have been fully obligated and disbursed. The receipt of an expiring appropriation in the Army WCF was to this point, a one-time event. The Army WCF does not anticipate that this will be a continuing practice.

1.D. Basis of Accounting

The Army WCF's financial management systems are unable to meet all full accrual accounting requirements. Many of the Army WCF'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 WCF's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army WCF sub-entities. The underlying data is partially 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 Federal Employees Compensation Act 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). At this time, no Army WCF accounting systems are USSGL-compliant. The Army has implemented the Logistics Modernization Program (LMP) at Tobyhanna Army Depot, Communications Electronics Life Cycle Management Command, Corpus Christi Army Depot, Letterkenny Army Depot, Aviation and Missile Life Cycle Management Command, and other Army Materiel Command activities. Until LMP is fully implemented and all of the processes are updated to collect and report financial information as required by USGAAP, the Army WCF's financial data will be derived from a combination of proprietary systems, cost systems, and feeder systems.

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. Prices set for products and services offered through the Army WCF are intended to recover the full costs (cost plus administrative fees) incurred by these activities. Unearned revenue is recorded as deferred revenue until earned.

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, and unbilled revenue. 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 the Army WCF'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 WCF is unable to fully reconcile intragovernmental transactions with all federal agencies, Army WCF is able to reconcile balances pertaining to Federal Employees' Compensation Act transactions with the Department of Labor and benefit program transactions with the Office of Personnel Management.

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

1.J. 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. Allowances for uncollectible accounts due from the public are based on the estimate of uncollectible accounts receivable from the public on a percentage of aged receivables by category. The allowance is calculated by using 50 percent of aged receivables in the 181-day to 2-year category and 100 percent of aged receivables in the greater than 2-year 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/tfm/vol1/07-03.pdf.

1.L. Direct Loans and Loan Guarantees

Not Applicable.

1.M. Inventories and Related Property

The Army WCF has transitioned approximately 65 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 35 percent of resale inventories at an approximation of historical cost using latest acquisition cost (LAC) adjusted for holding gains and losses. The LAC method is used because legacy inventory systems were designed for materiel management rather than 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 (Public Law 104-208). In order to address these long-standing problems with inventory valuation, the Army WCF is continuing to transition remaining inventory balances to MAC as LMP is proliferated to additional sites.

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 the 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 with a completion date of year-end FY 2011 reporting.

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 LMP is fully implemented and all inventory related tasks in the Army Financial Improvement Plan have been addressed, to include logistics interfaces.

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 the 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, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. 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 PP&E capitalization threshold is $100,000 except for real property, which is $20,000. 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 in contract feeder systems, but has not fully implemented the policy primarily due to system limitations.

1.Q. Leases

Not Applicable.

1.R. Other Assets

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

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

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or 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 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 cumulative results of operations represents 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 receivable 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 intransit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.X. Significant Events

Not Applicable.

1.Y. Fiduciary Activities

Not Applicable.

Note 2. Nonentity Assets

As of September 30	2010	2009
(Amounts in thousands)		
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	$ 26,496,930	$ 27,052,157
5. Total Assets	$ 26,496,930	$ 27,052,157

Nonentity assets are assets for which the Army WCF maintains stewardship accountability and reporting responsibility but are not available for the Army WCF's normal operation.

Note 3. Fund Balance with Treasury

As of September 30	2010	2009
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 0	$ 232,023
B. Revolving Funds	1,808,081	1,117,568
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	$ 1,808,081	$ 1,349,591
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 1,808,081	$ 1,349,591
B. Fund Balance per Army WCF	1,808,081	1,349,591
3. Reconciling Amount	$ 0	$ 0

Status of Fund Balance with Treasury

As of September 30	2010	2009
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 1,022,349	$ 1,822,850
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	9,468,964	11,704,936
3. Nonbudgetary FBWT	0	0
4. Non-FBWT Budgetary Accounts	(8,683,232)	(12,178,195)
5. Total	$ 1,808,081	$ 1,349,591

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

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

NonFBWT Budgetary Accounts reduces the Status of FBWT. For the Army WCF, these 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	2010		
(Amounts in thousands)	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

As of September 30	2009		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 343,430	N/A	$ 343,430
2. Nonfederal Receivables (From the Public)	55,031	$ (5,407)	49,624
3. Total Accounts Receivable	$ 398,461	$ (5,407)	$ 393,054

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	2010	2009
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 0	$ 0
B. Other Assets	8,232	0
C. Total Intragovernmental Other Assets	$ 8,232	$ 0
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 193,247	$ 483,135
B. Advances and Prepayments	422,869	397,991
C. Other Assets (With the Public)	0	3,936
D. Total Nonfederal Other Assets	$ 616,116	$ 885,062
3. Total Other Assets	$ 624,348	$ 885,062

Other Assets (Intragovernmental) consist of the turn-in of unserviceable and obsolete inventory awaiting credit dispositions from federal sources, 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.

