U.S.ARMY

2013

FISCAL YEAR 2013 UNITED STATES
ARMY ANNUAL FINANCIAL REPORT

SERVICE TO THE NATION, STRENGTH FOR THE FUTURE

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1 A Soldier negotiates a water obstacle during pre-mobilization training. (New York Army National Guard Photo by Spc. Harley Jelis) / **2** A girl gives her father a long awaited hug as he returns from a nine-month deployment. (Photo courtesy of the U.S. Army) / **3** A U.S. Army sargeant and tank gunner checks the battery box and connections on his M1A1 Abrams tank. (U.S. Army by Sgt. Ken Scar, 7th Mobile Public Affairs Detachment) / **4** Soldiers clean an AH-64D Apache after a training exercise. / **5** Providing security during a counter-improvised explosive device (CIED) training exercise. (U.S. Army Photo by Gertrud Zach) / **6** Pulling security during a senior leader engagement in Afghanistan. (U.S. Army photo by Spc. Alexander Naylor, Released) / **7** Performing a pre-flight inspection on an RQ-7B Shadow. (U.S. Army photo by Spc. Margaret Taylor) / **8** A Soldier tests his 'swiss seat' while rappelling. (U.S. Army photo by Sgt. Keith Rogers) / **9** A platoon sergeant assembles small arms during competition. (Photo by Capt. John Farmer) / **10** Soldiers attach the hook during sling load operations. (U.S. Army photo by Visual Information Specialist Markus Rauchenberger)

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Last year, in my introduction to the Army's Fiscal Year 2012 Financial Report, I noted that the Army was entering a period of leaner times as the United States began to disengage from foreign wars and our Soldiers continued to return home. Our goal then was to adapt to new fiscal realities without compromising our ability to carry out our mission whenever and wherever our Soldiers are called to action. We moved out and began to put in place a long-term plan to reduce spending and find new efficiencies that would enable us to reinvest in higher priority programs.

A year later, the Army is facing an even greater fiscal challenge that is reshaping our path to achieve those goals. We will endeavor to chart the wisest path; but in this unreasonably constrained fiscal environment, even the wise path will be treacherous. The current and the ongoing fiscal realities have extracted a great cost. We are being asked – as are our colleagues in the other services – to tighten our fiscal belt beyond what was forecasted a year ago. The sequestration – the across-the-board reductions in federal spending mandated by law – struck the Department of Defense particularly hard. The Army, the largest and most visible of the Nation's defending forces, has taken the greatest share of the sequestration burden, and the effect on Soldiers, Civilians, and their Families cannot be overstated.

While we continue to hope for relief, prudence requires that we plan for reality. Though we must face the reality of budgetary constraints, it is equally important to realize that we will meet this challenge. We may be leaner and we will be smaller, but we will focus on being stronger and more agile. We will have fewer budgetary resources in our accounts, but we will be more resourceful with what we have. We must continue to represent to the Nation and to the world that often calls upon us to serve that we remain America's Army and the most powerful land force in the world.

This FY 2013 financial report reflects the Army's commitment across the scope of operations to address the ever-tightening budget realities while never forgetting our primary mission or our responsibilities to our Soldiers and our staunchest supporters. We will continue to care for Army Families who share their Soldiers' burdens; we will continue to support our Army Civilians whose work is vital to the mission; and we will keep our promises to the wounded Soldiers who count on us to help heal their wounds and provide for their Families. Those are all non-negotiable obligations we hold, and while budgets may tighten and resources diminish, the President, the Secretary of Defense and I stand firm in our commitment to support, in every way possible, the men and women of the United States Army. As America's Army, we will continue to serve with dignity, courage, honor and strength.

John M. McHugh
Secretary of the Army

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The Army undertook and achieved some of our most ambitious financial improvements during Fiscal Year (FY) 2013 while we made significant progress of increased accountability throughout the Army. We will build upon our successes in the coming year as we strive to meet congressionally mandated audit readiness timelines. The culmination of this hard work, at all levels of the organization, will provide more reliable and timely financial information with greater accuracy in support of the highest standards of military readiness.

Despite several immense challenges, including the strain of 12 years of war, budget uncertainty, and sequestration, and the negative impact of civilian furloughs, the Army displayed resilience and commitment in implementing and improving the operation of modern financial systems. Chief among these systems are the General Fund Enterprise Business System (GFEBS) and the Logistics Modernization Program (LMP), which have introduced automated standard processes and controls to the Army's business operations. Additionally, the Army continues to develop and deploy the Global Combat Support System-Army (GCSS-A) and the Integrated Personnel Pay System-Army (IPPS-A); both of which will modernize and improve our business processes and lead to significantly more efficient and effective functionality, while greatly contributing to our goal of producing audit-ready financial statements.

The Army is employing the tools necessary to benchmark results and monitor progress toward meeting our audit readiness goals. Progress is only possible with the strong commitment of senior leaders and the superb efforts of a dedicated workforce. During the past year, through the perseverance and accomplishments of such dedicated Soldiers and Civilians, we took several critical steps towards achieving an audit-ready Schedule of Budgetary Activity by FY 2015. Key milestones included undergoing an audit on material GFEBS budgetary activity, successfully passing an audit of Army Real Property assets by independent public accountants, implementing several internal monthly controls testing initiatives, and other similar accomplishments geared to achieving a full audit-ready financial report by September 2017.

We are proud of our FY 2013 accomplishments; however, our continued progress and sustained efforts toward fiscal accountability are what we owe to the American taxpayers, as we resource and deliver the mission-ready capabilities and Army our Nation demands.

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

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A combat medic keeps watch on a road during a logistics inspection in Afghanistan. (U.S. Army photo by Sgt. Jessi Ann McCormick)

Troops pack up their gear as they prepare to leave Forward Operating Base Azizullah, Afghanistan. (Photo by Spc. Joshua Edwards, Combined Task Force Dragoon Public Affairs)

Overview

The Army is transitioning to a more versatile, operationally adaptable force that will take on broader missions in support of the national defense strategy.

The Army remains the best-trained, best-equipped and best-led fighting force in the world, providing a credible and capable instrument of national power. The Army conducts many missions worldwide in support of national security objectives, as well as within the United States in support of civil authorities. The Army has over 67,000 Active Component (AC) and Reserve Component (RC) Soldiers committed to operations around the world—in Afghanistan, Kosovo, the Philippines, Horn of Africa, and throughout the Middle East as of September 25, 2013. Forward-stationed Army forces in the Republic of Korea, Japan, Europe, and elsewhere provide Geographic Combatant Commands with an unparalleled capability to prevent conflict, shape the environment and, if necessary, win decisively.

The Soldiers of our all-volunteer force are the Army's greatest strategic asset. They provide depth and versatility throughout the Total Force—the Active Army, the Army National Guard (ARNG), and the Army Reserve (USAR). The Active Army is reducing its end-strength from a wartime high of approximately 570,000 to 490,000 by the end of Fiscal Year (FY) 2015; the ARNG from 358,000 to 350,200 by the end of FY 2017; the USAR will maintain a 205,000 end-strength, and the civilian workforce from 272,000 to 255,000 by the end of FY 2017. These reductions, which began in FY 2012, represent a net loss of 106,000 Soldier and civilian positions.

Building upon the expertise gained from operations in Iraq and Afghanistan, the Army is transitioning to a more versatile, operationally adaptable force that will take on broader missions in support of the national defense strategy. While reducing end-strength, the Army must maintain ready and responsive forces that meet mission requirements while optimizing resources.

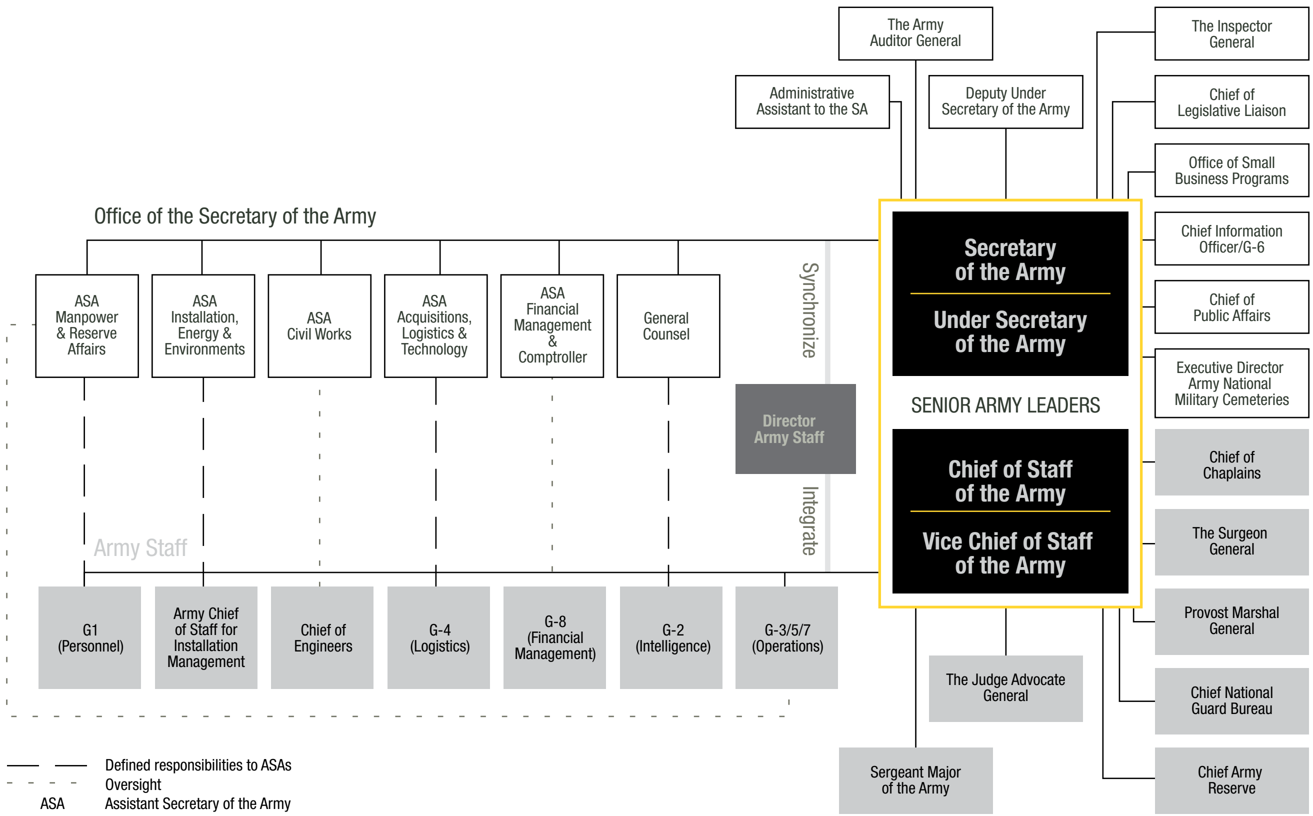


FIGURE 1 – HEADQUARTERS, DEPARTMENT OF THE ARMY (HQDA)

Mission and Organization of the Army

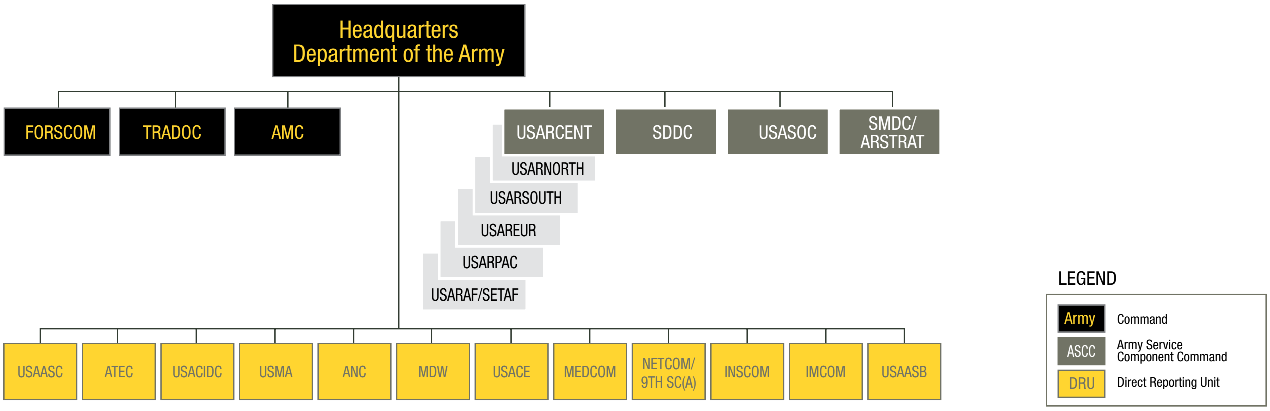
The mission of the United States Army is to fight and win the Nation's wars through prompt and sustained land combat as part of the joint force. The Army organizes, equips, and trains Soldiers for rapid, sustained combat operations on land; integrates Army capabilities with those of the other armed services;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

The Army is organized to support and sustain the mobilization, training, and deployment of its Soldiers anywhere in the world. Headquarters, Department of the Army (HQDA) (Figure 1), under the direction of the Secretary of the Army and the Chief of Staff, leads and manages the entire Army. The HQDA Staff is composed of the Office of the Secretary of the Army (Secretariat) and the Army Staff (ARSTAF).

Organizations reporting to HQDA as part of the Army's command structure (Figure 2) include Army commands, Army service component commands, and direct reporting units. The operational Army consists of numbered armies, corps, divisions, brigade combat teams, and battalions that conduct the full range of military operations. The institutional Army supports the operational Army by providing the infrastructure necessary to man, train, equip, deploy, and ensure the readiness of all Army forces.

The HQDA Staff supports the Secretary by:

- ★ Developing policies, plans, and programs.
- ★ Establishing and prioritizing requirements.
- ★ Providing resources to organize, man, train, and equip Soldiers to meet the combatant commands' current and future operational requirements and other needs as defined by the President, the Secretary of Defense, and the Secretary of the Army.



AMC	Army Materiel Command	NETCOM/9th SC	Network Command/9th Signal Command	USARCENT	Army Central
ANC	Arlington National Cemetery	SDDC	Surface Deployment and Distribution Command	USAREUR	US Army Europe
ARSTRAT	Army Strategic Command	SETAF	Southern European Task Force	USARNORTH	Army North
ATEC	US Army Test and Evaluation Command	SMDC	Space and Missile Defense Command	USARPAC	US Army Pacific
FORSCOM	Force Command	TRADOC	Training and Doctrine Command	USARSOUTH	Army South
IMCOM	Installation Management Command	USAASC	US Army Acquisition Support Center	USASOC	US Army Special Operations Command
INSCOM	US Army Intelligence and Security Command	USACE	US Army Corps of Engineers	USMA	US Military Academy
MDW	Military District of Washington	USACIDC	US Army Criminal Investigation Command		
MEDCOM	Medical Command	USARAF	US Army Africa		

FIGURE 2 – ARMY COMMAND STRUCTURE

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 ARNG and the USAR. The Congress annually reviews and mandates the number of Soldiers that the Army may maintain.

The ARNG has a dual role. Its first role is that of a state military force to train for, and respond to, domestic emergencies and other missions required by state law. The ARNG can also serve a federal role as part of the operational force, providing trained and ready forces for wartime, national emergencies, and other contingencies. 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 and sustain the deployment of Army forces around the globe. In addition, it is the primary source for individual Soldiers needed to augment headquarters staff and fill vacancies in the AC.

Preparing to conduct a movement during an air assault exercise at Fort Drum, New York. (U.S. Air National Guard photo by Staff Sgt. Sarah Mattison)

Performance Goals, Objectives, and Results

The Army is poised to meet its performance goals by the end of FY 2013. Maintaining credible strategic land-power requires the Army to continually assess and refine how we operate, manage our human capital, and increase our capabilities. The Army will build regionally-aligned, mission-tailored, land forces with a versatile mix of capabilities, formations, and equipment that is affordable and cost effective. Going beyond materiel and equipment solutions, the Army's modernization strategy is a comprehensive effort that includes doctrine, organizations, training, leadership, personnel, and facilities. The Army will develop, field, and sustain equipment that provides Soldiers and units the capabilities they need to be successful.

SUSTAIN

The Army must maintain the quality and viability of the all-volunteer force, as well as the many capabilities it provides the Nation, 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, leading to improved retention rates.

Manning the Force—Recruiting and Retaining Soldiers

While the recruiting environment is challenging, the Army remains committed to bringing only the very best into its ranks. The Army's goal is to achieve no less than a 90% rate of new recruits with Tier 1 educational credentials, e.g., high school diplomas or above. The Army achieved over 99% Tier 1 recruits in FY 2013, which is in line with the FY 2012 achievement. The overall attrition rate remained virtually unchanged over the last three years. The unvarying attrition rate and overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly-qualified force.

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

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Tier 1 Goal	90%	90%	90%	90%	90%
Tier 1 Actual	95%	98%	99%	96%	99%

Performance Measure: The Army met its recruiting requirements in the AC. A tougher recruiting environment made recruiting for the AR and ARNG more difficult in FY 2013.

TABLE 2 – ACCESSIONS

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Goal	FY 2013 Actual
Active Component	70,045	74,577	64,019	53,324	69,000	69,154
Army National Guard	52,014	57,204	47,206	39,796	45,400	44,734
U. S. Army Reserve	23,684	26,795	19,996	15,729	20,130	15,568

Troopers jog to a waiting UH-60 Black Hawk helicopter during training for protecting the U.S. consulate at Herat, Afghanistan. (U.S. Army photo by Capt. Andrew Cochran/released)

TABLE 3 - ACTIVE COMPONENT END STRENGTH WITHIN 2 PERCENT

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Goal	552,400	562,400	569,400	562,000	552,100
Congressional Baseline	532,400	562,400	569,400	562,000	542,700
Actual	553,044	566,045	565,463	551,503	532,043
Percent Change	+3.9%	+0.7%	-0.7%	-1.9%	-2.0%

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 2013. Under presidentially-declared states of national emergency, end-strength limits may be waived.

TABLE 4 - RESERVE (ARNG AND USAR) END STRENGTH WITHIN 2 PERCENT

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Goal	563,200	563,200	563,200	564,200	563,200
Actual	563,688	567,296	567,010	559,610	555,944
Percent Change	+0.1%	+0.7%	+0.7%	-0.8%	-1. 2%

Performance Measure: The number of Soldiers in the ARNG and the USAR at the EOM, September 2013.

Members of the Utah Army National Guard assist with freefall and static line parachute jumps near Camp Williams, Utah. (Photo by U.S. Air Force Staff Sgt.Tim Chacon)

U.S. Army Chief of Staff Gen. Ray Odierno reenlists Soldiers in Afghanistan. (U.S. Army Photo by Staff Sgt. Teddy Wade/Released)

TABLE 5 - ACTIVE AND RESERVE COMPONENT RETENTION

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Goal	FY 2013 Actual
Active Component	68,387	60,000	43,626	64,012	51,800	58,739
Army National Guard	36,672	30,472	39,750	49,272	59,234	51,145
Army Reserve	16,523	11,163	10,330	14,377	14,104	15,731

Performance Measure: The number of Soldiers reenlisted during a given FY against published goals. The AC and AR achieved their retention mission for FY 2013 as of the end of September 2013.

Due to Overseas Contingency Operations (OCO), several special skills remain in high demand. In FY 2013, the Army offered a Critical Skills Retention and Selective Reenlistment Bonus to attract and retain personnel in specific skills areas, including Special Forces, Explosive Ordnance Disposal (EOD), and Military Intelligence. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army to exceed its FY 2013 retention goal. Careful and deliberate adjustments to bonuses, including designation of targeted critical skills, ensured the correct mixture of skilled Soldiers. Recruiting and retaining Soldiers—confident, adaptive, competent, and able to handle the complexity of 21st century warfare in a combined, joint, expeditionary environment—is a highly-competitive endeavor. The Army will continue to develop and implement programs to address this challenge.

Improving the Quality of Life for Soldiers and Their Families

The Army has statutory obligations and operational imperatives to provide a balanced array of programs and services to Soldiers, their Families, and Army civilians that meet the unique demands of a military lifestyle, foster life skill competencies, strengthen and sustain physical and mental fitness and resiliency, and promote strong and ready Army communities.

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

The Army Family Covenant (AFC) is our senior leaders' commitment to deliver proven quality-of-life programs and services that support our Soldiers, wounded warriors, civilians, retirees, family members, and survivors of the fallen. The AFC builds and sustains Army readiness, resilience, morale, and sense of belonging; keeps faith with those who have sacrificed so much for the defense of the Nation; fosters an environment that allows for self-reliance; promotes physical, emotional, social, Family, and spiritual strength; and maintains the strong bond of trust between the Army and the American people.

The Army joined forces with communities across the country to inspire support that complements or fills gaps in existing Army programs. These programs provide Soldiers and Families of all components with a balanced array of services that meet the unique demands of a military lifestyle. Such services foster life skill competencies, strengthen coping skills, encourage resiliency instead of dependence, and offer short-term support and assistance when needed.