The balance of Outstanding Contract Financing Payments includes $160.4 million in contract financing payments and an additional $32.8 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		2010		2009
(Amounts in thousands)				
1. Inventory, Net	$	22,309,805	$	23,164,252
2. Operating Materiels & Supplies, Net		0		0
3. Stockpile Materiel, Net		0		0
4. Total	$	22,309,805	$	23,164,252

Inventory, Net

As of September 30	2010			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
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	

As of September 30	2009			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 19,368,592	$ (3,143,145)	$ 16,225,447	LAC, MAC
B. Held for Repair	7,285,566	(1,037,902)	6,247,664	LAC, MAC
C. Excess, Obsolete, and Unserviceable	473,341	(473,341)	0	NRV
D. Raw Materiel	490,280	0	490,280	MAC, SP, LAC
E. Work in Process	200,861	0	200,861	AC
F. Total	$ 27,818,640	$ (4,654,388)	$ 23,164,252	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost	NRV = Net Realizable Value
SP = Standard Price	LCM = Lower of Cost or Market
AC = Actual Cost	O = Other
MAC = Moving Average Cost	

Restrictions of Inventory Use, Sale, or Disposition

There are restrictions on the use, sale, and disposition of $2.2 billion in inventory classified as war reserve materiel. This type of inventory 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 the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work-in-process also includes the value of finished products or completed services pending 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.

Operating Materiel and Supplies, Net

Not Applicable.

Stockpile Materiel, Net

Not Applicable.

Note 10. General PP&E, Net

As of September 30	2010				
(Amounts in thousands)	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

As of September 30	2009				
(Amounts in thousands)	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	1,630,407	$ (1,280,520)	349,887
C. Leasehold Improvements	S/L	lease term	96,629	(86,308)	10,321
D. Software	S/L	2-5 or 10	740,838	(298,888)	441,950
E. General Equipment	S/L	5 or 10	1,595,058	(1,222,694)	372,364
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	85,676	N/A	85,676
J. Other			0	0	0
K. Total General PP&E			$ 4,148,608	$ (2,888,410)	$ 1,260,198

[1]*Note 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	2010	2009
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	45,627	46,378
D. Total Intragovernmental Liabilities	$ 45,627	$ 46,378
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement and Other Federal Employment Benefits	219,913	231,234
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	$ 219,913	$ 231,234
3. Total Liabilities Not Covered by Budgetary Resources	$ 265,540	$ 277,612
4. Total Liabilities Covered by Budgetary Resources	1,157,111	2,069,824
5. Total Liabilities	$ 1,422,651	$ 2,347,436

Liabilities Not Covered by Budgetary Resources include liabilities 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 the Army WCF by the Department of Labor (DOL) for payments made by DOL to Army's beneficiaries. The current portion of this bill, $20.3 million, is due in FY 2011 and the remainder is due in the following fiscal years.

Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Note 12. Accounts Payable

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

As of September 30	2009		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 84,576	N/A	$ 84,576
2. Nonfederal Payables (to the Public)	1,606,340	$ 0	1,606,340
3. Total	$ 1,690,916	$ 0	$ 1,690,916

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by the Army WCF. The Army WCF'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

Not Applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

Not Applicable.

Note 15. Other Liabilities

As of September 30	2010			2009
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	$ 0	$ 0	$ 0	$ 20,548
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	20,279	25,347	45,626	46,378
F. Custodial Liabilities	0	0	0	0
G. Employer Contribution and Payroll Taxes Payable	17,792	0	17,792	15,644
H. Other Liabilities	0	0	0	0
I. Total Intragovernmental Other Liabilities	$ 38,071	$ 25,347	$ 63,418	$ 82,570
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 268,589	$ 0	$ 268,589	$ 126,331
B. Advances from Others	71,376	0	71,376	83,704
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	(20,703)	0	(20,703)	(20,703)
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	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0	86,455
H. Capital Lease Liability	0	0	0	0
I. Contract Holdbacks	471	0	471	4,595
J. Employer Contribution and Payroll Taxes Payable	24,571	0	24,571	23,471
K. Contingent Liabilities	0	32,778	32,778	38,863
L. Other Liabilities	0	0	0	0
M. Total Nonfederal Other Liabilities	$ 344,304	$ 32,778	$ 377,082	$ 342,716
3. Total Other Liabilities	$ 382,375	$ 58,125	$ 440,500	$ 425,286

Capital Lease Liability

Not Applicable.