Warrior Care and Transition

With the continued maturation of the Army's Warrior Care and Transition Program (WCTP), wounded, ill, and injured Soldiers and their Families are receiving the care management and support they need and deserve. The Warrior Transition Command (WTC) ensures focused and effective management across all aspects of the WCTP. In FY 2013, the Army dedicated $321 million to equip the WCTP with support staff, training, and information technology (IT), and to make investments in warrior transition unit (WTU) administrative facilities, barracks, and Soldier Family Assistance Centers (SFACs). As of the end of FY 2013, 19 of the 20 new congressionally-appropriated WTU campus construction projects are complete and operational. Staff across the enterprise includes all components and contractors, with almost 4,000 squad leaders, platoon sergeants, nurse case managers, and support staff coordinating care in WTUs and community-based WTUs (CBWTU).

With the WTC leading the way, the Army cares for over 25,500 Soldiers and veterans annually. Under WTC's direction, the Army Wounded Warrior Program assists and advocates for over 17,700 wounded, ill, and injured Soldiers, veterans, and their Families and caregivers. Their wounds, illnesses, and injuries include hearing or vision loss, amputations, spinal cord injuries, burns, paralysis, traumatic brain injury, post-traumatic stress disorder, and severe and terminal illnesses. This population is supported by over 200 advocates located at major military treatment facilities, Army installations, Department of Veterans Affairs (VA) medical centers, and in local communities throughout the continental United States, Alaska, Hawaii, Puerto Rico, and Germany. Advocates function as integrated, collaborative members of multidisciplinary

United with family and friends after an almost yearlong deployment to Afghanistan. (Photo by Bill Prokopyk, ND National Guard Public Affairs Office)

Members of the U.S. Army Wounded Warrior track team practice their technique from the starting blocks in Colorado Springs, Colorado. (DoD Photo by Marvin Lynchard)

healthcare and benefits teams within the WTUs, CBWTUs, and the VA. There are over 1,600 wounded warriors, supported at 9 CBWTUs, who have been provided the opportunity to heal in their home communities with their families. Approximately 6,200 additional wounded warriors are supported at 29 WTU locations.

To help each WTU Soldier either return to the force or transition to veteran status, the Army developed a systematic framework known as the Comprehensive Transition Plan (CTP). The CTP is conducted across six domains and includes an individual plan created by the Soldier with the assistance of a dedicated Triad of Care and Interdisciplinary Team. Using a standardized framework, this process enables wounded, ill, and injured Soldiers to customize their recovery plans and empowers them to set and reach their personal and professional goals. In FY 2013, funding allowed approximately 35% of the wounded warrior population to return to duty, while enabling others to successfully transition to civilian life to further their education, and/or enter the workforce. The program's success can be attributed, in part, to an aggressive clinical and non-clinical rehabilitative approach. The funding-supported pillars of this program include such activities as:

- ★ Adaptive reconditioning (physical and mental stamina activities). Programs include those geared toward the holistic healing and mental and physical fitness of wounded, ill, and injured Soldiers.
- ★ Warrior Games in collaboration with the U.S. Olympic Committee (USOC).
- ★ Comprehensive Soldier and Family Fitness—performance enhancement and resilience training.

Ready and Resilient Campaign

The Ready and Resilient Campaign (R2C) is a comprehensive plan to address the immediate and enduring needs of the Total Army, including Active, Reserve, and National Guard Soldiers, their Families, and Army civilians. R2C guides the Army's efforts to build and maintain resilience across the Total Army to improve unit readiness and further reinforce the Army profession. The Army supports R2C through various programs and services delivered on the garrisons such as, but not limited to, sponsorship, the Army Substance Abuse Program (ASAP), Suicide Prevention, Comprehensive Soldier and Family Fitness Program, the Army Sports Program, Better Opportunities for Single Soldiers (BOSS), Survivor Outreach Services (SOS), Child, Youth, and School Services (CYSS), the Exceptional Family Member Program (EFMP), Soldier Family Assistance Centers (SFAC), Army Communities of Excellence (ACE), Army Community Service (ACS), internships, and transition programs.

Improving Soldier and Family Housing

The Army's commitment, coupled with congressional support for housing programs, brings to reality 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 exercise considerable effort to improve both family and unaccompanied Soldier housing. The Army continues to eliminate inadequate family housing at enduring locations through privatization and either the demolition or divestiture of uneconomical and excess facilities. The Army continues to move forward to maintain 16,068 Army-owned family housing units and improve or replace all inadequate family residences worldwide; these improvements are reflected in its property records. Using the same business model as the Residential Communities Initiative (RCI) program, the Army's inventory of inadequate lodging is being eliminated at enduring U.S. locations through the Privatization of Army Lodging (PAL) program, and either the demolition or divesture of uneconomical and excess lodging buildings.

The privatization of homes at 44 installations was completed on schedule in 2010. These 44 installations have an end-state inventory of 86,055 family homes. In addition to privatized family housing, the Army executed five unaccompanied housing (UH) privatization projects. Four UH privatization projects were for staff sergeants and above at Forts Irwin, Drum, Bragg, and Stewart; and the fifth project was for sergeants and below at Fort Meade. Together, these facilities will provide 2,402 spaces at five installations for unaccompanied personnel.

The RCI and PAL programs are in the portfolio and asset management phase. Like RCI, PAL buildings are located at 39 installations, and are in the development phase, which is scheduled to be completed by 2019 with a projected end state of 14,138 guest rooms.

The Army is working to eliminate inadequate, common area latrines in permanent party, single-Soldier barracks, and to complete the modernization program in the future. The FY 2013 permanent-party barracks projects—which were deferred or placed on hold to reduce the risk of over-building due to pending stationing decisions—will be addressed in the FY 2016-2020 Program Objective Memorandum (POM). As of FY 2013, the Army has 150,404 adequate bedrooms funded out of 154,505 bedrooms required.

The Army's Training Barracks Modernization Program constructs, restores, and modernizes initial entry training barracks to eliminate existing deficits and improve facility quality for Soldiers attending basic training, one-station unit training, and advanced individual training. As of FY 2013, 73,953 spaces have been funded out of 97,939 spaces required.

PREPARE

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

Providing Support for Operational Requirements

The pace of operations in the current security environment presents a number of significant force management challenges. Due to the Army's global commitments,

A U.S. Army sergeant medic is hoisted back into his crew's UH-60 Black Hawk helicopter during a training exercise near Nangarhar province, Afghanistan. (U.S. Army National Guard photo by Sgt. Margaret Taylor) approximately 165,000 Soldiers are deployed or forward-stationed in nearly 150 countries. As of September 24, 2013, approximately 130,000 personnel were serving in the AC, and approximately 35,000 RC Soldiers were on mobilization orders.

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

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

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

Training Soldiers

Initial entry training develops warfighting capability through training in individual warrior tasks and battle drills as well as military occupational specialties. To ensure tasks remain relevant to the operating environment, the Army reviews and updates these tasks and drills every two years.

The Army continues to augment its ability to conduct irregular warfare through several multi-functional courses. For example, some courses build on language and cultural competencies while others 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.

TABLE 6 - INDIVIDUAL TRAINING[1]

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
2010 Trained (actual)	75,920	32,129	105,310	17,916	2,307	2,273	1,132
2011 Trained (actual)	73,825	29,468	91,480	16,364	1,424	2,236	1,260
2012 Trained (actual)[2]	65,321	27,119	79,246	15,462	1,001	1,742	1,244
2013 Trained (interim)[2]	55,970	19,631	66,034	9,234	801	1,659	610

Note 1: 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 started in FY 2011 and graduated in FY 2013, it is counted in the FY 2011 data.

Note 2: The actual trained data for 2012 and the interim trained data for 2013 are as of September 18, 2013.

Soldiers refuel an AH-64D Apache Longbow helicopter at the Oberdachstetten, Germany, Local Training Area forward arming and refueling pad. (U.S. Army photo by Luis Viegas)

Training Units

In FY 2013, the Army provided trained and ready Soldiers to commanders around the globe in addition to meeting critical homeland defense missions. To make certain they were combat-ready in FY 2013, deploying Soldiers engaged in a balanced mix of live, virtual, and constructive training. The deploying AC and RC units executed a focused and demanding ground- and air-training plan, which included actual miles driven and hours flown, as well as virtual miles driven and hours flown through the use of simulators. In FY 2013, home-station training miles and hours executed were affected by the Continuing Resolution Authority (CRA) and sequestration; non-deploying units were funded at lower training proficiency levels. Official OPTEMPO results for FY 2013 were not available at the time of this publication.

Training Support Systems

The Army's Training Support System (TSS) enables training at home stations, Combat Training Centers (CTC), and institutions by creating realistic conditions that reflect the operational environment. The TSS provides and operates training support products, services, and facilities in the form of critical training enablers, such as ranges and targets; live-virtual-constructive and gaming Training Aids, Devices, Simulators, and Simulations (TADSS); instrumentation systems; training facilities; maintenance of fielded TADSS; and training support operations and management (O&M).

As a result of Army Training Strategy III, the Army identified capabilities needed to adapt TSS to support ARFORGEN training requirements and lessons learned from current operations. At home stations, training must support Soldiers, leaders, and units training for decisive action.

Sequestration had major effects, ranging from limited access to training ranges, to reduced hours of operation at Mission Training Complexes (MTC). Sequestration compounded the effects of reduced capability by only resourcing 75% of the critical requirements (CR), severely affecting the level of TSS necessary to keep training support available and relevant. The uncertainty of FY 2013 O&M funding and the incremental release of funds based on HQDA level decisions had an impact on TSS at the installation level. Installations were required to rely heavily on Borrowed Military Manpower (BMM) from units to perform TSS functions.

This was a challenging year for executing TSS TADSS maintenance support resources due to CRA and Sequestration. Initial risk was assumed in time and material as well as firm fixed price contracts necessary to procure spares and repair parts for inoperable TADSS. Challenges were addressed with midyear funding, providing a 95% operational availability for operational force and institutional base TADSS.

CTC Modernization Program (CTC Mod) began fielding replacement of the Range Communications System (RCS) necessary for the CTC Instrumentation System (CTC IS) to instrument a third combined battalion and echelons above brigade enablers at the NTC in FY 2015, and JRTC in FY 2017. The CTC Mod also mitigates anticipated critical sub component failures to the RCS. Mission Command Training Support Program (MCTSP) modernized MTCs and training simulations to upgrade leader and battle-staff training and mission-rehearsal capabilities for deploying units. The MTCs give units the ability to train and to sustain critical individual/operator and battle-staff skills on digital command, control, communications, intelligence, and surveillance and reconnaissance systems. The MTCs also network with other installations and simulations to support joint training exercises. New TSS capabilities were fielded to support requirements driven by the Army Campaign Plan. A persistent Live, Virtual, Constructive-Integrated Training Environment (LVC-ITE) will be implemented at selected home stations. This architecture links Home Station Instrumentation Training Systems in live training areas to MTCs, which house constructive simulations and gaming to virtual TADSS. The MTC serves as the hub for an installation's LVC-ITE, which was fielded to four installations (Forts Hood, Bliss, Campbell, and Drum) with an endstate of 18 total sites. Construction was completed on three MTCs with four more under construction. FY 2013 reductions in Installation Management Command (IMCOM) funding resulted in the reduced capability of the MTC to provide home-station training to resident units.

Sustainable Range Program (SRP) and Integrated Training Area Management (ITAM) maximize the capability, availability, and accessibility of ranges and training lands to support doctrinal requirements, mobilization, and deployments under normal and surge conditions. ITAM provides Army range officers with the capabilities to manage and maintain training lands and support mission readiness. By implementing a uniform land management program, ITAM integrates the mission requirements derived from the SRP, with environmental requirements and environmental management practices. It also establishes the policies and procedures to achieve best, sustainable use of training and testing lands SRP provides modernization of the Army's range complexes using the TSS facility investment strategy and continuous technology refresh of training systems fielded on ranges. SRP also provides range operations and maintenance to support individual and crew served weapons qualification at 100 continental United States (CONUS) and outside the continental United States (OCONUS) locations and collective live fire capability on the largest 27 installations. The capability provided at all these locations will be reduced over the next four years due to the reduction of the force. Ranges continue to be modernized to integrate digital systems that enable squads and platoons to train as they fight, as well as to provide commanders and leaders with objective data to assess their units' performance and training levels.

Soldier Training Support Program (STSP) continued acquisition and fielding of TADSS, supporting Live and Virtual training. As a result, programmed acquisition and fielding was reduced for systems such as the Homestation Instrumentation System (HITS) and Instrumentable Multiple Integrated Laser Engagement System (IMILES), systems which are critical components of LVC-ITE. Additionally, the lack of funding for planned upgrades and improvements to support concurrency, relevance, and usefulness of fielded devices such as the Engagement Skills Trainer (EST), Call For Fire Trainer (CFFT), and the Improvised Explosive Device Effects Simulator (IEDES) had a negative impact on modernization of devices fielded at home-station and institutional locations for nearly a decade. STSP continued to provide Common Level of Support (CLS) manpower and services. New requirements, driven by the fielding of approved systems, e.g., flight simulators, Medical Simulation Training Centers (MSTC), and the LVC-ITE, increased manpower requirements in an era of significant reductions. The result has been a reduction of baseline services to all customers at most installations. Because RC units must habitually train on evenings and weekends, there has been an even greater reduction in available services to the RC customer base at installations with regional training support service delivery responsibility.

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

Adapting Training

In FY 2013 the Army conducted 14 of 21 planned rotations at the maneuver CTCs, 30 exercises with the Mission Command Training Program, and 34 mission command seminars. The CTCs provide realistic joint- and combined-arms training that approximates actual combat consistent with Army and joint doctrine. The CTCs are at the core of the Army's collective training strategy and have dedicated resources beyond those available at home-station training sites. Training provides a free-thinking enemy and provides lessons-learned feedback through a professional staff of observer controllers. The training environment emphasizes rapid change and adaptation to current activities while using improved facilities on the battlefield and in realistic scenarios.

As mission requirements are reduced in Afghanistan, the CTCs have started to conduct decisive action rotations that will better prepare Army's formations for a wider range of contingencies. The BCTs that are not scheduled to deploy to theater conduct a decisive action rotation.

While home-station training focuses on battalion staff and company-level collective training proficiency, the CTCs have the unique capability to train brigade-level-and-above staffs and to develop battalion-level-and-above collective tasks. The complex, event-driven scenarios challenge the BCTs to execute multiple, simultaneous missions that include integrated enablers from the Army and the joint community.

Adaptive Army Leaders for a Complex World

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

The Army must balance its commitment to training, education, and experience components of leader development. Due to the high operational demand over the past decade, many Army leaders did not attend professional military education (PME) at the optimal time in their career. As a result, the Army experienced a large backlog at nearly all educational levels in both the AC and RC. To reduce the backlog, the Army leveraged the One Army School System (OASS); implemented Structured Self-Development; employed mobile training teams for Noncommissioned Officer Education System courses; increased the use of Distributed Learning to conduct PME; and optimized Intermediate Level Education for the AC. The Army anticipates an increasing number of leaders will attend PME in accordance with their career timeline.

TABLE 7 - PROFESSIONAL DEVELOPMENT (AC SCHOOLS ONLY)[1]

	NCOES Graduates				OES Graduates		WOES Graduates		
	Warrior Leader Course	Advanced Leader Course	Senior Leader Course	Sergeants Major Course Resident/ Ph2 Non-resident	Intermediate Level Education Resident (ILE)/ Common Core	Senior Service College (SSC) Resident/ Distance Learning	Warrant Officer Advance Course Resident/Non-resident	Warrant Officer Staff Course Resident/Non-resident	Warrant Officer Senior Staff Course Resident/ Non-resident
2010 Trained (Actual)	29,825	16,573	9,895	265/601	1,123/912	198/326	1,952/223	554/385	330/12
2011 Trained (Actual)	28,671	18,697	10,495	507/392	1,059/930	500/309	2,233/110	825/1,007	234/235
2012 Trained (Actual)[2]	26,929	18,767	10,610	592/671	1,073/948	509/330	2,689/427	1,054/1,016	316/347
2013 Trained (Interim)[2,3]	19,695	16,061	8,769	0/381	0/636	508/404	2,273/250	931/884	381/336

Note 1: This data represents active Army, ARNG, and USAR students graduating from active component schools. All data is based on start date, i.e., if a class starts in FY 2012 and graduates in FY 2013, it is counted as FY 2012 data.

Note 2: Actual 2012 trained data and interim 2013 trained data are as of September 18, 2013.

Note 3: The 2013 resident ILE classes do not graduate (1,201 inputs) until December 2013 and June 2014.

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

TABLE 8 – CIVILIAN PROFESSIONAL DEVELOPMENT

	Army War College	Dwight D. Eisenhower School for National Security and Resource Strategy	Civilian Education System
2013 Inputs	13	7	27,130

The CES uses leadership competencies derived from those set by the Department of Defense (DoD) civilian leader development framework and those identified by the Center for Army Leadership. The CES courses support and promote career path requirements, professional development, and life-long learning and self-development.

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

The Army revised its Supervisor Development Course to meet the NDAA requirements. Training for all supervisors of civilian employees promotes the development of world-class leaders and provides opportunities for new managers and supervisors to interact, share experiences, and learn from each other. Supervisor training develops a diverse cadre of leaders capable of managing across the military. This training ensures continuity of the leadership and supervisory pipeline, and promotes the Army's vision for competency-based development across the leadership continuum.

In direct support of the Secretary of the Army's initiative to transform the Army civilian workforce, the Civilian Training and Student Account (CTSA) was established for Army-funded civilians attending an Army Senior Service College (SSC), i.e., the Army War College and the Dwight D. Eisenhower School for National Security and Resource Strategy (DDE). The account mirrors the

Military Trainees, Transients, Holdees, and Students account by reassigning SSC participants to an HQDA-centralized operational table of distribution and allowances. By assigning SSC participants to the CTSA, the command providing the individual for SSC attendance can immediately backfill against the position and mitigate any disruption to the organizational mission.

Based on its prior successes, the Army used the CTSA in FY 2013, and will subsequently place graduates in enterprise positions most needed by the Army. Other initiatives will be developed and implemented to ensure a robust, accessible training program for all Army civilians. These initiatives include, but are not limited, to the following:

- An Army-wide civilian training management system.
- Leader competency-based training in conjunction with the Army competency management system.
- Fellowships and experience-broadening interagency and multinational assignments.
- Increased outreach and communication to the Army Civilian Corps with the goal of increasing CES participation.

The Army will continue to refine, improve, and update the Civilian Education System curricula to meet emerging initiatives and requirements and enhance employee performance.

The Rapid Fielding Initiative

The Army is also committed to providing the best available equipment to deploying Soldiers. The Rapid Fielding Initiative (RFI) continues to enhance warfighting capabilities to address immediate Soldier requirements. A total of 22 BCTs, 11 combat aviation brigades (CAB), and numerous other deploying units, totaling 114,554 Soldiers, received RFI equipment during FY 2013.

The Army Rapid Equipping Force (REF) harnesses current and emerging technologies to provide immediate response to urgent equipment and materiel requirements of globally fielded Army forces. The REF's priority is deployed brigades and BCTs, focusing on commercial and government off-the-shelf solutions in order to maximize response and minimize risk. The REF maintains forward-deployed teams that interact with units to identify, equip, and evaluate their requirements and capability shortfalls. In addition, the REF introduced more than185 different types of equipment (over 46,371 individual items of equipment) to meet the urgent operational requirements of deployed units in FY 2013. The REF is on track to introduce 37 different types of equipment and provide more than 9,274 individual equipment items to deployed Soldiers during FY 2014.

The Army Total Force Policy (ATFP) requires the Army to organize, man, train, and equip active and reserve components as an integrated operational force to provide predictable, recurring and sustainable capabilities to support the National Military Strategy and Army commitments worldwide. The fleet age of trucks, combat vehicles, communications systems, and Soldier weapon

T-11 parachutes lie ready to be issued to paratroopers. (U.S. Army photo by Visual Information Specialist Markus Rauchenberger/released)

A mine resistant ambush protected vehicle driver performs daily maintenance on her vehicle. (U.S. Army National Guard photo by Sgt. Jessi Ann McCormick)

systems continues to improve as new equipment is fielded to the RC. In order to eliminate the disparity between the AC and the RC, ARNG and USAR forces preparing to deploy are fielded the very best modernized equipment. This achieves a critical goal on the path to create strategic depth and transform the RC from a strategic reserve to an operational force.

RESET

In FY 2013, Congress appropriated $2.71 billion to resource operational maintenance (OMA) and procurement programs (OPA) for OCO reset. These appropriations represent a $2.74 billion net reduction that occurred within OCO reset caused by the combination of a twelve-month continuing resolution and sequestration-related budget adjustments. These budget adjustments resulted in the cancellation of some FY 2013 third and fourth quarter depot orders, which contribute to the accrual of deferred reset workload that the Army must address in the future.

Due to a $1.7 billion reduction in reset funding, the Army deferred maintenance on 172 aircraft, more than 900 vehicles, almost 2,000 weapons, and over 10,000 pieces of communications equipment. The deferment of reset activity may adversely impact readiness for both active and reserve component units up to five years beyond the time that equipment redeploys from theater. Priority for reset resources goes to next-to-deploy units, the units on the Korean Peninsula, and for Global Response Force units. All other units may operate at reduced equipment on-hand readiness levels for the near term. Repair, recapitalization, and replacement data scheduling cannot be accurately forecast since actual battle losses independent of historical rates of attrition drive the operational need for replacements.