Contingent Liabilities

Contingent liabilities includes $32.8 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 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 Army's Office of the 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 Judgment Fund liabilities in Note 12, *Accounts Payable*, and Note 15, *Other Liabilities*.

Nature of Contingency

The FY 2010 Legal Representation Letter for the Army WCF outlines three claims against the Army WCF totaling $357.8 million for which the Army OGC is unable to express an opinion.

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, the 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 the Army WCF's contingent liabilities.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2010			2009
(Amounts in thousands)	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	$ 219,913	$ 0	$ 219,913	$ 231,234
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	$ 219,913	$ 0	$ 219,913	$ 231,234
3. Total Military Retirement and Other Federal Employment Benefits:	$ 219,913	$ 0	$ 219,913	$ 231,234

Federal Employees' Compensation Act

The Army WCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army WCF at the end of each fiscal year. The liability includes the 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) 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 relating to the Federal Employees' Compensation Act (FECA) decreased $11.3 million between FY 2009 and FY 2010.

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

2009	4.223%
2010	4.715% and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2009 are used to adjust the methodology's historical payments to current year constant dollars.

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

CBY	COLA	CPIM
2010	N/A	N/A
2011	2.23%	3.45%
2012	1.13%	3.43%
2013	1.70%	3.64%
2014	1.90%	3.66%
2015+	1.93%	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 by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2010 to the average pattern observed during the most current three CBYs, and (4) a comparison of the estimated liability per case in the 2010 projection to the average pattern for the projections of the most recent three years.

Other Disclosures

Actuarial liabilities are computed for employee compensation benefits as mandated by 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 4.1 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		2010		2009
(Amounts in thousands)				
1. Intragovernmental Costs	$	3,660,487	$	4,290,257
2. Public Costs		25,408,223		25,957,290
3. Total Costs	$	29,068,710	$	30,247,547
4. Intragovernmental Earned Revenue	$	(15,360,609)	$	(13,645,957)
5. Public Earned Revenue		(14,333,015)		(15,914,486)
6. Total Earned Revenue	$	(29,693,624)	$	(29,560,443)
7. Net Cost of Operations	$	(624,914)	$	687,104

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

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

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

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.

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 SNC is based on non-financial feeder systems, including property accountability and logistics systems. The Army WCF is in the process of converting to the Logistics Modernization Program to address this issue.

The Army WCF is researching the $505.1 million abnormal balance for nonfederal revenue for services provided, which is displayed on the trial balance.

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

Other Financing Sources, Other on the Statement Changes in Net Position consist 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	2010	2009
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 9,146,899	$ 10,597,722
2. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

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

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

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2010	2009
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 16,261,161	$ 16,895,570
2. Less: Spending authority from offsetting collections and recoveries (-)	(18,682,332)	(17,326,331)
3. Obligations net of offsetting collections and recoveries	$ (2,421,171)	$ (430,761)
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	$ (2,421,171)	$ (430,761)
Other Resources:		
6. Donations and forfeitures of property	$ 0	$ 0
7. Transfers in/out without reimbursement (+/-)	(1,398,190)	(119,665)
8. Imputed financing from costs absorbed by others	209,352	174,567
9. Other (+/-)	1,163,871	1,028,859
10. Net other resources used to finance activities	$ (24,967)	$ 1,083,761
11. Total resources used to finance activities	$ (2,446,138)	$ 653,000
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 (-)	$ 1,450,822	$ 1,639,490
12b. Unfilled Customer Orders	(364,859)	(163,069)
13. Resources that fund expenses recognized in prior Periods (-)	(98,553)	(44,670)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
15. Resources that finance the acquisition of assets (-)	(7,488,952)	(8,617,214)
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 (+/-)	234,319	(909,197)
17. Total resources used to finance items not part of the Net Cost of Operations	$ (6,267,223)	$ (8,094,660)
18. Total resources used to finance the Net Cost of Operations	$ (8,713,361)	$ (7,441,660)