Of the $2.71 billion appropriated for FY 2013 OCO reset activities, the Army received $1.98 billion for its OCO OMA accounts and $673 million for its OCO OPA accounts post sequestration. The Army later increased its OCO OMA account by $60 million to $2.04 billion. As of July 31, 2013, OCO reset programs reset nineteen brigade combat teams, 209 aircraft platforms, and 292,891 special repair items to include small arms and night vision devices. The Army obligated 98% of FY 2011 procurement funding, 84% of FY 2012 procurement funding, and 40% of FY2013 procurement funding.

TRANSFORM

In order for the Army to transform in a changing 21st century security environment, it must continuously improve its ability to meet combatant commander needs. Through transformation, the Army adapts holistically to how it fights, trains, modernizes, develops leaders, bases its forces, and supports Soldiers, Families, and civilians. Transformation is a journey, not a destination.

Modularizing the Army

The transition to a BCT-focused organization was the right decision to confront today's fluid counter-insurgency threats as well as adjust rapidly to scenarios the Army is likely to face in the years ahead. The evolving nature of conflict—with diverse state and non-state actors employing hybrid and asymmetric approaches to warfighting—will continue to necessitate the range of capabilities inherent in modular BCTs.

The Army Modular Force reorganizes the Operational Army into modular theater armies, theater support structure, corps and division headquarters, brigade combat teams, and multi-functional and functional support brigades based on standardized organizational designs for the AC and RC. The Army reorganized from a division-based to a modular brigade-based force to achieve three primary goals:

(1) Increase the number of available BCTs to meet operational requirements while maintaining combat effectiveness equal to or better than previous divisional brigades;

(2) Create brigade-size combat support (CS) and combat service support (CSS) formations of common organizational designs more easily tailored to meet the varied demands of the geographic combatant commanders and reduce the complexities of joint planning and execution; and

(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.

The Army's employment of modular formations and their reset following sustained combat operations helps manage the impact of high operational demand and mitigate the effects. As America's dominant and decisive force, the Army remains committed to securing U.S. interests across the full range of operations—from aiding civil authorities and citizens at home, to combating insurgents abroad. While simultaneously conducting combat operations with approximately 165,000 forward-stationed or deployed Soldiers, the Army completed its most comprehensive transformation since World War II. In doing so, the Army met the challenges of a new security environment characterized by persistent conflict and adaptive enemies in complex environments. Army transformation improved the capabilities of Soldiers to fight the wars we are in today, as well as the scenarios we are most likely to face in the years ahead.

The Army's assessment of modular force capabilities—including lessons learned from experiences with modular units—drove several modifications. These modifications reinforced the success of the modular concept and necessitated minor refinements to the modular design of these units.

In addition to modular design changes, the lessons learned initiated evolutions in equipment, doctrine, and training. By continuously refining the Army approach to how modular formations train and fight, the Army adapts to an evolving enemy, meets the Nation's defense strategy, and fields new equipment, including vehicles, weapon systems, unmanned aircraft, and body armor.

In FY 2013, the Army completed the modular transformation with the conversion of the final support brigade formations. Through modularity, the Army achieved a standardized, combat-proven organizational with improved combat effectiveness compared to previous divisional brigades. Modularity created units of common organizational design. It increased the number and agility of available BCTs to meet operational commitments, enhancing their ability to contribute to joint, interagency, and multinational efforts. The Army continues to evaluate lessons learned and apply changes to modular force designs, doctrine, training, leader development, and battle command.

By the end of FY 2013, the Army completed all planned modular conversions for its BCTs. By the end of FY 2012, the ARNG successfully completed the full conversion of all 28 BCTs to a modular design. The modular conversion plan built 71 BCTs and approximately 229 support brigades with enabling combat support and combat service support structure in order to improve the balance of forces across all three components. Modular conversion also helps the Army meet the global force demand in a complex, competitive and unpredictable security environment.

Providing Advanced Technologies

The Army's Science and Technology (S&T) mission is to foster invention, innovation, and the use of new technologies to leverage future force capabilities while exploiting opportunities to apply new technology capabilities to the current force. The Army depends on its S&T program to research, develop, and demonstrate high pay-off solutions to hard problems faced by Soldiers in the ever-changing and complex global environments across the spectrum of conflict. FY 2013 sequestration cuts had a severe impact on Army Science and Technology, the seed of Army modernization and innovation. Sequestration nearly halved new basic research grants in FY 2013, and affected grants at more than 120 universities in 38 states.

The S&T community, in concert with combat developers in the Army Capabilities Integration Center and across the Army's Training and Doctrine Command, places great emphasis on demonstrating evolving advanced capabilities rather than on maturing current, isolated, technologies. The foundation of this effort is a strong basic research program. Investments in basic research are critical to acquiring new knowledge in areas that hold great potential to advance Army-wide operational capabilities. The Army is also partnering with other services, combatant commands, and agencies in the Joint Capability Technology Demonstration Program to rapidly transition mature technologies into solid warfighter capabilities.

Science and technology investments support Army modernization goals of developing and fielding affordable equipment by fostering technology-based invention and innovation. As it continues diligently to identify and harvest technologies suitable for transforming the force, it is ever vigilant of potential and emerging threats.

The S&T community is sharpening research efforts to focus the core capabilities needed for the future and identify promising leap-ahead technologies that will redefine existing paradigms of understanding. Ultimately, the focus of its work is Soldiers by consistently seeking out new scientific avenues through which to increase their capabilities and ensure their technological superiority—today, tomorrow, and beyond.

LandWarNet Operational Capabilities and Focus

After more than a decade of sustained combat operations, the Army is transitioning to a CONUS-based expeditionary force. With this new operating construct, the Army requires 'always-on' access to reliable, trusted information as a requirement for mission success. Whether deploying to an austere theater of operations or responding to a humanitarian crisis, the Army relies heavily on a robust infrastructure and services network that supports both warfighting and global business operations. The goal is to have a completely integrated, secure, accessible, interoperable, and affordable network providing information to Soldiers and mission partners when they need it, in any environment—from garrison to the tactical edge.

To achieve these capabilities, the Army is following an enterprise and regional approach. The investments made in FY 2013 focus on greater network capacity, regionalized security, and an enterprise cloud construct to deliver unified capabilities and Voice over Internet Protocol (VoIP) services. These efforts are consistent with the Joint Information Environment (JIE), cover 95% of the CONUS population, and represent the most significant modernization of the CONUS network in DoD history.

Developing the Network of 2020

The Army began significant and coordinated investments in FY 2013 in order to address network capability gaps, reduce out-year sustainment costs, critically evaluate network strategic choices, and introduce Network Capability Sets as the approach for capability insertion into the LandWarNet. However, software upgrades necessary to sustain aerial network operations will not be maintained due to sequestration. The Army software sustainment program will be at high risk due to the reduction in funding for 135 systems that affect network security, systems operations, integration and information assurance.

Efficiencies and Cost Savings

A key goal for LandWarNet investments in FY 2013 was to prepare for the uncertain financial environment during the POM years. Through commodity buys, consolidation activities, and proactive contract management, the Army took disciplined steps to reduce operating costs and create efficiencies to re-invest in LandWarNet modernization. In FY 2013 Army closed 139 data centers satisfying 109% of the FY 2013 goal and 75% of the original overall goal to close 185 data centers by the end of FY 2015. Table 9 lists specific cost reduction/avoidance successes.

TABLE 9 – EFFICIENCIES AND COST SAVINGS

Commodity Buys (enabled regionalization and divesture strategy)
Utilized bulk-purchase for MPLS routers and end-user building switches
Army Data Center Consolidation
Closed 139 data centers
Achieved 1,093 server efficiencies and 950 application efficiencies
Reduced total data center operating costs
Created energy efficiencies by lowering installation costs
Contract Management
Saved $20 million by turning off unused wireless devices
Negotiated Enterprise License Agreements (ELA) to save 24% across Army and Joint partners

Looking forward, these investments are the precursor to meeting the Secretary of the Army's directive (ref SA memo, dated 09 Sep 2011, subject: IT Management Reform) to achieve $1.5 billion in annual IT savings beginning in FY 2015. Table 10 displays the savings that these investments are expected to yield.

TABLE 10 – EXPECTED SAVINGS

Initiative ($M)	Total To-Date Realized	Total Expected Savings Thru FY 19
Enterprise Services	(124.9)	(869.8)
Enterprise License/Service Agreements	(48.5)	(449.4)
Enterprise E-mail	(54.4)	(357.2)
Elimination of Devices (Desktop/Laptop/Tablets/Mobile Devices/Air Card)	(22.1)	(63.2)
Capacity	(29.3)	(671.1)
Army Data Center Consolidation Plan (ADCCP)	(29.3)	(366.9)
End User Building Switches	0.0	(304.2)
Security	0.0	(273.7)
Top Level Architecture (TLA) (-400 TLAs to 11 NIPR & 6 SIPR Regional TLAs)	0.0	(273.7)
Grand Total	(154.2)	(1,814.6)

Enterprise Services total does not tie due to rounding.

IT Management Reforms

In addition to improving the physical network and creating resource efficiencies, the Army also used FY 2013 to set in place disciplined management practices for the network that are critical to achieving the LandWarNet 2020 and Beyond. These management reforms focused on three critical areas:

Governance: The Army established the Army Enterprise Network Council (AENC) and senior leader forums to facilitate discussion, oversee Army IT investments and promulgate these investment decisions into the POM. In addition, the Army IT community partnered with the acquisition and financial communities to provide more transparency into IT procurements.

Architecture: The Army published LandWarNet 2020 and Beyond Enterprise Architecture, Regional Security Stack Reference Architecture, and Identity and Access Management Reference Architecture in order to provide clear and enforceable design guidance to Assistant Secretary of the Army (Acquisition, Logistics and Technology). Re-designing the Army's top-level security architecture—combined with the Army's efforts to consolidate networks—improves the Army's operations and security posture by moving disparate points of presence behind a secure perimeter and aligning the security architecture across the Joint community.

Agile IT Acquisition: The Army published guidance to clarify the build-or-buy decision for IT capability acquisition. Additionally, the Army partnered with the Air Force and Defense Information Systems Agency (DISA) on a joint request for information for Enterprise Content Management and Collaboration (ECMC) and Unified Capabilities.

Developing Force Generation Platforms in Support of Army Force Generation

Fiscal Year 2013 saw the completion or continuation of ongoing projects to improve the Army's ability to deploy units from CONUS Power Projection Platforms. Due to financial constraints in the Army's military construction (MILCON) program, no new deployment out-load infrastructure projects were initiated in FY 2013. A key part of the Army's Rapid Expeditionary Deployment Initiative (REDI) to improve the Nation's power projection capabilities is to increase capabilities at installations with significant deployment requirements. Although recent deployments were deliberate, allowing deploying units to plan well in advance, the Army recognizes the need to project power on little-to-no notice. The goal of REDI is to improve the Army's ability to deploy on little-to-no notice.

Eleven MILCON projects to support REDI were ongoing in FY 2013. Five were completed. The first two completed projects improved out-loading at the seaport in Charleston Naval Weapons Station, South Carolina—the only military general cargo seaport in the southeast region. This seaport is supporting current operations in the Middle East for both deployment and redeployment. One project upgraded paving, lighting, and fencing at the port. This improved security for equipment and personnel during deployment and serves to protect equipment from damage. The second project expanded the pier and hardstand to adequately position larger roll-on/roll-off and container ships. The third project constructed a staging area complex at Fort Bragg, North Carolina, to efficiently deploy airborne units to meet global response force requirements. The *Grow the Army* initiative funded this project. The next completed project was a ready building at Forbes Field, supporting Fort Riley air deployments. The previous facilities did not adequately handle the increase of Soldiers plus equipment stationed there. The ready building will process Soldiers and equipment air deploying and redeploying to/from Fort Riley.

The final completed project constructed a concrete pad extension from the ammunition magazines to truck parking areas at McAlester AAP, Oklahoma. This project allows direct loading from forklift to large trucks, eliminating double-handling of equipment.

The remaining 6 projects were initiated in FY 2012. The first of these projects is at McAlester AAP, Oklahoma to upgrade the mainline rail line to accommodate modern heavy rail equipment. The mainline rail project is 60% complete with estimated completion date (ECD) of July 2014. The original ECD of October 2013 shifted due to sequestration and furloughs.

The next three projects are rail projects at Fort Benning, Georgia, Fort Sill, Oklahoma, and Camp Atterbury, Indiana. The Fort Benning rail improvements increase railcar storage capacity so that railcars do not require call-up from commercial railyards (some up to 100 miles away). This project is more than 60% complete with ECD of March 2014. The Fort Sill rail upgrade allows railcars to be turned around on-post. Project award occurred in April 2012, with an ECD projected for July 2014. The third rail project upgrades a railhead at Camp Atterbury from a 40-railcar-per-day capability to the required 120-railcar-per-day capability to allow this power generation platform to adequately out-load units. The anticipated project completion is May 2014.

The final two projects construct Deployment Processing Facilities (DPC) at Camp Atterbury, Indiana and Camp Shelby, Mississippi. These installations were designated as power generation platforms, and as such, deploy Soldiers and equipment for mobilizing units. Work on both projects is ongoing, and completion is anticipated in May 2014 for the Camp Atterbury DPC. Due to inclement weather, the completion date for the project at Camp Shelby moved from October to December 2013.

As MILCON funding is diminishing, more emphasis is placed on maintenance. Four Sustainment, Restoration, and Modernization (SRM) projects were initiated in FY 2013. The first involved replacing 1,500 feet of Runway 15-33 at Fort Drum, New York. The next project is repairing and restoring the failing taxiway at Pope Army Airfield to support deployment at Fort Bragg, North Carolina. The third project repairs failed asphalt taxiways and aprons at Fort Bliss, Texas. The last project consists of dredging Skiffe's Creek at Fort Eustis, Virginia for the third port there.

Implementing Base Realignment and Closure/ Restationing Forces

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

The Army continues to aggressively dispose of excess BRAC 2005 and legacy BRAC property. The BRAC 2005 six-year implementation period ended on September 15, 2011. By that time, the Army had transferred an unprecedented 44% of all excess BRAC 2005 acres. Excess property disposal efforts continue. The Army has currently conveyed 64%, or 44,800 of BRAC 2005 excess acres. In total, the Army's BRAC 2005 and legacy BRAC program conveyed 80% of all excess acreage. Progress continues in an expensive and technically-challenging environment, including a national real estate decline which reduced redevelopment opportunities for several years.

The Army fully supports OSD's most recent request for an additional BRAC round in 2015. As the Army's end-strength declines alongside available funding, millions of dollars will be wasted maintaining buildings at underutilized installations. The Army must immediately address excess infrastructure and reduce costs at its installations. Without an additional BRAC round, the Army will needlessly spend dollars maintaining surplus buildings that could be more appropriately spent on Army readiness and modernization.

On January 25, 2013, the Secretary of Defense directed a European capacity analysis to provide the basis for reducing long-term expenses through footprint consolidation. The effort will eliminate excess capacity while ensuring the infrastructure properly supports the operational requirements and strategic commitments. The Secretary directed the Under Secretary of Defense for Acquisition, Technology, and Logistics to lead this initiative. The Army, the other services, and four Joint Working Groups, are identifying and analyzing opportunities for consolidation of functions, including common support functions, such as logistics, training, medical, and C4IT (Command, Control, Communications, Computers, and Information Technology). The Services and Joint Working Groups are scheduled to produce and submit their recommendations for footprint consolidation to OSD during the first two quarters of FY 2014.

Business Transformation Initiatives

Throughout FY 2013, the Army significantly improved the effectiveness of its business governance while accelerating business transformation. Army business transformation efforts focused specifically on improving the business processes and information technology that drive the Institutional Army. The Army's multi-faceted approach to business transformation enabled the Institutional Army to perform its activities smarter, faster, and cheaper to provide trained and ready forces at best value. Army business transformation seeks to:

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

In 2013, the Army initiated targeted business process reengineering "deep dives" to improve business processes and identify improvement opportunities. These deep dives removed unnecessary duplication and complexity from selected business processes and their supporting information technology systems. As an example, Army senior leaders identified audit-readiness challenges and unnecessary duplication within the Army's travel orders writing process. After three months of effort, process teams solved the auditability challenges, recommended the reduction of several redundant systems, and eliminated unnecessary process steps that will save the Army between $80 million and $100 million over the next six years.

The Army continued to leverage Lean Six Sigma continuous process improvement to identify systemic constraints and choke points, non-value added steps, cross-domain conflicts, and other impediments to efficient process flow. In FY 2012, the Army completed over 1,400 projects with $3.2 billion in benefits-conferred (savings and cost avoidance). In FY 2013, the Army completed 1,500 projects, and the benefits-conferred were of a similar magnitude. In addition to the fiscal savings, these efforts improved logistics throughput, program management, better buying practices, headquarters restructuring, and other functions that enhanced the effectiveness and efficiency of Army operations.

The Army's portfolio management of Army business systems, its compliance orientation in support of DoD business system certification requirements, and its continued emphasis upon the Enterprise Resource Planning (ERP) system federation generated many successes in FY 2013. The Army developed a plan to reduce by more than a third the total number of business systems in its portfolio while simultaneously reducing total projected costs by over 10% per year for the next six years. Army business enterprise architecture and business system certification processes closed numerous long-standing audit findings. Finally, the Army continued to focus its efforts on the evolution of its four core ERP systems throughout FY 2013. This focus enabled the Army to reduce program risks associated with these complex ERPs and their associated business processes.

Having compliant, auditable systems with integrated and automated controls is critical to sustaining Army business processes and mitigating financial risks. The Army, with the support of the Office of the Secretary of Defense and agencies across DoD, underwent a robust schedule of audits and tests of its business IT systems through FY 2013.

These audits assessed financial transactions, the existence and completeness of assets, internal controls, and other critical functions required to meet audit readiness goals. The Army is on-track to achieve Statement of Budget Availability by FY 2014 and audit-readiness by FY 2017.

The General Fund Enterprise Business System (GFEBS) is the Army's integrated financial management system for funds distribution, execution and reporting. GFEBS is implemented across the Army (the Active Army, Army National Guard and the Army Reserve), and within the CONUS and with the deployed Army world-wide. Since the Army's initial deployment in 2008, over 200 locations in 71 countries were added to GFEBS. GFEBS enabled the Army to retire 31 systems by the end of FY 2013 and it supports the plan to retire over 100 systems by 2017.

While GFEBS involves a new system, changes in business processes and the integration of data, it also involves standardization and common business processes across the Army. GFEBS has achieved a 97% compliance rate with over 5,500 Federal Financial Management Improvement Act of 1996 (FFMIA) and other statutory and regulatory requirements, standards, attributes, and business rules – and the Army is well on its way to 100% compliance. In FY 2013, the Army:

- ★ Obligated $118.8 billion in GFEBS – an increase of $46 billion over FY 2012
- ★ Processed payroll of 215,000 civilian employees bi-weekly
- ★ Completed over 53,000 end users into GFEBS

The GFEBS Functional Training Team conducted 117 trips/trainings/DCO sessions over the fiscal year to assist commands in topics that ranged from: Tier II Helpdesk, cProjects/Project System, Plant Maintenance, and Real Property.

Additionally, GFEBS operates collaboratively with the Global Combat Support System–Army (GCSS-Army), which is the Army's logistics related financial ERP system. Although they are two separate ERP systems, they are fully integrated with GCSS-Army, employing a financial execution module from GFEBS. GCSS-Army and GFEBS provide improved readiness, accountability, and financial auditability by integrating key capabilities such as centralized funds distribution and retraction, consolidated status of funds and trial balance reporting, centralized reimbursable execution, and comprehensive managerial cost accounting and reporting. In FY 2013, GCSS-A converted approximately 1 million records and obligated $126 million.

The Army continues to build on GFEBS capabilities and successfully launched 14 new Business Intelligence (BI) Architecture/Infrastructure capabilities. Also, GFBES implemented a direct disbursing solution with the Department of the Treasury, with close to $1.2 billion in invoices processed by the end of FY 2013. The disbursing solution enables the Army to maintain zero difference between GFEBS accounting and Fund Balance with Treasury, integrate payment offsets for unsettled debts, and accelerate vendor payments. By end of FY 2014, the goal is to have all of GFEBS-entitled CONUS payments directed to Treasury.

CONCLUSION

The Army will continue to strike a balance between force structure, readiness, and modernization, in a manner that is mindful of fiscal realities yet also provides the Nation with capable landpower. Prudent and deliberate investments in Soldiers, Families and civilians – who have displayed remarkable mental and physical toughness and courage over the past 12 years of conflict – will ensure they remain prepared and supported. The Army will maintain the most versatile, agile, rapidly-deployable, and sustainable strategic land force in the world, ready to answer the Nation's call.

Management Assurances

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

CHIEF FINANCIAL OFFICER COMPLIANCE

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

INTERNAL CONTROLS

The Army operates a robust Manager's internal Control program in compliance with OMB Circular A-123 to employ a comprehensive system of continuous evaluation of internal controls. The Army's program is fully integrated with functional program control assessments. In strict adherence to the Office of the Under Secretary of Defense (Comptroller) guidance, the Army reports a level of assurance over its internal controls in three distinct areas: Internal Controls over Non-Financial operations (ICONO), Internal Controls over Financial Reporting (ICOFR), and Internal Controls over Financial Systems (ICOFS). See the complete Army Statement of Assurance at *http://asafm.army.mil/offices/FO/IntControl.aspx?OfficeCode=1500*

INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICOFR)

As stated in the Army's Annual Statement of Assurance dated August 26, 2013, "Although we continue to make progress in improving internal controls over financial reporting for the General and Working Capital Funds, I provide no assurance that as of June 30, 2013, the Army's internal controls for financial reporting were operating effectively. This assessment is based on the auditor's inability to render an audit opinion; numerous uncorrected actions identified in our financial improvement plan; 14 weaknesses associated with the General Fund and 11 weaknesses associated with the Working Capital Fund."

Analysis of Financial Statements

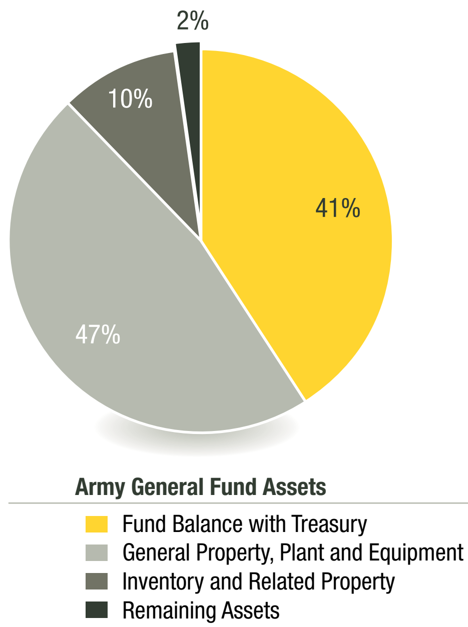
As discussed in the accompanying independent auditor's reports, long-standing financial management challenges prevent the Army from producing auditable financial statements for the Army General Fund (Army GF) and the Army Working Capital Fund (Army WCF). The Army, however, continues to work with the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

ARMY GF FINANCIAL RESULTS AND BALANCE SHEET

The Army GF Balance Sheet includes total assets of $324.6 billion. Two asset categories—Fund Balance with Treasury and General Property, Plant and Equipment (GPP&E)—comprise 88 percent of total assets, with values of $132.4 billion and $154.0 billion, respectively.

Liabilities primarily consist of $26.1 billion in Environmental Liabilities and $3.7 billion in Accounts Payable.

FIGURE 3 - COMPOSITION OF GF ASSETS AND LIABILITIES



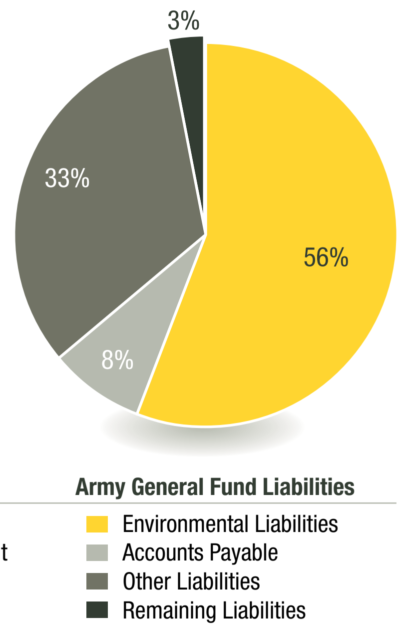


TABLE 11 - SELECT GF ASSETS AND LIABILITIES

(Amounts in billions)

Asset Type	FY 2012	FY 2013	Change	Percentage of FY 2013 Assets
Fund Balance with Treasury	$153.3	$132.4	($20.9)	41%
General Property, Plant and Equipment	160.0	154.0	(6.0)	47%
Inventory and Related Property	30.8	32.8	2.2	10%
Remaining Assets	8.0	5.5	(2.8)	2%
Total Assets	**$352.1**	**$324.6**	**($27.5)**	**100%**

Amounts may not sum due to rounding.

(Amounts in billions)

Liability Type	FY 2012	FY 2013	Change	Percentage of FY 2013 Liabilities
Environmental Liabilities	$30.4	$26.1	($4.3)	56%
Accounts Payable	4.9	3.7	(1.2)	8%
Other Liabilities	15.4	15.2	(0.2)	33%
Remaining Liabilities	1.5	1.4	(0.1)	3%
Total Liabilities	**$52.2**	**$46.4**	**($5.8)**	**100%**

Amounts may not sum due to rounding.

ARMY WCF FINANCIAL RESULTS

The Army WCF activities maintain the Army's combat readiness by providing supplies, equipment, and ordnance to prepare, sustain, and reset our forces in the most efficient and cost-effective manner possible. In performing this mission, 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 Anti-deficiency Act (ADA) violation under 31 USC, § 1517(a), Prohibited Obligations and Expenditures. Unlike appropriated funds, the Army WCF cash balance is not equal to outstanding obligations; however, the cash-on-hand at Treasury must be sufficient to pay bills when due.

Sufficient cash levels should be maintained to support seven-to-ten days of operational disbursements, plus adequate cash to meet six months of capital investment program disbursements, plus the amount of any positive accumulated 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 workload and meeting established operational goals. The Army WCF ended FY 2013 with a cash balance of $1,399.9 million, within the 7- to 10- days balance requirement.

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

TABLE 12 – ARMY WCF CASH

(Amounts in millions)	FY 2011	FY 2012	FY 2013
Beginning Cash	$1,808.1	$1,900.5	$1,334.5
Collections	13,742.5	12,897.2	9,425.7
Disbursements	13,004.8	12,478.2	9,616.9
Net Disbursements and Collections	737.8	419.0	(191.2)
Appropriations Received	54.6	155.2	102.6
Transfers In	0.0	0.0	154.0
Transfers Out	700.0	1,140.2	0.0
Net Cash Transactions	92.4	(566.0)	65.4
Ending Cash Balance	$1,900.5	$1,334.5	$1,399.9

Amounts may not sum due to rounding.

NET OPERATING RESULTS AND ACCUMULATED OPERATING RESULTS

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

TABLE 13 - NET AND ACCUMULATED OPERATING RESULTS BY ACTIVITY GROUP

(Amounts in millions)

Operating Results	FY 2011	FY 2012	FY 2013
Industrial Operations NOR	$113.8	$42.0	($349.5)
Industrial Operations AOR*	639.4	681.5	331.9
Supply Management NOR	(103.1)	(207.5)	(142.6)
Supply Management AOR	231.9	24.4	(118.2)

*Includes prior-period AOR adjustments. Amounts may not sum due to rounding.

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.

STOCK AVAILABILITY

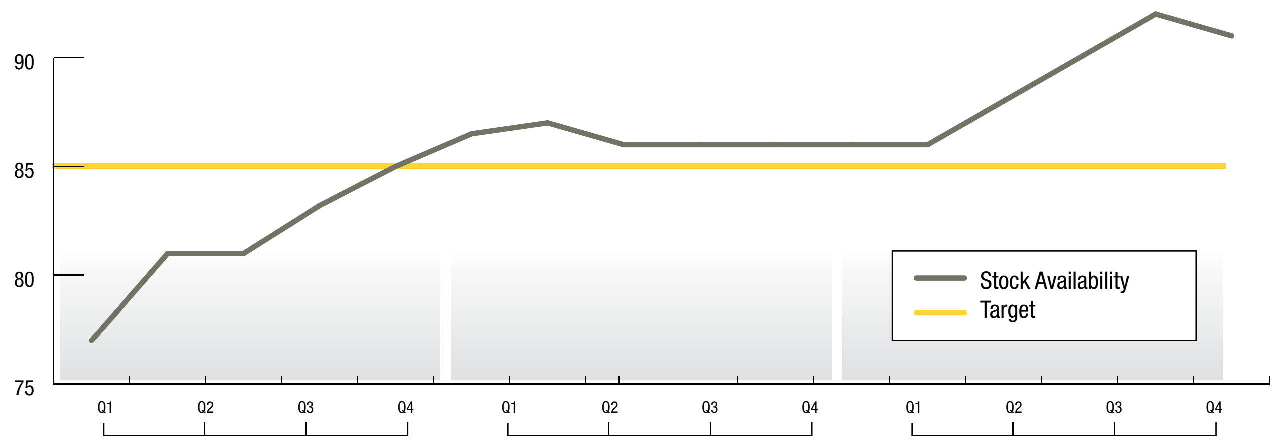
Stock availability measures the percentage of requisitions filled within established timeframes. The DOD and Army have set a target 85% stock availability. For FY 2012 and FY 2013, the Stock Availability target was above the 85% goal.

TABLE 14 - ARMY WCF CARRYOVER

(Amounts in millions)	FY 2011	FY 2012	FY 2013
New Orders*	$7,262.5	$5,466.5	$5,127.2
Allowable Carryover	4,684.2	4,763.8	4,296.8**
Calculated Carryover	4,321.2	4,573.3	4,491.3**

*Includes prior year adjustments
** Preliminary

FIGURE 4 - STOCK AVAILABILITY (PERCENTAGE)



PRODUCTION

Although the Industrial Operations Activity Group is comprised of 13 activities, the preponderance of workload is performed at the five hard-iron maintenance depots. As a result of the higher operating tempo, rough desert environments, and limited depot maintenance available in theater, operational fleets age at a far greater pace than expected. To counter this, the Army established a reset program designed to reverse the effects of combat stress on equipment and to prepare equipment for future missions. Industrial operations received $1,888 million in reset orders, representing approximately 3% of FY 2013 new orders.

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

The aircraft decrease shown in the FY 2013 column of Table 15 is due to decrease in funding for the Recap program. The increase to the annual production throughout of High Mobility Multipurpose Wheeled Vehicle (HMMWV) from FY 2012 to FY 2013 is due to the HMMWV Recap program. Track shoe production levels increased from FY 2012 to FY 2013 due to an increase in requirements for the M88.

TABLE 15 - ANNUAL PRODUCTION THROUGHPUT[1]

	Pre-War	FY 2011	FY 2012	FY 2013
Aircraft	4	101	106	69
Helicopter Engines	<200	760	832	614
Bradleys	144	349	317	252
HMMWVs	<100	2,090	2,480	5,491
Firefinder Radars	<1	31	37	37
Track Shoes	120,000	39,161	25,136	28,273

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

ARMY WCF BALANCE SHEET

The Army WCF balance sheet shows assets exceeding $23.1 billion, primarily in Inventory and Fund Balance with Treasury. Liabilities consist of Accounts Payable and Other Liabilities, which include payroll, benefits, accrued annual leave, and workman's compensation.

FIGURE 5 - ARMY WCF ASSETS AND LIABILITIES

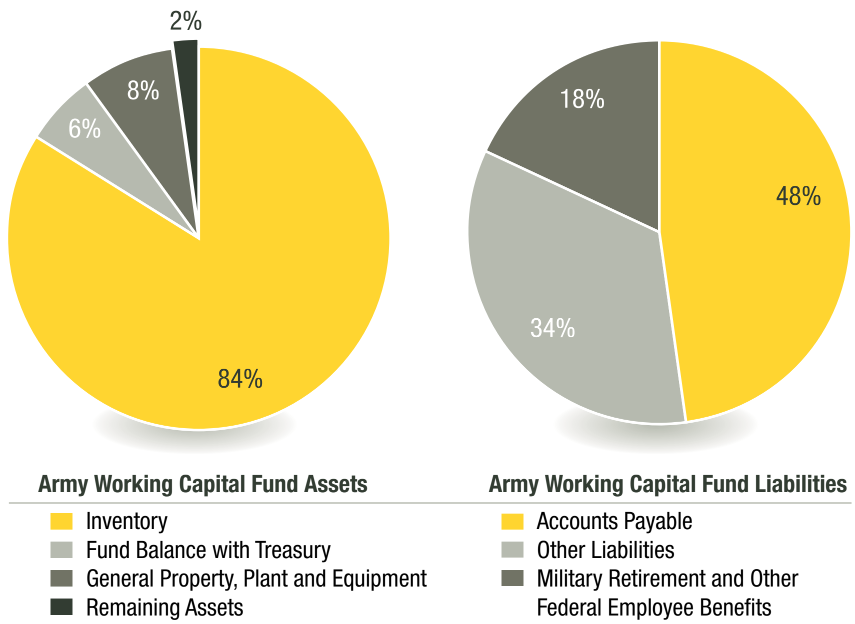


TABLE 16 - ARMY WCF ASSETS AND LIABILITIES

(Amounts in millions)

Asset Type	FY 2012	FY 2013	Change	Percentage of FY 2013 Assets
Inventory	$22,096.5	$19,396.9	($2,699.6)	84%
Fund Balance with Treasury	1,334.5	1,399.9	65.4	6%
General Property, Plant and Equipment	1,748.8	1,772.1	23.3	8%
Remaining Assets	626.7	534.2	(92.5)	2%
Total Assets	**$25,806.5**	**$23,103.1**	**($2,703.4)**	**100%**

Amounts may not sum due to rounding.

(Amounts in millions)

Liability Type	FY 2012	FY 2013	Change	Percentage of FY 2013 Liabilities
Accounts Payable	$502.0	$671.4	$169.4	48%
Other Liabilities	528.1	473.8	(54.3)	34%
Military Retirement and Other Federal Employee Benefits	215.1	248.1	33.0	18%
Total Liabilities	**$1,245.2**	**$1,393.3**	**$148.1**	**100%**

Amounts may not sum due to rounding.

Required Supplementary Stewardship Information and Required Supplementary Information

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

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

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

Stewardship information is also comprised of real property and military equipment deferred maintenance. Real property deferred maintenance relates to maintenance needed on Army facilities that has not been funded. At the end of FY 2013, the Army reported approximately $36.7 billion in deferred real property maintenance on facilities with a replacement value of approximately $250.5 billion. Real property deferred maintenance totals approximately 15 percent of estimated replacement value of the facilities requiring maintenance. The 10 major categories of military equipment deferred maintenance totaled approximately $684.1 million at the end of FY 2013. Electronic and communication systems equipment represented the largest identifiable category of deferred equipment maintenance at approximately $110.7 million.

Heritage assets are comprised of property, plant and equipment (PP&E) of historical, natural, cultural, educational, or artistic significance. Stewardship land is land other than that acquired for, or in connection with, general PP&E. The Army's heritage assets are comprised of buildings and structures, archeological sites, museums, and museum collection items. Detailed information concerning most stewardship information may be found in the Required Supplementary Stewardship Information (RSSI) and the Required Supplementary Information (RSI) sections of this report. Heritage assets and stewardship land are no longer reported in the RSI; they are now required to be reported in a note to the statements.[2] Additional information on heritage assets and stewardship land may be found in Note 10 of the Army General Fund (GF) statements.

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

2 ibid. Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land, pages 9 and 13 and Technical Release 9: Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land, page 46. SFFAS 29 found at http://www.fasab.gov/pdffiles/sffas_29.pdf on October 23, 2011. Technical Release 9 can be found at http://fasab.gov/aapc/technicl.html.

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, 2013 and 2012
(Amounts in thousands)

	2013 Consolidated	2012 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 132,379,727	$ 153,268,450
Investments (Note 4)	2,615	2,181
Accounts Receivable (Note 5)	526,397	353,387
Other Assets (Note 6)	539,378	434,558
Total Intragovernmental Assets	$ 133,448,117	$ 154,058,576
Cash and Other Monetary Assets (Note 7)	1,209,884	1,526,989
Accounts Receivable,Net (Note 5)	1,495,775	1,355,935
Inventory and Related Property,Net (Note 9)	32,813,748	30,824,075
General Property, Plant and Equipment,Net (Note 10)	153,935,635	159,971,256
Other Assets (Note 6)	1,692,455	4,339,865
TOTAL ASSETS	$ 324,595,614	$ 352,076,696
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 2,052,773	$ 1,766,165
Debt (Note 13)		
Other Liabilities (Note 15 & 16)	2,114,564	1,870,937
Total Intragovernmental Liabilities	$ 4,167,337	$ 3,637,102
Accounts Payable (Note 12)	1,613,368	3,176,752
Military Retirement and Other Federal Employment Benefits (Note 17)	1,410,213	1,406,105
Environmental and Disposal Liabilities (Note 14)	26,080,685	30,417,209
Loan Guarantee Liability (Note 8)		1,018
Other Liabilities (Note 15 and Note 16)	13,062,874	13,532,892
TOTAL LIABILITIES	$ 46,334,477	$ 52,171,078
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 124,090,262	$ 147,252,854
Cumulative Results of Operations - Dedicated Collections	34,709	36,212
Cumulative Results of Operations - Other Funds	154,136,166	152,616,552
TOTAL NET POSITION	$ 278,261,137	$ 299,905,618
TOTAL LIABILITIES AND NET POSITION	$ 324,595,614	$ 352,076,696

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF NET COST

For the years ended September 30, 2013 and 2012

(Amounts in thousands)		2013 Consolidated		2012 Consolidated
Program Costs				
Gross Costs	$	200,230,122	$	217,038,973
Military Personnel		64,528,337		67,560,245
Operations, Readiness & Support		83,057,878		78,701,761
Procurement		7,088,442		31,216,620
Research, Development, Test & Evaluation		12,245,961		13,993,569
Family Housing & Military Construction		33,309,504		25,566,778
(Less: Earned Revenue)	$	(14,584,858)	$	(9,875,759)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	185,645,264	$	207,163,214
Net Program Costs Including Assumption Changes	$	185,645,264	$	207,163,214
Net Cost of Operations	$	185,645,264	$	207,163,214

The accompanying notes are an integral part of these financial statements

Department of Defense - Army General Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2013 and 2012

(Amounts in thousands)	2013 Earmarked Funds	2013 All Other Funds	2013 Eliminations	2013 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 36,212	$ 152,616,551	$	$ 152,652,763
Beginning balances, as adjusted	$ 36,212	152,616,551	0	152,652,763
Budgetary Financing Sources:				
Appropriations used		191,907,410		191,907,410
Nonexchange revenue	1,108	(2,713)		(1,605)
Donations and forfeitures of cash and cash equivalents	27,981			27,981
Other Budgetary Financing Sources				0
Other Financing Sources:				0
Donations and forfeitures of property		459		459
Transfers-in/out without reimbursement (+/-)		1,745,469		1,745,469
Imputed financing from costs absorbed by others		1,053,939		1,053,939
Other (+/-)	(5,802)	(7,564,477)		(7,570,279)
Total Financing Sources	$ 23,287	187,140,087	0	187,163,374
Net Cost of Operations (+/-)	24,078	185,621,184		185,645,262
Net Change	$ (791)	1,518,903	0	1,518,112
Cumulative Results of Operations	$ 35,421	154,135,454	0	154,170,875
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$	147,252,857	$	$ 147,252,857
Beginning balances, as adjusted	$			147,252,857
Budgetary Financing Sources:				
Appropriations received		180,755,817		180,755,817
Appropriations transferred-in/out		1,433,641		1,433,641
Other adjustments (rescissions, etc)		(13,444,642)		(13,444,642)
Appropriations used		(191,907,410)		(191,907,410)
Total Budgetary Financing Sources	$ 0	(23,162,594)	0	(23,162,594)
Unexpended Appropriations		124,090,263		124,090,263
Net Position	$ 35,421	278,225,717	0	278,261,138

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2013 and 2012

(Amounts in thousands)	2012 Earmarked Funds	2012 All Other Funds	2012 Eliminations	2012 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 49,586	$ 163,088,282	$ 0	$ 163,137,868
Beginning balances, as adjusted	$ 49,586	163,088,282	0	163,137,868
Budgetary Financing Sources:				
Appropriations used	0	212,276,952	0	212,276,952
Nonexchange revenue	(45)	(461)	0	(506)
Donations and forfeitures of cash and cash equivalents	4,046	0	0	4,046
Transfers-in/out without reimbursement	0	1,140,194	0	1,140,194
Other Budgetary Financing Sources				
Other Financing Sources:				
Donations and forfeitures of property	0	35,024	0	35,024
Transfers-in/out without reimbursement (+/-)	0	4,357,168	0	4,357,168
Imputed financing from costs absorbed by others	0	1,043,601	0	1,043,601
Other (+/-)	8,778	(22,187,147)	0	(22,178,369)
Total Financing Sources	$ 12,779	196,665,331	0	196,678,110
Net Cost of Operations (+/-)	26,153	207,137,061	0	207,163,214
Net Change	$ (13,374)	(10,471,730)	0	(10,485,104)
Cumulative Results of Operations	$ 36,212	152,616,552	0	152,652,764
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 162,359,241	$ 0	$ 162,359,241
Beginning balances, as adjusted	$ 0	162,359,241	0	162,359,241
Budgetary Financing Sources:				
Appropriations received	0	204,348,667	0	204,348,667
Appropriations transferred-in/out	0	1,191,111	0	1,191,111
Other adjustments (rescissions, etc)	0	(8,369,210)	0	(8,369,210)
Appropriations used	0	(212,276,952)	0	(212,276,952)
Total Budgetary Financing Sources	$ 0	(15,106,384)	0	(15,106,384)
Unexpended Appropriations	0	147,252,857	0	147,252,857
Net Position	$ 36,212	299,869,409	0	299,905,621