As of September 30	2010	2009
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 0	$ 10,672
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 (+/-)	0	0
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 0	$ 10,672
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 132,592	$ 61,493
26. Revaluation of assets or liabilities (+/-)	(1,482,128)	(8,977)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	9,525,406	10,684,562
27c. Operating Material and Supplies Used	0	0
27d. Other	(87,422)	(2,618,985)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 8,088,448	$ 8,118,093
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 8,088,448	$ 8,128,765
30. Net Cost of Operations	$ (624,913)	$ 687,105

Due to the Army WCF's financial systems limitations, budgetary data is not in agreement 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 $1.7 billion to bring the note schedule into agreement with the Statement of Net Cost.

The following Reconciliation of Net Cost of Operations to Budget lines is presented as combined instead of consolidated due to interagency 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

Other Resources, Other consist 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 consist 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 consist 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 9, 2010

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

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund FY 2010 and FY 2009 Basic Financial Statements (Report No. D 2011 004)

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, 2010 and 2009, 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 2010 and FY 2009 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 2010 and FY 2009 Basic Financial Statements do not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that the Army financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2010. 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.

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

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 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 Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

In planning our work, we considered the Army internal control over Working Capital Fund 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 material weaknesses continue 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
- Other 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 2010 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 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

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

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 material weaknesses continue 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. The Army derives 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 and the Standard Industrial Fund System.

In FY 2003, the Army began deploying the Logistics Modernization Program system as the core financial management system for the Army Working Capital Fund and completed the final deployment of this system to all Army Working Capital Fund activities on October 21, 2010. 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.

DOD Inspector General Report No. D-2011-015, "Insufficient Governance Over Logistics Modernization Program System Development," November 2, 2010, found that the Logistics Modernization Program system was not configured to comply with the U.S. Government Standard General Ledger (USSGL) or to record transactional data correctly in accordance with Government accounting standards. The Logistics Modernization Program system did not have all the required USSGL accounts in its general ledger, record transactions correctly with the required attributes, and generate a trial balance in the USSGL format required for financial reporting. In addition, the system did not record transactions in accordance with the USSGL and DOD Standard Financial Information Structure transaction libraries. The Army reported that it will complete a five-phased implementation of the necessary modifications to the Logistics Modernization Program system to bring it into compliance with the Standard Financial Information Structure by March 2011. However, the Army does not expect to complete all corrective actions needed to resolve the financial management systems weakness until FY 2015.

Inventory

The inventory valuation method used for some 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 (SSFAS) No. 3, "Accounting for Inventory and Related Property." The Army uses the latest acquisition cost method of valuing some of its inventory because the Army designed legacy systems for materiel management, rather than for accounting in conformance with U.S. GAAP. The legacy systems provide accountability for inventory items but do not maintain the historical cost data necessary to comply with SSFAS No. 3. As of September 30, 2010, the Army reported 65 percent of its resale inventory in the Logistics Modernization Program system, which is capable of recording inventory using moving average cost. However, the Army reported that it did not correctly revalue the inventory held for resale in the legacy systems from latest acquisition cost to the moving average cost basis during the first two deployments of the Logistics Modernization Program system.

In addition, the legacy systems are unable to produce financial transactions using the USSGL accounts, and neither the Defense Finance and Accounting Service (DFAS) nor the Army reconciled all differences between the accounting records and the logistical records. Instead, they accepted the data from the logistical records and adjusted the accounting records by $2.4 billion. The final deployment of the Logistics Modernization Program system during FY 2011 is intended to eliminate the future need for accomplishing this adjustment. 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. The Army Working Capital Fund activities sometimes recorded the acquisition data and cost incorrectly or received incorrect information from the feeder systems. In addition, the Army Working Capital Fund financial statements incorrectly reported real property assets belonging to other Military Departments that were being used by Army Working Capital Fund activities.

Beginning in FY 2011, the DOD Financial Management Regulation, Volume 4, Chapter 6, Annex 4, "Real Property Financial Reporting," requires the acquisition value of real property assets and associated depreciation to be recorded 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 Assistant Chief of Staff for Installation Management directed that the 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, 2010, the Office of Assistant Chief of Staff reported that it had completed asset existence validation assistance visits to 25 of 26 Army Working Capital Fund activities. In addition, it completed file assembly assistance visits to 10 of 26 Army Working Capital Fund activities to develop supportable cost documentation for each asset inventoried. The Army plans to have its real property validations completed in FY 2013.

Accounts Payable

DFAS adjusted Accounts Payable balances to derive the reported balances. It adjusted Accounts Payable with the Public downward by $69.3 million for undistributed disbursements. The Army Working Capital Fund systems also cannot reconcile Accounts Payable with corresponding Intragovernmental Accounts Receivable that generated the payables. As a result, DFAS made $1.1 billion in unsupported adjustments, which increased Intragovernmental Accounts Payable by a net amount of $578.9 million, to force the amounts to agree with Army Working Capital Fund trading partners. In addition, the Supply Management, Army, did not establish accounts payable in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," which requires the Army to establish an Account Payable when it accepts title to goods or services.

Abnormal Account Balances

In FY 2010, the Army Working Capital Fund Industrial Operations and Supply Management activities (limit-level) reported 81 abnormal account balances, valued at $2.1 billion. Of the 81 abnormal account balances, 33 valued at $1.6 billion, were reported by activities using the Logistics Modernization Program system. Of the 16 installations where the Army had fielded the Logistics Modernization Program system as of September 30, 2010, 12 reported at least one abnormal account balance for FY 2010. The Army and DFAS used the 81 abnormal balances to compute the amounts reported on the Balance Sheet for such items as Accounts Receivable, Inventory, Accounts Payable, Other Assets, and Other Liabilities.

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. Accounting systems did not accurately capture costs for Army Working Capital Fund programs or properly account for intragovernmental transactions and related eliminations. 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 continues to use budget execution data contained in status reports.

The Army's ability to correct the weakness relies on the implementation of the Logistics Modernization Program system at all Army Working Capital Fund activities. In addition, Army business processes must use the correct budgetary general ledger accounts within the Logistics Modernization Program system. DFAS made $221 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 DOD and Army Working Capital Fund systems did not capture the trading partner financial data 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 $7.9 billion in adjustments to Army Working Capital Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners.

Other Accounting Entries

DFAS did not adequately support $14.9 billion in journal vouchers used to prepare the Army Working Capital Fund financial statements. DFAS made unsupported adjustments to force amounts to agree with other sources of information and records used in preparing the FY 2010 Army Working Capital Fund Financial Statements. In addition, DFAS did not always follow the established minimum requirements to document the analytical process used to develop the journal vouchers and support adjusting accounting entries made to the general ledger accounts. The resulting unsupported accounting adjustments present a material uncertainty regarding the line item balances on the FY 2010 Army Working Capital Fund Financial Statements.

Reconciliation of Net Cost of Operations to Budget

SSFAS No. 7, "Revenues and Other Financing Sources," 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 $2.3 billion 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 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with the Federal financial management system requirements, applicable Federal accounting standards, and USSGL at the transaction level. For FY 2010, the Army did not fully comply with FFMIA. The Army acknowledged that many of its critical financial management and feeder systems did not substantially comply with the Federal financial management system requirements, Federal accounting standards, and USSGL at the transaction level as of September 30, 2010.

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 and 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.

In June 2009, the Army initiated a formal investigation of a potential violation of ADA within the Army Working Capital Fund at Blue Grass Army Depot. As of September 30, 2010, the Army Materiel Command was still investigating the potential violation, after receiving input from the Army Office of General Counsel and Assistant Secretary of the Army (Financial Management and Comptroller). During FY 2010, the Army reported no additional violations of ADA related to the Army Working Capital Fund.

DOD internal guidance limits the time from identification to reporting of ADA violations to 12 months. Our review of the Army Working Capital Fund ADA violations showed that the Army did not process the Blue Grass Army Depot case within 12 months. Until the Army's investigation is completed, we cannot determine whether the Army has fully complied 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 2, 2010, 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 Payment 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.

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

Department of the Army

Office of the Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)

Office of the Financial Reporting Directorate
Room 3A312, 109 Army Pentagon
Washington, DC 20310-0109

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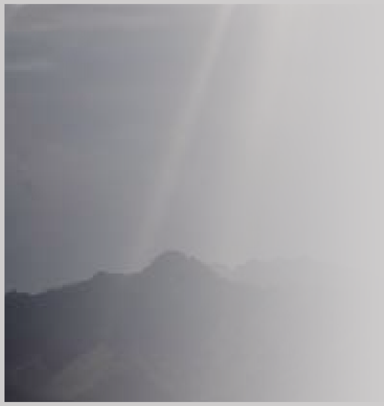

The Soldier's Creed

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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