The accompanying notes are an integral part of these financial statements

Department of Defense - Army General Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2013 and 2012

(Amounts in thousands)		2013 Combined		2012 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance brought forward, October 1	$	44,329,476	$	51,648,890
Adjustment to unobligated balance, brought forward, October 1 (+ or -)				
Unobligated balance brought forward, October 1, as adjusted,	$	44,329,476	$	51,648,890
Recoveries of prior year unpaid obligations		33,762,781		34,550,292
Other changes in unobligated balance (+ or -)		(3,982,723)		(3,235,952)
Unobligated balance from prior year budget authority, net		74,109,534		82,963,230
Appropriations (discretionary and mandatory)		172,738,800		201,552,120
Spending Authority from offsetting collections (discretionary and mandatory)		19,629,622		27,636,567
Total Budgetary Resources	$	266,477,956	$	312,151,917
Obligations Incurred	$	227,840,553	$	267,822,441
Unobligated balance, end of year				
Apportioned		24,854,531		32,503,140
Exempt from Apportionment		215,105		9,845
Unapportioned		13,567,767		11,816,491
Total unobligated balance, end of year	$	38,637,403	$	44,329,476
Total Budgetary Resources	$	266,477,956	$	312,151,917
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$	138,729,843	$	142,457,252
Obligations incurred		227,840,553		267,822,441
Outlays (gross) (-)		(212,096,944)		(236,999,558)
Recoveries of prior year unpaid obligations (-)		(33,762,781)		(34,550,292)
Unpaid Obligations, end of year		120,710,671		138,729,843
Uncollected payments:				
Uncollected payments from Federal sources, brought forward, October 1 (-)		(29,376,421)		(27,993,577)
Change in uncollected payments from Federal Sources (+ or -)		2,233,801		(1,382,844)
Uncollected payments from Federal sources, end of year (-)		(27,142,620)		(29,376,421)
Obligated balance, start of year (+ or -)		109,353,422		114,463,675
Obligated Balance, End of Year (+ or -)	$	93,568,051	$	109,353,422
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$	192,368,422	$	229,188,687
Actual offsetting collections (discretionary and mandatory) (-)		(21,867,868)		(26,253,722)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)		2,233,801		(1,382,844)
Budget Authority, net (discretionary and mandatory)	$	172,734,355	$	201,552,121
Outlays, gross (discretionary and mandatory)		212,096,944		236,999,558
Actual offsetting collections (discretionary and mandatory) (-)		(21,867,868)		(26,253,722)
Outlays, net (discretionary and mandatory)		190,229,076		210,745,836
Distributed offsetting receipts (-)		(595,602)		828,530
Agency Outlays, net (discretionary and mandatory)	$	189,633,474	$	211,574,366

The accompanying notes are an integral part of these financial statements

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2013 and 2012

(Amounts in thousands)	2013 Combined	2012 Combined
NONBUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	$ 1,017	$ 275
Unobligated balance brought forward, October 1, as adjusted	$ 1,017	$ 275
Recoveries of prior year unpaid obligations	1	0
Other changes in unobligated balance (+ or -)	0	(1)
Unobligated balance from prior year budget authority, net	$ 1,018	274
Spending Authority from offsetting collections (discretionary and mandatory)	93	743
Total Budgetary Resources	$ 1,111	$ 1,017
Status of Budgetary Resources:		
Obligations Incurred	$ 1,111	$ 0
Unobligated balance, end of year		
Apportioned	0	975
Unapportioned	0	42
Total unobligated balance, end of year	$ 0	$ 1,017
Total Budgetary Resources	$ 1,111	$ 1,017
Change in Obligated Balance:		
Unpaid obligations:		
Obligations incurred	1,111	0
Outlays (gross) (-)	(1,111)	0
Uncollected payments:		
Uncollected payments from Federal sources, brought forward, October 1 (-)	$ 0	$ (120)
Change in uncollected payments from Federal Sources (+ or -)	0	120
Obligated Balance, Start of Year (+ or -)	$ 0	(120)
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 93	$ 743
Actual offsetting collections (discretionary and mandatory) (-)	(93)	(863)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	0	120
Budget Authority, net (discretionary and mandatory)	$ 0	$ 0
Outlays, gross (discretionary and mandatory)	$ 1,111	0
Actual offsetting collections (discretionary and mandatory) (-)	(93)	(863)
Outlays, net (discretionary and mandatory)	$ 1,018	(863)
Agency Outlays, net (discretionary and mandatory)	$ 1,018	$ (863)

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

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

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

The Army General Fund has implemented process and system improvements addressing these limitations to include deployment of the General Fund Enterprise Business System (GFEBS). GFEBS is a web-based Enterprise Resource Planning system that will help to improve financial performance, standardize business processes, ensure that capability exists to meet future financial management needs, and provide management with relevant, reliable, and timely financial information. GFEBS will also allow the sharing of standardized and real-time financial, cost, and accounting data across the Army. This system contains the following six major business process areas: funds management; financials; cost management; reimbursement management; spending chain; and property, plant, and equipment.

The Army General Fund currently has 14 auditor-identified financial statement material weaknesses: (1) Financial Management Systems; (2) Accounting Adjustments; (3) Abnormal Account Balances; (4) Intragovernmental Eliminations; (5) Fund Balance with Treasury; (6) Accounts Receivable; (7) Inventory and Related Property; (8) General Property, Plant, and Equipment; (9) Accounts Payable; (10) Environmental Liabilities; (11) Statement of Net Cost; (12) Reconciliation of Net Cost of Operations to Budget; (13) Statement of Budgetary Resources; and (14) Contingency Payment Audit Trails.

1.B. Mission of the Reporting Entity

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

This mission has been unchanged for the 238-year life of the Army, but the environment and nature of conflict have undergone many changes over that same time, especially with the overseas contingency operations. These contingency operations have required that the Army simultaneously transform the way that it fights, trains, and equips its soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the nation's domestic and international security obligations today and into the future.

1.C. Appropriations and Funds

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

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

These appropriations 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 https://www.defense.gov/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 funds from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues; required by statute to be used for designated activities, benefits or purposes; and remain available over time. The Army General Fund is required to separately account for and report on the receipt, use, and retention of revenues and other financing sources for funds from dedicated collections.

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

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

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

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

1.D. Basis of Accounting

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

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

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the United States Standard General Ledger (USSGL). The Army has implemented GFEBS which contains a chart of accounts based on the USSGL. The Army has also created additional subsidiary accounts for GFEBS that track its General Fund financial activities at a detailed level. This new system will fully or partially subsume 107 existing systems currently supporting Army General Fund accounting and financial management, thereby greatly reducing the total number of general ledgers maintained by the Army. However, until all of the Army General Fund's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, some of the Army General Fund's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

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

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intraentity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army General Fund cannot accurately identify intragovernmental transactions by customer because the Army General Fund's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal 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 (SFIS) that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances. During 4th Quarter, FY 2012, the Army deployed GFEBS, a replacement system, which has incorporated the SFIS chart of accounts.

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

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Cash and Other Monetary Assets

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

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

The Army General Fund conducts a significant portion of operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operation and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and

(5) family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Army General Fund does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

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

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

1.M. Inventories and Related Property

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

Related property includes OM&S and stockpile materiel. The OM&S, including ammunition not held for sale, are valued at standard purchase price. The Army General Fund uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Army General Fund uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2012 and FY 2013, the Army General Fund expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD; long-term system corrections are in process. Once the proper systems are in place, ammunition will be accounted for under the consumption method of accounting. All remaining OM&S items will be accounted for under the purchase method because management has deemed these items are in the hands of the end-users.

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

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

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

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

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

1.O. General Property, Plant and Equipment

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

The DoD general property, plant and equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The Army General Fund has fully implemented this threshold for real property.

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

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

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

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the DoD 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 policy is to expense and/or properly classify assets when the related goods and services are received. The Army General Fund has not fully implemented the policy for advances identified in contract feeder systems primarily due to system limitations.

1.Q Leases

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

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

Payments for operating leases are expensed over the lease term as they become payable. Office space and leases entered into by the Army General Fund are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future-year projections use the Consumer Price Index.

1.R. Other Assets

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

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

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

1.S. Contingencies and Other Liabilities

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

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Undistributed Disbursements and Collections

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

Due to noted material weakness in current accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable and receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

1.X. Fiduciary Activities

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

1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Events

During FY 2013, the Department implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. SFFAS 43 provides clarifying language to be used by reporting entities when classifying funds and provides additional reporting alternatives for financial statement presentation and note disclosure. Refer to Note 19, *Disclosures on Statement of Changes in Net Position*, and Note 23, *Funds from Dedicated Collections*, for additional information.

NOTE 2. NONENTITY ASSETS

As of September 30

(Amounts in thousands)	2013	2012
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 65,412	$ 63,951
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	$ 65,412	$ 63,951
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 1,209,864	$ 1,526,881
B. Accounts Receivable	145,969	135,533
C. Other Assets	0	0
D. Total Nonfederal Assets	$ 1,355,833	$ 1,662,414
3. Total Nonentity Assets	$ 1,421,245	$ 1,726,365
4. Total Entity Assets	$ 323,174,369	$ 350,350,331
5. Total Assets	$ 324,595,614	$ 352,076,696

Information Related to Nonentity Assets

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

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

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

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30

(Amounts in thousands)	2013		2012	
1. Fund Balances				
A. Appropriated Funds	$	132,280,693	$	153,169,353
B. Revolving Funds		0		1,018
C. Trust Funds		4,640		3,923
D. Special Funds		28,981		30,205
E. Other Fund Types		65,413		63,951
F. Total Fund Balances	$	132,379,727	$	153,268,450
2. Fund Balances Per Treasury Versus Agency				
A. Fund Balance per Treasury	$	136,434,864	$	157,077,553
B. Fund Balance per Army		132,379,727		153,268,450
3. Reconciling Amount	$	4,055,137	$	3,809,103

Information Related to Fund Balance with Treasury

Other Fund Types

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

Reconciling Amount

The U.S. Treasury reported $4.1 billion more in Fund Balance with Treasury (FBWT) than reported by the Army General Fund. This difference includes $4.0 billion in canceling year authority, $19.6 million in net differences because of the U.S. Treasury treatment of allocation transfers and $17.1 million in fiduciary activity. The reconciling difference due to allocation transfers results from instances in which Army allocates to or is allocated funds from various governmental entities. In cases in which Army is allocated funds, the allocated amount is excluded from the Fund Balance per Army, but included in the Fund Balance per Treasury.

Status of Fund Balance with Treasury

As of September 30

(Amounts in thousands)	2013		2012	
1. Unobligated Balance				
A. Available	$	25,069,636	$	32,513,961
B. Unavailable		13,575,081		11,816,532
2. Obligated Balance not yet Disbursed	$	120,710,671	$	138,729,843
3. Nonbudgetary FBWT	$	169,643	$	(413,330)
4. NonFBWT Budgetary Accounts	$	(27,145,304)	$	(29,378,556)
5. Total	$	132,379,727	$	153,268,450

Status of Fund Balance with Treasury Definitions

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

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

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

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

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

NOTE 4. INVESTMENTS AND RELATED INTEREST

As of September 30	2013				
(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	2,699		(86)	2,613	2,685
5. Total Nonmarketable, Market-Based	$ 2,699		$ (86)	$ 2,613	$ 2,685
B. Accrued Interest	2			2	2
C. Total Intragovernmental Securities	$ 2,701		$ (86)	$ 2,615	$ 2,687
2. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

As of September 30	2012				
(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	2,219		(49)	2,170	2,174
5. Total Nonmarketable, Market-Based	$ 2,219		$ (49)	$ 2,170	$ 2,174
B. Accrued Interest	11			11	11
C. Total Intragovernmental Securities	$ 2,230		$ (49)	$ 2,181	$ 2,185
2. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

Information Related to Investments and Related Interest

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

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

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

On June 1, 2012, the Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards (SFFAS) 43, *Funds from Dedicated Collections*, which amended SFFAS 27, *Identifying and Reporting Earmarked Funds*. SFFAS 43, which is effective for periods after September 30, 2012, changed the term "earmarked funds" to "funds from dedicated collections" and clarified the criteria for their classification. In 1st Quarter, FY 2013, the Army General Fund classified the source of funds for the Army Gift Fund as funds from dedicated collections and began reporting the Army Gift Fund financial operations in accordance with SFFAS 43.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2013		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 526,397	N/A	$ 526,397
2. Nonfederal Receivables (From the Public)	1,682,237	(186,462)	1,495,775
3. Total Accounts Receivable	$ 2,208,634	$ (186,462)	$ 2,022,172

As of September 30	2012		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 353,387	N/A	$ 353,387
2. Nonfederal Receivables (From the Public)	1,486,254	(130,319)	1,355,935
3. Total Accounts Receivable	$ 1,839,641	$ (130,319)	$ 1,709,322

Information Related to Accounts Receivable

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

NOTE 6. OTHER ASSETS

As of September 30

(Amounts in thousands)	2013	2012
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 539,378	$ 434,558
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 539,378	$ 434,558
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	774,158	5,803,153
B. Advances and Prepayments	918,297	(1,463,288)
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	$ 1,692,455	$ 4,339,865
3. Total Other Assets	$ 2,231,833	$ 4,774,423

Information Related to Other Assets

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

Outstanding Contract Financing Payments

The balance of Outstanding Contract Financing Payments includes $3.0 million in contract financing payments and an additional $4.6 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. Refer to Note 15, *Other Liabilities*, for additional information.

NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30

(Amounts in thousands)	2013	2012
1. Cash	$ 156,747	$ 194,878
2. Foreign Currency	1,053,137	1,332,111
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,209,884	$ 1,526,989

Information Related to Cash and Other Monetary Assets

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

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

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

Direct Loan and/or Loan Guarantee Programs

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

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

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

Armament Retooling and Manufacturing Support Initiative

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

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

Loan Guarantees

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

Summary of Direct Loans and Loan Guarantees

As of September 30

(Amounts in thousands)	2013	2012
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	0
7. Total Default Loan Guarantees	$ 0	$ 0
8. Total Loans Receivable	$ 0	$ 0
Loan Guarantee Liability		
1. Foreign Military Liquidating Account	$ 0	$ 0
2. Military Housing Privatization Initiative	0	0
3. Armament Retooling & Manufacturing Support Initiative	0	1,018
4. Total Loan Guarantee Liability	$ 0	$ 1,018

Direct Loans Obligated

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

Total Amount of Direct Loans Disbursed

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

Subsidy Expense for Direct Loan by Program

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

Subsidy Rate for Direct Loans by Program

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

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

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

Defaulted Guaranteed Loans

As of September 30

(Amounts in thousands)	2013	2012
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):		
1. Foreign Military Loan Liquidating Account		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0	$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Loan Losses	0	0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 0	$ 0
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):		
2. Military Housing Privatization Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0	$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	0	0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 0	$ 0
3. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 735	$ 735
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	(735)	(735)
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 0	$ 0
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0	$ 0

Information Related to Defaulted Guaranteed Loans

The above schedule displays the value of assets related to defaulted guaranteed loans receivable for the current and prior fiscal years.

Guaranteed Loans Outstanding

Information Related to Guaranteed Loans Outstanding

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

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

Liabilities for Loan Guarantees

As of September 30

(Amounts in thousands)	2013	2012
Liabilities for Losses on Loan Guarantee from Pre-FY 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-FY 1991 (Present Value):		
3. Military Housing Privatization Initiative	$ 0	$ 0
4. Armament Retooling & Manufacturing Support Initiative	0	1,018
5. Total Loan Guarantee Liability (Post-FY 1991)	$ 0	$ 1,018
6. Total Loan Guarantee Liability	$ 0	$ 1,018

Information Related to Liabilities for Loan Guarantees

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 ($39) million in loan guarantee liability represents the estimated long-term cost to the U.S. Government of the currently performing loan for the ARMS Initiative Loan Guarantee Program.

Subsidy Expense for Loan Guarantees by Program

As of September 30

(Amounts in thousands)

2013	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
Total	$ 0	$ 0	$ 0	$ 0	$ 0

2012	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
Total	$ 0	$ 0	$ 0	$ 0	$ 0

2013	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	(1,111)	(1,111)	(1,111)
Total	$ 0	$ 0	$ (1,111)	$ (1,111)	$ (1,111)

2012	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	820	(0)	820	820
Total	$ 0	$ 820	$ 0	$ 820	$ 820

5. Total Loan Guarantee:	2013	2012
Military Housing Privatization Initiative	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	(1,111)	820
Total	$ (1,111)	$ 820

Information Related to Subsidy Expense for Loan Guarantees by Program

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

Subsidy Rates for Loan Guarantees by Program

As of September 30

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

Information Related to Subsidy Rates for Loan Guarantees by Program

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

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

As of September 30

(Amounts in thousands)	2013	2012
Beginning Balance, Changes, and Ending Balance:		
1. Beginning Balance of the Loan Guarantee Liability	$ 1,018	$ 154
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	46	44
G. Other	47	0
H. Total of the above Adjustments	$ 93	$ 44
4. Ending Balance of the Loan Guarantee Liability before Reestimates	$ 1,111	$ 198
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	0	820
B. Technical/default Reestimate	(1,111)	0
C. Total of the above Reestimate Components	$ (1,111)	$ 820
6. Ending Balance of the Loan Guarantee Liability	$ 0	$ 1,018

Information Related to the Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

The above schedule displays the ending balances for the loan guarantee liabilities for loans that were guaranteed after FY 1991.

Administrative Expenses

Administrative expense for the ARMS Initiative represents $4,000.00 per annum for salaries.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30

(Amounts in thousands)	2013	2012
1. Inventory, Net	$ 0	$ 0
2. Operating Materiel & Supplies, Net	32,813,748	30,824,075
3. Stockpile Materiel, Net	0	0
4. Total	$ 32,813,748	$ 30,824,075

Inventory, Net

Not applicable.

Operating Materiel and Supplies, Net

As of September 30	2013			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 29,232,661	$ 0	$ 29,232,661	SP, LAC, MAC
B. Held for Repair	3,581,087	0	3,581,087	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
D. Total	$ 32,813,748	$ 0	$ 32,813,748	

As of September 30	2012			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 28,157,681	$ 0	$ 28,157,681	SP, LAC, MAC
B. Held for Repair	2,666,394	0	2,666,394	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	235,838	(235,838)	0	NRV
D. Total	$ 31,059,913	$ (235,838)	$ 30,824,075	

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

Information Related to Operating Materiel and Supplies, Net

Operating Materiel and Supplies (OM&S) include ammunition, tactical missiles, and their related spare and repair parts. The Held for Use category, which includes all materiel available to be issued, consists of $26.9 billion in Operating Materiel and Supplies Held for Use and $2.3 billion in Operating Materiel and Supplies Held in Reserve for Future Use. This category, which was not available in previous years, is used for economically repairable material.

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

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

Currently, there are no restrictions on OM&S.

Stockpile Materiel, Net

Not applicable.

NOTE 10. GENERAL PP&E, NET

As of September 30	2013				
(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	$ 605,121	N/A	$ 605,121
B. Buildings, Structures, and Facilities	S/L	20 or 40	93,248,637	$ (34,387,110)	58,861,527
C. Leasehold Improvements	S/L	lease term	36,687	(22,079)	14,608
D. Software	S/L	2-5 or 10	513,887	(218,029)	295,858
E. General Equipment	S/L	5 or 10	14,081,795	(6,793,535)	7,288,260
F. Military Equipment	S/L	Various	142,390,377	(64,450,275)	77,940,102
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	166,617	(166,550)	67
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	8,930,002	N/A	8,930,002
J. Other			322	(232)	90
K. Total General PP&E			$ 259,973,445	$ $(106,037,810)	153,935,635

As of September 30	2012				
(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	$ 601,132	N/A	$ 601,132
B. Buildings, Structures, and Facilities	S/L	20 or 40	76,635,801	$ (30,951,060)	45,684,741
C. Leasehold Improvements	S/L	lease term	36,037	(22,372)	13,665
D. Software	S/L	2-5 or 10	513,887	(216,260)	297,627
E. General Equipment	S/L	5 or 10	20,153,493	(9,082,154)	11,071,339
F. Military Equipment	S/L	Various	156,028,694	(63,652,323)	92,376,371
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	166,617	(165,747)	870
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	9,925,511	N/A	9,925,511
J. Other			231	(231)	0
K. Total General PP&E			$ 264,061,403	$ (104,090,147)	$ 159,971,256

[1]Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Information Related to General Property, Plant and Equipment

The Army General Fund uses the estimated historical cost for valuing capital equipment. In 4th Quarter, FY 2012, the Army General Fund transitioned from using data calls for financial reporting of the following asset classes: land; buildings, structures, and facilities; general equipment; and military equipment. Instead, the General Fund Enterprise Business System populates financial values based on source records in the relevant accountable property system of record. This transition supports Army audit readiness objectives and complies with DoD regulations.

The Army General Fund is not aware of any restrictions on the use or convertibility of General Property, Plant, and Equipment.

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

Heritage Assets and Stewardship Land Information

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

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

The Army General Fund is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2013 due to limitations of the Department's financial and nonfinancial management processes and systems.

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

Buildings and Structures

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

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 heritage assets for the Army General Fund are listed below:

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	38,670	0	0	38,670
Archeological Sites	Each	8,123	0	0	8,123
Museum Collection Items (Objects, Not Including Fine Art)	Each	585,969	0	0	585,969
Museum Collection Items (Objects, Fine Art)	Each	0	0	0	0

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

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

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

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

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

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

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	4,981	0	0	4,981
9111	State Owned Land	5	0	0	5
9120	Withdrawn Public land	6,405	0	0	6,405
9130	Licensed and Permitted Land	187	0	0	187
9140	Public Land	11	0	0	11
9210	Land Easement	218	0	0	218
9220	In-leased Land	21	0	0	21
9230	Foreign Land	1	0	0	1
				Grand Total	11,829
				TOTAL - All Other Lands	5,408
				TOTAL – Stewardship Lands	6,421

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

Assets Under Capital Lease

As of September 30

(Amounts in thousands)	2013	2012
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 166,071	$ 166,071
B. Equipment	546	546
C. Accumulated Amortization	(166,550)	(165,747)
D. Total Capital Leases	$ 67	$ 870

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30

(Amounts in thousands)	2013	2012
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	478,178	504,717
D. Total Intragovernmental Liabilities	$ 478,178	$ 504,717
2. Nonfederal Liabilities		
A. Accounts Payable	$ 304,479	$ 217,902
B. Military Retirement and Other Federal Employment Benefits	1,410,212	1,406,105
C. Environmental and Disposal Liabilities	23,545,732	26,886,368
D. Other Liabilities	6,042,211	6,423,138
E. Total Nonfederal Liabilities	$ 31,302,634	$ 34,933,513
3. Total Liabilities Not Covered by Budgetary Resources	$ 31,780,812	$ 35,438,230
4. Total Liabilities Covered by Budgetary Resources	14,553,665	16,732,848
5. Total Liabilities	$ 46,334,477	$ 52,171,078

Information Related to Liabilities Not Covered by Budgetary Resources

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

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

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

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

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

Nonfederal Other Liabilities primarily consist of $3.9 billion in unfunded annual leave, $51.7 million in contingent liabilities, and $2.1 billion in expected expenditures for disposal of conventional munitions.

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

NOTE 12. ACCOUNTS PAYABLE

As of September 30

	2013		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 2,052,773	$ N/A	$ 2,052,773
2. Nonfederal Payables (to the Public)	1,603,250	10,118	1,613,368
3. Total	$ 3,656,023	$ 10,118	$ 3,666,141

As of September 30

(Amounts in thousands)	2012 Accounts Payable	2012 Interest, Penalties, and Administrative Fees	2012 Total
1. Intragovernmental Payables	$ 1,766,165	$ N/A	$ 1,766,165
2. Nonfederal Payables (to the Public)	3,183,094	(6,342)	3,176,752
3. Total	$ 4,949,259	$ (6,342)	$ 4,942,917

Information Related to Accounts Payable

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by the Army General Fund. The Army General Fund 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 and applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 13. DEBT

As of September 30 (Amounts in thousands)	2013 Beginning Balance	2013 Net Borrowing	2013 Ending Balance
1. Agency Debt (Intragovernmental)			
A. Debt to the Treasury	$ 0	$ 0	$ 0
B. Debt to the Federal Financing Bank	0	0	0
C. Total Agency Debt	$ 0	$ 0	$ 0
2. Total Debt	$ 0	$ 0	$ 0

As of September 30 (Amounts in thousands)	2012 Beginning Balance	2012 Net Borrowing	2012 Ending Balance
1. Agency Debt (Intragovernmental)			
A. Debt to the Treasury	$ 1	$ (1)	$ 0
B. Debt to the Federal Financing Bank	0	0	0
C. Total Agency Debt	$ 1	$ (1)	$ 0
2. Total Debt	$ 1	$ (1)	$ 0

Information Related to Debt

The Army General Fund, by means of the Armament Retooling and Manufacturing Support (ARMS)-initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. When a borrower defaults on a guaranteed loan, the Army General Fund executes borrowing authority with the U.S. Treasury to pay the lender the guaranteed outstanding principal which results in a debt with the U.S. Treasury. The total debt of only $40.00 consists of interest and principal payments due to the U.S. Treasury for ARMS loan defaults.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30

(Amounts in thousands)	2013	2012
1. Environmental Liabilities—Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 2,092,794	$ 2,437,261
2. Active Installations—Military Munitions Response Program (MMRP)	883,672	1,419,268
3. Formerly Used Defense Sites—IRP and BD/DR	3,018,759	3,063,392
4. Formerly Used Defense Sites--MMRP	10,096,799	10,842,520
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	362,612	510,690
2. Environmental Closure Requirements	189,065	206,471
3. Environmental Response at Operational Ranges	115,370	75,878
4. Asbestos	245,781	243,450
5. Non-Military Equipment	0	0
6. Other	56,157	60,146
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	707,396	658,562
2. Military Munitions Response Program	573,177	535,157
3. Environmental Corrective Action / Closure Requirements	180,867	134,225
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)	1,503,830	3,691,127
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	6,054,406	6,539,062
3. Other	0	0
2. Total Environmental Liabilities	$ 26,080,685	$ 30,417,209

Information Related to Environmental and Disposal Liabilities

Applicable Laws and Regulations

The Army General Fund is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activity. This cleanup requirement applies to releases of hazardous substances and wastes that created a public health or environmental risk from unexploded ordnance, discarded military munitions, and munitions constituents at other than operational ranges. The Defense Environmental Restoration Program (DERP), established by Section 211 of the *Superfund Amendments and Reauthorization Act of 1986* and codified in Title 10 of the United States Code 2700 et.seq., establishes the requirements. The Army General Fund is also required to clean up contamination resulting from waste disposal practices, leaks, spills, and other activity at overseas locations in accordance with DoD policy as prescribed in DoD Instruction 4715.8, *Environmental Remediation for DoD Activities Overseas*, under the Army Compliance Cleanup Program.

The Federal Accounting Standards Advisory Board (FASAB) published Technical Bulletin (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 clarify reporting of liabilities arising from asbestos-related cleanup.

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

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

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

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

Types of Environmental Liabilities and Disposal Liabilities Identified

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods
The Army General Fund uses engineering estimates and independently validated models to estimate environmental cleanup liabilities. The Remedial Action Cost Engineering and Requirements (RACER) system is the Army's preferred model. The Army General Fund relies upon the Air Force, the RACER executive agent, to validate the model in accordance with DoD Instruction 5000.61, *DoD Modeling and Simulation (M&S) Verification, Valuation, and Accreditation* (VV&A), and

primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Army primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of an environmental cleanup project.

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

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

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

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

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

The environmental liabilities for the Army General Fund are based on accounting estimates, which require certain judgments and assumptions that are believed to be reasonable based upon information available at the time the estimates are calculated. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further impacted if investigation of the environmental sites discloses contamination levels different than known at the time of the estimates.

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

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

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

NOTE 15. OTHER LIABILITIES

As of September 30 (Amounts in thousands)	2013 Current Liability	2013 Noncurrent Liability	2013 Total	2012 Total
1. Intragovernmental				
A. Advances from Others	$ 9,839	$ 0	$ 9,839	$ 11,539
B. Deposit Funds and Suspense Account Liabilities	102,243	0	102,243	(477,763)
C. Disbursing Officer Cash	1,212,841	0	1,212,841	1,530,523
D. Judgment Fund Liabilities	24,622	0	24,622	3,984
E. FECA Reimbursement to the Department of Labor	117,324	113,930	231,254	250,508
F. Custodial Liabilities	135,682	7,310	142,992	131,891
G. Employer Contribution and Payroll Taxes Payable	155,858	0	155,858	152,661
H. Other Liabilities	234,914	0	234,914	267,594
I. Total Intragovernmental Other Liabilities	$ 1,993,323	$ 121,240	$ 2,114,563	$ 1,870,937
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 2,963,720	$ 0	$ 2,963,720	$ 3,117,091
B. Advances from Others	2,097,918	0	2,097,918	1,815,150
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	67,842	0	67,842	65,061
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	2,136,649	2,136,649	2,136,649
G. Accrued Unfunded Annual Leave	3,632,370	0	3,632,370	3,939,285
H. Capital Lease Liability	131	0	131	1,496
I. Contract Holdbacks	628,367	0	628,367	674,616
J. Employer Contribution and Payroll Taxes Payable	188,827	0	188,827	154,593
K. Contingent Liabilities	49,258	1,297,792	1,347,050	1,628,951
L. Other Liabilities	0	0	0	0
M. Total Nonfederal Other Liabilities	$ 9,628,433	$ 3,434,441	$ 13,062,874	$ 13,532,892
3. Total Other Liabilities	$ 11,621,756	$ 3,555,681	$ 15,177,437	$ 15,403,829

Capital Lease Liability

As of September 30 (Amounts in thousands)	2013 Land and Buildings	2013 Equipment	2013 Other	2013 Total	2012 Total
1. Future Payments Due					
A. 2014	0	0	0	0	0
B. 2015	0	0	0	0	1,611
C. 2016	0	0	0	0	148
D. 2017	132	0	0	132	0
E. 2018	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	$ 132	$ 0	$ 0	$ 132	$ 1,759
H. Less: Imputed Interest Executory Costs	1	0	0	1	263
I. Net Capital Lease Liability	$ 131	$ 0	$ 0	$ 131	$ 1,496
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 131	$ 1,496
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 0	$ 0

Intragovernmental Other Liabilities Composition

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

Estimated Future Contract Financing Payments

Contingent liabilities include $464.2 million related to contracts authorizing progress payments based on cost as defined in the *Federal Acquisition Regulation* (FAR). In accordance with contract terms, specific rights to the contractors' work vest with the federal government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. It is DoD policy that these rights should not be misconstrued as rights of ownership. The Army General Fund is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. The Army General Fund has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance for the following reasons: (1) The contractors will probably complete their efforts and deliver satisfactory products, and (2) the amount of contractor costs incurred but not yet paid are estimable.

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

NOTE 16. COMMITMENTS AND CONTINGENCIES

Information Related to Commitments and Contingencies

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

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

Nature of Contingency

The Management's Schedule of Information derived from the FY 2013 Army Legal Representation Letter outlines claims against the Army General Fund totaling about $12.0 trillion for which the Army OGC is unable to express an opinion. The majority of this amount is due to claims for the Fort Detrick, Maryland, contamination ($10.0 trillion) and for the Hurricane Katrina levee breach ($2.0 trillion). The historical payout percentage for these cases is less than 1 percent. To determine the historical payout, the Army OGC divides the total amount reported as a payout in the fiscal year by the total amount claimed in the Army Legal Representation Letter.

The Army General Fund has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army General Fund's financial statements. As of September 30, 2013, the Army General Fund had $805.5 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Estimates for litigations, claims, and assessments are required to be fully supported.

Estimates in the Management Schedule of Information will not always agree with amounts, displayed below, that were reported by the OGC subordinate commands because the Management Schedule of Information amounts are subject to a materiality threshold – currently $29.7 million.

(Amounts in thousands)

Title of Contingent Liabilities	Estimate
Army Environmental Law Division	$346,930
Army Contract Appeals	$27,116
U.S. Army Claims Service	$0
Litigation Division	$431,435
Total	$805,481

Other Information Pertaining to Commitments

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

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2013			2012
(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-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 Benefits				
A. FECA	$ 1,410,213	$ 0	$ 1,410,213	$ 1,406,105
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 Benefits	$ 1,410,213	$ 0	$ 1,410,213	$ 1,406,105
3. Total Military Retirement and Other Federal Employment Benefits:	$ 1,410,213	$ 0	$ 1,410,213	$ 1,406,105

Information Related to Military Retirement and Other Federal Employment Benefits

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 (FECA) increased $4.1 million between FY 2012 and FY 2013.

Actuarial Cost Method

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

Market Value of Market-Based Securities

As of September 30, 2013, the market value of the nonmarketable, market-based securities held by the Army General Fund was $2.7 million. Refer to Note 4, *Investments and Related Interest*, for additional information.

Assumptions

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

Interest rate assumptions utilized for discounting were as follows:

Discount Rates
For wage benefits:
2.727% in Year 1
3.127% in Year 2 and thereafter;

For medical benefits:
2.334% in Year 1
2.860% in Year 2 and thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPIMs were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2013 were used to adjust the historical payments associated with the methodology to current year constant dollars.

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

CBY	COLA	CPIM
2013	N/A	N/A
2014	3.46%	3.46%
2015	1.80%	3.82%
2016	2.20%	3.83%
2017	2.20%	3.82%
2018+	2.20%	3.82%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2013 to the average pattern observed during the most current three charge-back years; and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections of the most recent three years.

Other Disclosures

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

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

Intragovernmental Costs and Exchange Revenue

As of September 30

(Amounts in thousands)	2013	2012
Military Retirement Benefits		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Civil Works		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Military Personnel		
1. Gross Cost		
A. Intragovernmental Cost	$ 16,635,555	$ 19,431,946
B. Nonfederal Cost	47,892,782	48,128,299
C. Total Cost	$ 64,528,337	$ 67,560,245
2. Earned Revenue		
A. Intragovernmental Revenue	$ (331,004)	$ (323,754)
B. Nonfederal Revenue	0	(349)
C. Total Revenue	$ (331,004)	$ (324,103)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 64,197,333	$ 67,236,142
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	$ 21,182,622	$ 29,444,340
B. Nonfederal Cost	61,875,256	49,257,421
C. Total Cost	$ 83,057,878	$ 78,701,761
2. Earned Revenue		
A. Intragovernmental Revenue	$ 2,903,103	$ 5,559,902
B. Nonfederal Revenue	(4,223,948)	(579,196)
C. Total Revenue	$ (1,320,845)	$ 4,980,706
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 81,737,033	$ 83,682,467

Intragovernmental Costs and Exchange Revenue
As of September 30

(Amounts in thousands)	2013	2012
Procurement		
1. Gross Cost		
A. Intragovernmental Cost	$ 9,286,999	$ 8,162,541
B. Nonfederal Cost	(2,198,557)	23,054,079
C. Total Cost	$ 7,088,442	$ 31,216,620
2. Earned Revenue		
A. Intragovernmental Revenue	$ (1,132,803)	$ (1,953,087)
B. Nonfederal Revenue	(151,163)	(61,141)
C. Total Revenue	$ (1,283,966)	$ (2,014,228)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 5,804,476	$ 29,202,392
Research, Development, Test & Evaluation		
1. Gross Cost		
A. Intragovernmental Cost	$ 2,891,104	$ 3,013,426
B. Nonfederal Cost	9,354,857	10,980,143
C. Total Cost	$ 12,245,961	$ 13,993,569
2. Earned Revenue		
A. Intragovernmental Revenue	$ (2,271,362)	$ (4,464,361)
B. Nonfederal Revenue	(2,601,848)	(107,171)
C. Total Revenue	$ (4,873,210)	$ (4,571,532)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 7,372,751	$ 9,422,037
Family Housing & Military Construction		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,127,712	$ 1,668,211
B. Nonfederal Cost	32,181,792	23,898,567
C. Total Cost	$ 33,309,504	$ 25,566,778
2. Earned Revenue		
A. Intragovernmental Revenue	$ (6,484,365)	$ (7,651,061)
B. Nonfederal Revenue	(291,468)	(295,541)
C. Total Revenue	$ (6,775,833)	$ (7,946,602)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 26,533,671	$ 17,620,176
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	$ 51,123,992	$ 61,720,464
B. Nonfederal Cost	149,106,130	155,318,509
C. Total Cost	$ 200,2230,122	$ 217,038,973
2. Earned Revenue		
A. Intragovernmental Revenue	$ (7,316,431)	$ (8,832,361)
B. Nonfederal Revenue	(7,268,427)	(1,043,398)
C. Total Revenue	$ (14,584,858)	$ (9,875,759)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
4. Costs Not Assigned to Programs	$ 0	$ 0
5. (Less: Earned Revenues) Not Attributed to Programs	$ 0	$ 0
Total Net Cost	$ 185,645,264	$ 207,163,214

Information Related to the Statement of Net Cost

Definitions

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

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

Other Information Regarding Costs

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

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

Additional Disclosures

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

The Army General Fund accounting systems do not capture information relative to heritage assets separately and distinctly from normal operations. The Army General Fund is not able to separately identify the costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets. The Army Financial Improvement Plan outlines tasks to separately identify and report costs associated with heritage assets by 4th Quarter, FY 2017.

The abnormal revenue balance impacting the "Operations, Readiness & Support" program is attributable to the current business practice which includes elimination reporting in this program group.

The final paragraph should state "The abnormal balance impacting Procurement Cost consists of gains and losses that resulted from adjustments necessary to balance the Army General Fund's feeder systems with DoD's financial reporting system and to correct inherent limitation of the current financial systems.

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

Information Related to the Statement of Changes in Net Position

Other Financing Sources, Other

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

Appropriations Received

The Appropriations Received line item on the Statement of Changes in Net Position (SCNP) does not agree with the Appropriations line item on the Statement of Budgetary Resources (SBR). The $8.0 billion difference is due to additional resources included in the Appropriation line item on the SBR. Refer to Note 20, *Disclosures Related to the SBR*, for further information.

Eliminations

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

Earmarked Cumulative Results of Operations

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

Dedicated Collections

Effective 3rd Quarter, FY 2013, the Defense Departmental Reporting System began reporting all funds identified as "dedicated collections" only in the notes to the statements. Funds from dedicated collections are not required to be reported separately in the Statement of Changes in Net Position, but this statement will contain a reference to the appropriate footnotes for further information on these collections.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30

(Amounts in thousands)	2013	2012
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 111,398,160	$ 131,871,962
2. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

Information Related to the Statement of Budgetary Resources

Undelivered Orders

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

Reporting of Appropriations Received

The Appropriations line on the SBR does not agree with the Appropriations Received line on the Statement of Changes in Net Position because of differences between proprietary and budgetary accounting concepts and reporting requirements. These differences, totaling $8.0 billion, consist of the receipts for special and trust funds.

Presentation of Statement of Budgetary Resources

The SBR includes intra-entity 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	$165.2	$5.8
Category B	$39.3	$17.7
Exempt from Apportionment	*	0.0
Total	$204.5	$23.5

(Amounts in millions)

Non-Budgetary	Direct	Reimbursable
Category A	0.00	0.00

*The Exempt from Apportionment amount is $14.1 million.

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

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

Terms of Borrowing Authority

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

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

There was no borrowing authority available as of September 30, 2013.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the years ended September 30

(Amounts in thousands)	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 227,841,664	$ 267,822,441
2. Less: Spending authority from offsetting collections and recoveries (-)	(53,396,942)	(62,187,722)
3. Obligations net of offsetting collections and recoveries	$ 174,444,722	$ 205,634,719
4. Less: Offsetting receipts (-)	(595,602)	828,530
5. Net obligations	$ 173,849,120	$ 206,463,249
Other Resources:		
6. Donations and forfeitures of property	459	35,024
7. Transfers in/out without reimbursement (+/-)	1,745,469	4,357,168
8. Imputed financing from costs absorbed by others	1,053,939	1,043,601
9. Other (+/-)	(7,570,278)	(22,178,371)
10. Net other resources used to finance activities	$ (4,770,411)	$ (16,742,578)
11. Total resources used to finance activities	$ 169,078,709	$ 189,720,671
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 (-)	$ 20,473,802	$ 628,452
12b. Unfilled Customer Orders	(3,763,787)	1,104,954
13. Resources that fund expenses recognized in prior Periods (-)	(5,070,608)	(2,052,694)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	595,696	(827,667)
15. Resources that finance the acquisition of assets (-)	(24,330,081)	(14,240,034)
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 (+/-)	5,824,350	17,786,177
17. Total resources used to finance items not part of the Net Cost of Operations	$ (6,270,628)	$ 2,399,188
18. Total resources used to finance the Net Cost of Operations	$ 162,808,081	$ 192,119,859
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	$ 10,626	$ 42,899
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 (-)	(3,076)	66,223
23. Other (+/-)	212,148	872,985
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 219,698	$ 982,107
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 25,473,228	$ 12,109,975
26. Revaluation of assets or liabilities (+/-)	0	0
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	0	0
27c. Operating Material and Supplies Used	385	(513)
27d. Other	(2,856,128)	1,951,786
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 22,617,485	$ 14,061,248
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 22,837,183	$ 15,043,355
30. Net Cost of Operations	$ 185,645,264	$ 207,163,214

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

Required Disclosures

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

The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost totaled $79.2 billion and was reported in the category of Other Components Not Requiring or Generating Resources.

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

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

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

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

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

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

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The Army General Fund does not collect incidental custodial revenues.

NOTE 23. FUNDS FROM DEDICATED COLLECTIONS

BALANCE SHEET	2013									
As of September 30 *(Amounts in thousands)*	Harbor Maintenance Trust Fund		Rivers and Harbors Contributed and Advance Fund		Other Funds		Eliminations		Consolidated Total	
ASSETS										
Fund balance with Treasury	$	0	$	0	$	33,622	$	0	$	33,622
Investments		0		0		2,615		0		2,615
Accounts and Interest Receivable		0		0		(63)		0		(63)
Other Assets		0		0		6		0		6
Total Assets	$	0	$	0	$	36,180	$	0	$	36,180
LIABILITIES and NET POSITION										
Accounts Payable and Other Liabilities		0		0		1,471		0		1,471
Total Liabilities	$	0	$	0	$	1,471	$	0	$	1,471
Unexpended Appropriations		0		0		0		0		0
Cumulative Results of Operations		0		0		34,709		0		34,709
Total Liabilities and Net Position	$	0	$	0	$	36,180	$	0	$	36,180
STATEMENT OF NET COST										
For the period ended September 30										
Program Costs	$	0	$	0	$	25,038	$	(1)	$	25,037
Less Earned Revenue		0		0		(245)		0		(245)
Net Program Costs	$	0	$	0	$	24,793	$	(1)	$	24,792
Less Earned Revenues Not Attributable to Programs		0		0		0		0		0
Net Cost of Operations	$	0	$	0	$	24,793	$	(1)	$	24,792
STATEMENT OF CHANGES IN NET POSITION										
Net Position Beginning of the Period	$	0	$	0	$	36,212	$	0	$	36,212
Net Cost of Operations	$	0	$	0	$	24,793	$	0	$	24,793
Budgetary Financing Sources		0		0		29,092		0		29,092
Other Financing Sources		0		0		(5,802)		0		(5,802)
Change in Net Position	$	0	$	0	$	(1,503)	$	0	$	(1,503)
Net Position End of Period	$	0	$	0	$	34,709	$	0	$	34,709

BALANCE SHEET As of September 30 *(Amounts in thousands)*	Restated 2012 Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 0	$ 0	$ 34,129	$ 0	$ 34,129
Investments	0	0	2,181	0	2,181
Accounts and Interest Receivable	0	0	0	0	0
Other Assets	0	0	114	0	114
Total Assets	$ 0	$ 0	$ 36,424	$ 0	$ 36,424
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	0	0	212	0	212
Total Liabilities	$ 0	$ 0	$ 212	$ 0	$ 212
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	36,212	0	36,212
Total Liabilities and Net Position	$ 0	$ 0	$ 36,424	$ 0	$ 36,424
STATEMENT OF NET COST					
For the period ended September 30					
Program Costs	$ 0	$ 0	$ 26,153	$ 0	$ 26,153
Less Earned Revenue	0	0	0	0	0
Net Program Costs	$ 0	$ 0	$ 26,153	$ 0	$ 26,153
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	$ 0	$ 26,153	$ 0	$ 26,153
STATEMENT OF CHANGES IN NET POSITION					
Net Position Beginning of the Period	$ 0	$ 0	$ 49,586	$ 0	$ 49,586
Net Cost of Operations	$ 0	$ 0	$ 26,153	$ 0	$ 26,153
Budgetary Financing Sources	0	0	4,001	0	4,001
Other Financing Sources	0	0	8,778	0	8,778
Change in Net Position	$ 0	$ 0	$ (13,374)	$ 0	$ (13,374)
Net Position End of Period	$ 0	$ 0	$ 36,212	$ 0	$ 36,212

Information Related to Funds from Dedicated Collections

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

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

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

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

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

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

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

NOTE 24. FIDUCIARY ACTIVITIES

SCHEDULE OF FIDUCIARY ACTIVITY

For the period ended September 30

(Amounts in thousands)	2013	2012
1. Fiduciary net assets, beginning of year	$ 95,421	$ 129,380
2. Fiduciary revenues	0	0
3. Contributions	111,880	126,011
4. Investment earnings	7,364	9,624
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	(130,712)	(169,594)
8. Increase/(Decrease) in fiduciary net assets	$ (11,468)	$ (33,959)
9. Fiduciary net assets, end of period	$ 83,953	$ 95,421

SCHEDULE OF FIDUCIARY NET ASSETS

As of September 30

(Amounts in thousands)	2013	2012
Fiduciary Assets		
1. Cash and cash equivalents	$ 83,952	$ 95,421
2. Investments	0	0
3. Other Assets	0	0
Fiduciary Liabilities		
4. Less: Liabilities	$ 0	$ 0
5. Total Fiduciary Net Assets	$ 83,952	$ 95,421

Fiduciary activities are those federal government activities that relate to the collection or receipt of cash or other assets in which nonfederal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary activities also include managing, protecting, accounting for, investing, and disposing of such cash or other assets. The DoD has a fiduciary duty to the Saving Deposit Program in which the Army General Fund (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 United States or its possessions in designated areas. The Army GF collects the savings and allotments of soldiers, and the collections and accrued earned interest are transferred to the Navy General Fund, the program's executive agent. These fiduciary assets are not assets of the Army GF and are not recognized on its Balance Sheet.

NOTE 25. OTHER DISCLOSURES

As of September 30	2013 Asset Category			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
1. ENTITY AS LESSEE-Operating Leases				
Future Payments Due				
Fiscal Year				
2014	$ 67	$ 0	$ 0	$ 67
2015	67	0	0	67
2016	67	0	0	67
2017	67	0	0	67
2018	67	0	0	67
After 5 Years	15,017	0	0	15,017
Total Future Lease Payments Due	$ 15,352	$ 0	$ 0	$ 15,352

NOTE 26. RESTATEMENTS

Not applicable.

FISCAL YEAR 2013 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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

Nonfederal Physical Property: Yearly Investments in State and Local Governments for Fiscal Years 2009 through 2013

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	**FY 2013**	**FY 2012**	**FY 2011**	**FY 2010**	**FY 2009**
Transferred Assets:					
1. National Defense Mission-Related	$20.8	$32.4	$31.5	$22.2	$26.7
Funded Assets:					
2. National Defense Mission-Related	0	0	0	0	0
Totals	$20.8	$32.4	$31.5	$22.2	$26.7

The Army General Fund (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 DoD accounting systems are unable to capture and summarize costs in accordance with federal accounting standards.

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

Yearly Investments in Research and Development for Fiscal Years 2009 through 2013

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	**FY 2013**	**FY 2012**	**FY 2011**	**FY 2010**	**FY 2009**
Basic Research	354.3	$356.5	$414.4	$405.5	$392.7
Applied Research	876.7	1,102.4	1,161.6	728.3	1,191.1
Development					
Advanced Technology Development	1,016.3	1,151.0	1,187.2	941.0	1,341.8
Advanced Component Development and Prototypes	491.7	737.3	989.9	781.3	1,023.8
Systems Development and Demonstration	2,962.0	2,823.8	3,424.0	1,913.7	4,883.9
Research, Development, Test and Evaluation Management Support	1,275.3	1,320.6	1,397.4	726.3	1,387.1
Operational Systems Development	1,150.3	1,173.4	1,291.0	690.2	1,700.9
Total	8,126.6	$8,665.0	$9,865.5	$6,186.3	$11,921.4

Narrative Statement

Research and development programs are classified in the following categories: basic research, applied research, and development. The definition for each type of R&D category and subcategories is explained below.

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

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

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

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

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

The following are two representative program examples for this category:

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

Combat Vehicle and Automotive Technology (PE 0602601A): This program researches, investigates, and applies combat vehicle and automotive component technologies that enhance survivability, mobility, sustainability, and maintainability of Army ground combat and tactical vehicles. As combat vehicle systems become smaller and lighter, and tactical vehicles are more often exposed to combat conditions, one of the greatest technological and operational challenges is providing adequate crew protection without reliance on heavy, passive armor. This challenge will be met using a layered approach, including long-range situational awareness, advanced lightweight opaque and transparent armors, active protection systems, and multi-spectral signature reduction. Another focus of the program is on designing, fabricating, and evaluating performance of integrated and add-on lightweight armor packages needed to provide lightweight combat vehicles protection against chemical energy and kinetic energy threats with less than one-fourth the weight of conventional heavy armor. Additionally, the program is organized to design, fabricate, and evaluate 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; program examples follow:

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.

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

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

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

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

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

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

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

FISCAL YEAR 2013 REQUIRED SUPPLEMENTARY INFORMATION

General Property, Plant, and Equipment Real Property Deferred Maintenance Amounts
Fiscal Year Ended September 30, 2013

(Amounts in millions)	Current Fiscal Year		
Property Type	Plant Replacement Value	Required Work (deferred maintenance)	Percentage
Category 1	$229,115	$30,724	13%
Category 2	$13,036	$3,544	27%
Category 3	$8,355	$2,458	29%

Narrative Statement

In accordance with DoD Financial Management Regulation 7000.14-R (updates through September 2013), Volume 6B, Chapter 12, Paragraph 120302. B.1., the Army's FY 2013 deferred maintenance estimates include all facilities in which DoD has ownership interest under the control of the Army.

The deferred maintenance estimates are based on the facility Q-ratings reported in ISR 4th Quarter 2013 or Q-ratings obtained by application of business rules described below. For FY 2013, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

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

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

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

Property Categories are as follows:

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

Military Equipment Deferred Maintenance for Fiscal Year Ended September 30, 2013

(Amounts in thousands)

Major Categories	
Aircraft	$88,000
Automotive Equipment	75,090
Combat Vehicles	48,241
Construction Equipment	2,766
Electronics and Communications Systems	110,737
General Purpose Equipment	0
Missiles	0
Ordnance Weapons and Munitions	4,640
Other	354,608
Ships	0
Grand Total	$684,083

The OP-30 from the FY 2013 president's budget was used to compile the deferred depot level maintenance.

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

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

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

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2013

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

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

December 9, 2013

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

SUBJECT: Independent Auditor's Report on the Army General Fund FY 2013 and FY 2012 Basic Financial Statements (Report No. DODIG-2014-012)

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the accompanying Army General Fund Consolidated Balance Sheet as of September 30, 2013 and 2012, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and notes to the basic financial statements.

Management's Responsibility for the Annual Financial Statements

The annual financial statements are the responsibility of Army management. Management is responsible for (1) preparing basic financial statements that conform with generally accepted accounting principles in the United States (U.S. GAAP); (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that they met broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); (3) ensuring that the Army General Fund's financial management systems fully comply with Federal Financial Management Improvement Act of 1996 (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 14-02, "Audit Requirements for Federal Financial Statements," October 21, 2013. Based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by U.S. generally accepted government auditing standards that are consistent with the representations made by management. The Deputy Assistant Secretary of the Army (Financial Operations) asserted to us that the Army General Fund FY 2013 and FY 2012 Basic Financial Statements would not substantially conform to U.S. GAAP and that Army financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2013. Accordingly, we did not perform all the auditing procedures required by U.S. generally accepted government auditing standards and OMB Bulletin No. 14-02 to determine whether material amounts on the basic financial statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Army General Fund FY 2013 and FY 2012 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Army management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements; these elements are not required parts of the basic financial statements. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we found no material inconsistencies between the other information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," October 21, 2013, and DoD 7000.14-R, "Financial Management

Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements," April 2013. However, we do not express an opinion or provide any assurance on the information.

Report on Other Legal and Regulatory Requirements, Contracts, and Grant Agreements

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

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

Agency Comments and Our Evaluation

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

This report is intended solely for the information and use of Army General Fund management, the DoD Office of the Inspector General, OMB, the U.S. Government Accountability Office, and U.S. Congress, and is not intended to be used, and should not be used by anyone other than these specified parties.

Lorin T. Venable

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

Attachments: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

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

Management Responsibilities

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

Auditor's Responsibilities

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

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist in the following areas. 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 basic financial statements will not be prevented, or detected and corrected on a timely basis. The Army reported 14 material weaknesses in its FY 2013 Agency Financial Report.

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

The Army has stated that it has fully deployed the General Fund Enterprise Business System (GFEBS) with the intention of correcting existing problems and improving current processes in Army financial systems. However, until all of the Army General Fund's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by U.S. GAAP, some of the Army General Fund's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

Army managers also stated that GFEBS contained a chart of accounts based on the U.S. Government Standard General Ledger and created additional GFEBS subsidiary accounts that would track Army General Fund financial activities at a detailed level. However, DoD Inspector General Report No. DODIG-2012-066, "General Fund Enterprise Business System Did Not Provide Required Financial Information," March 26, 2012, reported that GFEBS did not contain accurate and complete FY 2010 U.S. Government Standard General Ledger and Standard Financial Information Structure information as required by FFMIA and Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, guidance. As a result, GFEBS did not provide DoD management with required financial information. The report further noted that GFEBS may not resolve the Army General Fund's long-standing Financial Management Systems material weakness. Furthermore, DoD Inspector General Report No. DODIG-2013-130, "Army Needs to Improve Controls and Audit Trails for the General Fund Enterprise Business System Acquire-to-Retire Business Process," September 13, 2013, reported that the Army had inadequate controls over the recording of accounting transactions for the acquire-to-retire business process in GFEBS and this will result in the Army continuing to use inefficient legacy business processes and diminish the estimated benefits associated with business system modernization. Because of this, the Army is at increased risk of not accomplishing the FY 2017 audit readiness goal. The Army does not expect to complete all corrective actions to resolve this material weakness until FY 2014.

Fund Balance with Treasury (Budget-to-Report). DoD and its Components, including the Army, have had a long-standing problem in reconciling transactional activity in their Fund Balance with Treasury accounts. The appropriation balances recorded in the accounting records do not agree with Treasury balances. As of September 30, 2013, the Treasury reported $4.1 billion more in Fund Balance with Treasury than reported by the Army General Fund. The Army's target date for correcting this material weakness is the third quarter of FY 2014.

Accounts Receivable (Order-to-Cash). 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, to include GFEBS; and
- a lack of controls to ensure that accounts receivable balances are supportable at the transaction level.

The Army's target date for correcting this material weakness is the third quarter of FY 2014.

Operating Materials and Supplies (Plan-to-Stock). 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." Army systems are unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement of Federal Financial Accounting Standards No. 3 provides that Operating Materials and Supplies (OM&S) be expensed when the items are consumed. However, significant amounts of OM&S were expensed when they were purchased instead of when they were consumed. DoD Inspector General Report No. DODIG-2013-076, "Examination of Army's Management Assertion for Existence and Completion of Operating Materials and Supplies of Quick Win Assets," April 29, 2013, examined the Army's assertion regarding audit readiness of selected OM&S quick win assets, consisting of Hellfire; Javelin; and Tube-Launched, Optically-tracked, Wire-guided missiles. The Army asserted that the OM&S assets existed, that the missiles in its accountable property systems of record were materially complete, and that the Army had the rights to report these assets. The auditor's report indicated that the Army's assertion of audit readiness for the existence, completeness, and rights of its OM&S quick win assets, as of September 30, 2012, was fairly stated in all material respects in accordance with DoD Financial Improvement and Audit Readiness guidance. The Army plans to assert to the existence and completeness of all OM&S assets in December 2013. The Army's target date for correcting this material weakness is the first quarter of FY 2014.

General Property, Plant, and Equipment (Acquire-to-Retire). Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the recording of General Property, Plant, and Equipment at cost and the recognition of depreciation expense. The Army has acknowledged that it has not recorded real property and Military Equipment at acquisition or historical cost and did not include all the costs needed to bring these assets to a form and location suitable for their intended use. The Army could not support the reported cost of Military Equipment in accordance with Statement No. 6. Also, the Army's financial accountability systems for all its Military Table of Equipment unit property books do not comply with FFMIA. The Army's target date for correcting this material weakness has slipped from the first quarter of FY 2014 to the fourth quarter of FY 2014.

Accounts Payable (Procure-to-Pay). The Army is unable to account for and report Accounts Payable properly. In addition, the Army accounting systems did not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales. Therefore, the Army has acknowledged that it was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. The Army's target date for correcting this material weakness is the third quarter of FY 2014.

Environmental Liabilities (Environmental Liability). The Army had 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 qualified to perform estimates existed, 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. The Army's target date for correcting this material weakness is the first quarter of FY 2015.

Statement of Net Cost (Budget-to-Report). The Army did not present financial information contained in the Statement of Net Cost by programs that align with major goals and outputs described in the DoD strategic and performance plans required by the Government Performance and Results Act of 1993. Because financial processes and systems did not correlate costs with performance measures, the Army reported revenues and expenses 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 did not always record the transactions on an accrual basis as required by GAAP. To capture all cost and financing sources for the Army, the information presented also includes data from the nonfinancial feeder systems. In addition, the Army General Fund budgetary and proprietary information does not correlate. The Army's target date for correcting this material weakness is the third quarter of FY 2014.

Statement of Budgetary Resources (Budget-to-Report). The Army accounting systems did not provide or capture the data needed for obligations incurred or prior-year obligations recovered in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget Requirements." 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).

On October 13, 2011, the Secretary of Defense directed DoD to accelerate key elements of the Financial Improvement and Audit Readiness Plan and place greater emphasis on the overall effort of achieving the Financial Improvement and Audit Readiness priorities and auditable financial statements. Specifically, the Secretary called for the Department to achieve Statement of Budgetary Resources audit readiness by the end of FY 2014. Furthermore, the National Defense Authorization Act of 2013, Section 1005, states that the Statement of Budgetary Resources is to be validated as ready for audit no later than September 30, 2014. The Chief Management Officer of the Department of Defense and the Chief Management Officers of each of the Military Departments are to ensure that plans to achieve an auditable Statement of Budgetary Resources will include appropriate steps to minimize one-time fixes and manual workarounds, are sustainable and affordable, and will not delay full auditability of financial statements.

In August 2012, the Department modified the Financial Improvement and Audit Readiness methodology to limit the scope of the first year, FY 2015 audits. The scope of FY 2015 audits will be on current-year appropriation activity and transactions in a Schedule of Budgetary Activity. In FY 2014, the Army plans to assert audit readiness on an Army General Fund Schedule of Budget Activity. The Army's target date for correcting this material weakness is the third quarter of FY 2014.

Intragovernmental Eliminations (Budget-to-Report). DoD and the Army were 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. The Army's target date for correcting this material weakness has slipped from the second quarter of FY 2014 to the third quarter of FY 2014.

Accounting Adjustments (Budget-to-Report). Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army General Fund basic financial statements. For the FY 2013 year-end, Defense Finance and Accounting Service personnel reported that they did not adequately support $85.4 billion in journal voucher adjustments used to prepare the Army General Fund basic financial statements. The Army's target date for correcting this material weakness has slipped from the second quarter of FY 2013 to the third quarter of FY 2014.

Abnormal Account Balances (Budget-to-Report). The Defense Finance and Accounting Service did not fully 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 basic financial statements, but also indicate internal control and operational deficiencies and may conceal instances of fraud. The Army's target date for correcting this material weakness has slipped from the second quarter of FY 2013 to the third quarter of FY 2014.

Reconciliation of Net Cost of Operations to Budget (Budget-to-Report). 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. Due to the limitations of the Army General Fund financial systems, budgetary data do not agree with proprietary expenses and capitalized assets. The Army could not reconcile the information reported in Note 21 with the Army General Fund Statement of Net Cost without preparing $79.2 billion in unsupported adjustments. The Army's target date for correcting this material weakness is the third quarter of FY 2014.

Contingency Payment Audit Trails (Procure-to-Pay). 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 Inspector General Report No. D-2008-098, "Internal Controls Over Payments Made in Iraq, Kuwait and Egypt," May 22, 2008, reported that the Army made $1.4 billion in commercial payments that lacked the minimum supporting documentation and information for a valid payment (minimum support would include such documents as certified vouchers, proper receiving reports, and invoices). In addition, the Army estimated that $6.3 billion of commercial payments contained the minimum supporting documentation but did not comply with other statutory and regulatory requirements. Payments that are not properly supported do not provide the necessary assurance that funds were used as intended.

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

The Deputy Assistant Secretary of the Army (Financial Operations) requested an audit by the U.S. Army Audit Agency to determine whether the Army's corrective actions resolved the problem. In response, the U.S. Army Audit Agency conducted an audit and issued Report No. A-2012-0049-MTE, "Controls Over Vendor Payments (Phase II)," February 16, 2012. This report noted improvements but stated that actions taken did not completely correct the weakness and concluded that the Army's contingency payment audit trails did not provide reasonable assurance that numerous vendor payments and paying agent transactions were made properly. The Army's target date for correcting this material weakness has slipped from the first quarter of FY 2013 to the first quarter of FY 2014.

Previously Identified Significant Deficiencies

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

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, Army General Fund management decisions based in whole or in part on this information may be adversely affected. DoD financial information may also contain misstatements resulting from this deficiency.

Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies.

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

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us instances of noncompliance and that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Army General Fund complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

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

During FY 2013, the Army reported one ADA violation. Therefore, the Army did not comply with 31 U.S.C. § 1341 (1990).

DoD 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," November 2010, limits the time from identification to reporting of ADA violation to 15 months. The ADA violation reported in FY 2013 was completed after 30 months and one investigation of a potential ADA violation has been open for more than 15 months.

Compliance With FFMIA Requirements

FFMIA requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. FFMIA also requires DoD to develop a remediation plan when its financial management systems do not comply with Federal financial management systems requirements. The remediation plan is to include remedies, resources required, and milestones. The semiannual DoD Financial Improvement and Audit Readiness Plan Status Report identifies actions the Army is taking to improve Army General Fund systems.

For FY 2013, the Army did not fully comply with FFMIA. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2013. The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us on May 28, 2013, and December 9, 2013, that its financial management and feeder systems could not provide adequate evidence supporting various material amounts on the basic financial statements and that previously identified material weaknesses continued to exist.

Recommendations

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

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

REPLY TO
ATTENTION OF

SAFM-FO

DEC 05 2013

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Management Response to the Fiscal Year 2013 Army General Fund Financial Statement Audit Report

1. Please accept our thanks for your efforts on behalf of the Army and the professionalism exhibited by your staff during the audit. We also appreciate the opportunity to comment on the draft report provided on December 4, 2013.

2. We generally concur with the findings identified in the draft Report on Internal Control. We will ensure our audit readiness corrective action plans address the findings identified. We will also continue work with our stakeholders to address issues related to compliance of our general ledger and transaction posting, journal voucher adjustments, and abnormal balances.

3. We will follow up with the US Army Audit Agency to determine whether USAAA can validate the Army has implemented recommendations from three previous audit reports conducted in fiscal years (FY) 2010, 2011 and 2012 regarding the Contingency Payment Audit Trails material weakness, which we reported would be corrected in FY 2013.

4. The results of audit readiness examinations and continued testing during FY 14 will also provide an indication of progress toward resolving the longstanding financial reporting material weaknesses.

5. Army point of contact for this action is [redacted] . [redacted] can be reached by telephone at [redacted], or by e-mail at [redacted].

James J. Watkins
Deputy Assistant Secretary Army
(Financial Operations)

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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, 2013 and 2012
(Amounts in thousands)

		2013 Consolidated		2012 Consolidated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	1,399,877	$	1,334,455
Investments (Note 4)		-		-
Accounts Receivable (Note 5)		334,387		294,764
Total Intragovernmental Assets	$	$1,734,264	$	1,629,219
Cash and Other Monetary Assets (Note 7)		339		-
Accounts Receivable, Net (Note 5)		24,699		24,233
Inventory and Related Property, Net (Note 9)		19,396,944		22,096,521
General Property, Plant and Equipment, Net (Note 10)		1,772,150		1,748,773
Other Assets (Note 6)		174,730		307,744
TOTAL ASSETS	$	23,103,126	$	25,806,490
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)				
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	91,687	$	109,060
Debt (Note 13)				
Other Liabilities (Note 15 & 16)		89,957		88,239
Total Intragovernmental Liabilities		181,644		197,299
Accounts Payable (Note 12)	$	579,701	$	392,970
Military Retirement and Other Federal		248,118		215,104
Employment Benefits (Note 17)				
Environmental and Disposal Liabilities (Note 14)				
Loan Guarantee Liability (Note 8)				
Other Liabilities (Note 15 and Note 16)		383,882		439,834
TOTAL LIABILITIES	$	1,393,345	$	1,245,207
COMMITMENTS AND CONTINGENCIES (NOTE 16)				
NET POSITION				
Unexpended Appropriations - Other Funds	$	188,345		127,825
Cumulative Results of Operations - Earmarked Funds				
Cumulative Results of Operations - Other Funds		21,521,436		24,433,458
TOTAL NET POSITION	$	21,709,781	$	24,561,283
TOTAL LIABILITIES AND NET POSITION	$	23,103,126	$	25,806,490

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF NET COST

For the years ended September 30, 2013 and 2012

(Amounts in thousands)	2013 Consolidated	2012 Consolidated
Program Costs		
Gross Costs	$ 25,513,647	$ 33,365,902
Operations, Readiness & Support	25,513,647	33,365,902
Procurement		
Research, Development, Test & Evaluation		
Family Housing & Military Construction		
(Less: Earned Revenue)	$ (22,609,502)	$ (30,792,842)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 2,904,145	$ 2,573,060
Net Program Costs Including Assumption Changes	$ 2,904,145	$ 2,573,060
Net Cost of Operations	$ 2,904,145	$ 2,573,060

The accompanying notes are an integral part of these financial statements

Department of Defense - Army Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2013 and 2012

(Amounts in thousands)	2013 Earmarked Funds	2013 All Other Funds	2013 Eliminations	2013 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 0	$ 24,433,458	$ 0	$ 24,433,458
Beginning balances, as adjusted	$ 0	$ 24,433,458	$ 0	$ 24,433,458
Budgetary Financing Sources:				
Appropriations used	0	42,116	0	42,116
Transfers-in/out without reimbursement	0	154,000	0	154,000
Other Budgetary Financing Sources				
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	0	(266,469)	0	(266,469)
Imputed financing from costs absorbed by others	0	158,266	0	158,266
Other (+/-)	0	(95,790)	0	(95,790)
Total Financing Sources	$ 0	$ (7,877)	$ 0	$ (7,877)
Net Cost of Operations (+/-)	0	2,904,145	0	2,904,145
Net Change	$ 0	$ (2,912,022)	$ 0	$ (2,912,022)
Cumulative Results of Operations	$ 0	$ 21,521,436	$ 0	$ 21,521,436
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 127,825	$ 0	$ 127,825
Beginning balances, as adjusted	$ 0	$ 127,825	$ 0	$ 127,825
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 0	$ 0	$ 0
Appropriations transferred-in/out		102,637		102,637
Appropriations used		(42,116)		(42,116)
Total Budgetary Financing Sources	$ 0	$ 60,521	$ 0	$ 60,521
Unexpended Appropriations	0	188,345	0	188,345
Net Position	$ 0	$ 21,709,781	$ 0	$ 21,709,781

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2013 and 2012

(Amounts in thousands)	2012 Earmarked Funds	2012 All Other Funds	2012 Eliminations	2012 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 0	$ 27,935,733	$ 0	$ 27,935,733
Beginning balances, as adjusted	$ 0	$ 27,935,733	$ 0	$ 27,935,733
Budgetary Financing Sources:				
Appropriations used	0	27,369	0	27,369
Transfers-in/out without reimbursement	0	(1,140,194)	0	(1,140,194)
Other Budgetary Financing Sources				
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	0	(91,948)	0	(91,948)
Imputed financing from costs absorbed by others	0	178,843	0	178,843
Other (+/-)	0	96,715	0	96,715
Total Financing Sources	$ 0	$ (929,215)	$ 0	$ (929,215)
Net Cost of Operations (+/-)	0	2,573,060	0	2,573,060
Net Change	$ 0	$ (3,502,275)	$ 0	$ (3,502,275)
Cumulative Results of Operations	$ 0	$ 24,433,458	$ 0	$ 24,433,458
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 0	$ 0	$ 0
Beginning balances, as adjusted	$ 0	$ 0	$ 0	$ 0
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 155,194	$ 0	$ 155,194
Appropriations transferred-in/out	0	0	0	0
Appropriations used	0	(27,369)	0	(27,369)
Total Budgetary Financing Sources	$ 0	$ 127,825	$ 0	$ 127,825
Unexpended Appropriations	0	127,825	0	127,825
Net Position	$ 0	$ 24,561,283	$ 0	$ 24,561,283

The accompanying notes are an integral part of these financial statements

Department of Defense - Army Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2013 and 2012 *(Amounts in thousands)*		2013 Combined		2012 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance brought forward, October 1	$	434,809		2,150,010
Adjustment to unobligated balance, brought forward, October 1 (+ or -)				
Unobligated balance brought forward, October 1, as adjusted,	$	434,809	$	2,150,010
Recoveries of prior year unpaid obligations		1,587,115		1,528,463
Other changes in unobligated balance (+ or -)		(546,855)		(1,994,513)
Unobligated balance from prior year budget authority, net	$	1,475,069	$	1,683,960
Appropriations (discretionary and mandatory)		102,637		155,194
Contract Authority		4,918,176		5,979,778
Spending Authority from offsetting collections (discretionary and mandatory)		7,164,677		5,382,359
Total Budgetary Resources	$	13,660,559	$	13,201,291
Obligations Incurred	$	10,743,731		12,766,482
Unobligated balance, end of year				
Apportioned		2,916,828		434,809
Exempt from Apportionment				
Unapportioned				
Total unobligated balance, end of year	$	2,916,828	$	434,809
Total Budgetary Resources	$	13,660,559	$	13,201,291
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$	6,989,129		8,229,298
Obligations incurred		10,743,731		12,766,482
Outlays (gross) (-)		(9,616,874)		(12,478,188)
Recoveries of prior year unpaid obligations (-)		(1,587,115)		(1,528,463)
Unpaid Obligations, end of year		6,528,871		6,989,129
Uncollected payments:				
Uncollected payments from Federal sources, brought forward, October 1 (-)		(6,076,999)		(7,077,240)
Change in uncollected payments from Federal Sources (+ or -)		(237,118)		1,000,241
Uncollected payments from Federal sources, end of year (-)		(6,314,117)		(6,076,999)
Obligated balance, start of year (+ or -)	$	912,130	$	1,152,058
Obligated balance, end of year (+ or-)	$	214,754	$	912,130
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$	12,185,490		11,517,331
Actual offsetting collections (discretionary and mandatory) (-)		(9,425,660)		(12,897,161)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	$	(237,118)	$	1,000,241
Budget Authority, net (discretionary and mandatory)	$	2,522,712		(379,589)
Outlays, gross (discretionary and mandatory)		9,616,874		12,478,188
Actual offsetting collections (discretionary and mandatory) (-)		(9,425,660)		(12,897,161)
Outlays, net (discretionary and mandatory)		191,214		(418,973)
Agency Outlays, net (discretionary and mandatory)	$	191,214		(418,973)

The accompanying notes are an integral part of these financial statements

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

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

The Army WCF is unable to fully implement all elements of USGAAP and the OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. Although the Army WCF now derives reported values and information for major asset and liability categories from the Logistic Modernization Program (LMP) system, LMP contains some system and posting deficiencies related to items such as source-accepted procurements, budgetary transactions, continuing resolutions, cash balances, and undeposited collections. In addition, LMP relies on some data from systems such as entitlement systems and property systems that compromise the ability to fully meet all USGAAP standards. The Army WCF continues to implement process and system improvements addressing these limitations. The Army WCF will continue to use USGAAP principles to address compensating controls for off-line systems, as well as functionality and processes for items such as constructive receipts, funds certification, and outgoing Military Interdepartmental Procurement Requests (MIPRs).

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

1.B. Mission of the Reporting Entity

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

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

1.C. Appropriations and Funds

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

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

1.D. Basis of Accounting

The Army WCF's financial management systems are unable to meet all full accrual accounting requirements. Some 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.

The financial statements 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), reported on budgetary status reports and accruals made from nonfinancial feeder systems for major items such as payroll expenses, accounts payable and Federal Employees' Compensation Act (FECA) liabilities.

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

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the United States Standard General Ledger (USSGL). The Army has implemented the LMP at all of the Army Materiel Command's activities except for Non-Army Managed Items (NAMI) and the U.S. Army Medical Material Agency, which is expected to fully transition to Operation and Maintenance, Army funding in FY2014. NAMI will transition to LMP in August 2014. Until LMP functionality is fully implemented, and all of the processes are updated to collect and report financial information as required by USGAAP, some of the Army WCF's financial data will be derived from a combination of budgetary transactions, nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. The Army WCF now derives the majority of its reported data from LMP which is designed to collect and record financial information for accruals. However, estimates are made for some major items such as payroll expenses, entitlement systems accruals, unbilled revenue, transportation expenses and MIPRs. 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 LMP does not capture the correct buyer and seller data at the transaction level.

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

The *Treasury Financial Manual* Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, and related appendices, 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 FECA transactions with the Department of Labor and benefit program transactions with the Office of Personnel Management.

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Cash and Other Monetary Assets

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

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. The allowance for uncollectible accounts due from the public is based upon an analysis of collection experience grouped by age categories. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the *Treasury Financial Manual*.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

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

The Army WCF has transitioned approximately 92% 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 portion may not be compliant with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*.

The Army WCF reports the remaining 8% of resale inventories representing Non-Army Managed Items (NAMI) and the United States Army Medical Materiel Agency (USAMMA) at the latest Defense Logistics Agency (DLA) price or an approximation of historical cost using latest acquisition cost (LAC) adjusted for holding gains and losses. The latest DLA price and the LAC method are used because legacy inventory systems were designed for materiel management rather than financial accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3. Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Management Improvement Act of 1996 (PL 104-208). USAMMA will transfer from the Army WCF to Operation and Maintenance, Army funding in FY 2014. NAMI is expected to transition to LMP and MAC valuation in August FY 2014.

The Army WCF continues to work toward compliance with SFFAS No 3, *Interpretation 7, Items Held for Remanufacture*, which states that inventory held for repair should be accounted for as "inventory held for remanufacture." Therefore, Inventory held for remanufacture reflects capitalized repair/rebuild costs and the cost of unrepaired carcasses. Exchange pricing is used for customer returns. The Army WCF is unable to comply with some SFFAS No 3, *Interpretation 7* requirements until such time that all LMP functionality is fully implemented and all inventory related tasks in the Army Financial Improvement Plan have been addressed.

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

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

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

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

Not applicable.

1.O. General Property, Plant and Equipment

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

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

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

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

1.R. Other Assets

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

The Army WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army WCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include (1) advance payments, (2) performance-based payments, (3) commercial advance and interim payments, (4) progress payments based on cost, and (5) interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as Other Assets. The Army WCF has fully implemented this policy. Estimated future payments to contractors are offset by a contingent liability.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulation

Supplement authorizes progress payments based on a percentage or stage-of-completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage-of-completion are reported as construction-in-progress.

1.S. Contingencies and Other Liabilities

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

1.V. Treaties for Use of Foreign Bases

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 specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections may be evidenced by the availability of corroborating documentation that would generally support the summary level adjustments made to accounts payable and accounts receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the Army WCF accounts payable and accounts receivable trial balances before validating underlying transactions that established the accounts payable and accounts receivable. As a result, misstatements of reported accounts payable and accounts receivable are likely present in the Army WCF financial statements.

Due to noted material weakness in current accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable and accounts receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and accounts receivable accordingly.

1.X. Fiduciary Activities

Not applicable.

1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Events

Not applicable.

NOTE 2. NONENTITY ASSETS

As of September 30

(Amounts in thousands)	2013	2012
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0	$ 0
B. A ccounts 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	1,982	1,858
C. Other Assets	0	0
D. Total Nonfederal Assets	$ 1,982	$ 1,858
3. Total Nonentity Assets	$ 1,982	$ 1,858
4. Total Entity Assets	$ 23,101,144	$ 25,804,632
5. Total Assets	$ 23,103,126	$ 25,806,490

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

Nonentity assets are assets for which the AWCF maintains stewardship accountability and reporting responsibility, but are not available for the AWCF normal operations.

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30

(Amounts in thousands)	2013	2012
1. Fund Balances		
A. Appropriated Funds	$ 0	$ 0
B. Revolving Funds	1,399,877	1,334,455
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	$ 1,399,877	$ 1,334,455
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 1,399,878	$ 1,334,455
B. Fund Balance per AWCF	1,399,877	1,334,455
3. Reconciling Amount	$ 1	$ 0

Status of Fund Balance with Treasury

As of September 30

(Amounts in thousands)	2013	2012
1. Unobligated Balance		
A. Available	$ 2,916,827	$ 434,809
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	6,528,871	6,989,129
3. Nonbudgetary FBWT	0	0
4. Non-FBWT Budgetary Accounts	(8,045,821)	(6,089,483)
5. Total	$ 1,399,877	$ 1,334,455

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 or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use.

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

Non-FBWT Budgetary Accounts reduces the Status of FBWT. For the AWCF 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	2013		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 334,387	N/A	$ 334,387
2. Nonfederal Receivables (From the Public)	39,475	(14,776)	24,699
3. Total Accounts Receivable	$ 373,862	$ (14,776)	$ 359,086

As of September 30	2012		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 294,764	N/A	$ 294,764
2. Nonfederal Receivables (From the Public)	39,050	(14,817)	24,233
3. Total Accounts Receivable	$ 333,814	$ (14,817)	$ 318,997

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

NOTE 6. OTHER ASSETS

As of September 30

(Amounts in thousands)	2013	2012
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 0	$ 0
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 0	$ 0
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 174,663	$ 307,652
B. Advances and Prepayments	67	92
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	$ 174,730	$ 307,744
3. Total Other Assets	$ 174,730	$ 307,744

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

Contract terms and conditions for certain types of contract financing payments convey certain rights to the government that protect the contract work from state or local taxation, liens or attachments 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 AWCF is not obligated to make payment to the contractor until delivery and acceptance.

The balance of Outstanding Contract Financing Payments includes $161.8 million in contract financing payments and an additional $12.9 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

As of September 30

(Amounts in thousands)	2013	2012
1. Cash	$ 339,170	$ 0
2. Foreign Currency	0	0
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 339,170	$ 0

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

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

Not applicable.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30

(Amounts in thousands)	2013	2012
1. Inventory, Net	$ 19,396,944	$ 22,096,521
2. Operating Materiel & Supplies, Net	0	0
3. Stockpile Materiel, Net	0	0
4. Total	$ 19,396,944	$ 22,096,521

As a result of audit readiness efforts, adjustments were made to the AWCF's mission critical assets. These accounting adjustments were recognized in current year cost accounts when auditable data was not available to support restatement of prior period financial statements.

Inventory, Net

As of September 30	2013			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 14,189,121	$ (2,375,619)	$ 11,813,502	MAC,FIFO,LAC
B. Held for Repair	6,118,319	52,684	6,171,003	LAC,MAC
C. Excess, Obsolete, and Unserviceable	196,663	(196,663)	0	NRV
D. Raw Materiel	1,412,439	0	1,412,439	MAC,SP,LAC
E. Work in Process	0	0	0	AC
F. Total	$ 21,916,542	$ (2,519,598)	$ 19,396,944	

As of September 30	2012			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 15,739,274	$ (1,644,253)	$ 14,095,021	MAC,FIFO,LAC
B. Held for Repair	6,592,703	56,202	6,648,905	LAC,MAC
C. Excess, Obsolete, and Unserviceable	154,138	(154,138)	0	NRV
D. Raw Materiel	1,352,562	0	1,352,562	MAC,SP,LAC
E. Work in Process	33	0	33	AC
F. Total	$ 23,838,710	$ (1,742,189)	$ 22,096,521	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost	NRV = Net Realizable Value	MAC = Moving Average Cost
SP = Standard Price	LCM = Lower of Cost or Market	
AC = Actual Cost	FIFO = First-In-First-Out	

Inventory Held for Repair Revaluation Allowance has an abnormal balance of $52.7 million as a result of postings in the Logistic Modernization Program (LMP) carried forward from the FY 2009 migration from Commodity Command Standard System (CCSS). The issue is being addressed with a system change request, which is expected to be complete by the end of 1st Quarter, FY 2015.

There are restrictions on the use, sale, and disposition of inventory classified as war reserve materiel valued at moving average cost of $827.8 million which includes petroleum products, subsistence items, spare parts, and medical materiel.

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

Work-in-Process includes costs related to producing or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work-in-Process also includes the value of the 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 the 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 and its associated labor, applied overhead, and supplies used in the delivery of maintenance services. Work-in-Process has a zero balance as a result of a change in business process in FY 2013.

Operating Materiel and Supplies, Net

Not applicable.

Stockpile Materiel, Net

Not applicable.

NOTE 10. GENERAL PP&E, NET

As of September 30	2013				
(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	$ 10,008	N/A	$ 10,008
B. Buildings, Structures, and Facilities	S/L	20 or 40	2,177,791	$ (1,524,916)	652,875
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 or 10	1,079,575	(765,084)	314,491
E. General Equipment	S/L	5 or 10	1,718,193	(1,296,182)	422,011
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	372,765	N/A	372,765
J. Other			0	0	0
K. Total General PP&E			$ 5,358,332	$ (3,586,182)	$ 1,772,150

As of September 30	2012								
(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	$	9,693		N/A	$	9,693
B. Buildings, Structures, and Facilities	S/L	20 or 40		2,096,918	$	(1,514,600)		582,318
C. Leasehold Improvements	S/L	lease term		0		0		0
D. Software	S/L	2-5 or 10		1,064,497		(599,089)		465,408
E. General Equipment	S/L	5 or 10		1,645,126		(1,241,441)		403,685
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		287,669		N/A		287,669
J. Other				0		0		0
K. Total General PP&E			$	5,103,903	$	(3,355,130)	$	1,748,773

[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

(Amounts in thousands)		2013		2012
1. Intragovernmental Liabilities				
A. Accounts Payable	$	0	$	0
B. Debt		0		0
C. Other		68,165		60,762
D. Total Intragovernmental Liabilities	$	68,165	$	60,762
2. Nonfederal Liabilities				
A. Accounts Payable	$	0	$	0
B. Military Retirement and Other Federal Employment Benefits		248,118		215,104
C. Environmental and Disposal Liabilities		0		0
D. Other Liabilities		841		2,544
E. Total Nonfederal Liabilities	$	248,959	$	217,648
3. Total Liabilities Not Covered by Budgetary Resources	$	317,124	$	278,410
4. Total Liabilities Covered by Budgetary Resources		1,076,221		966,797
5. Total Liabilities	$	1,393,345	$	1,245,207

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

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

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $248.1 million for FECA actuarial reserve. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Nonfederal Other Liabilities consists of material returns of non-Army managed items in the amount of $841 thousand.

NOTE 12. ACCOUNTS PAYABLE

As of September 30	2013		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 91,687	$ N/A	$ 91,687
2. Nonfederal Payables (to the Public)	579,701	0	579,701
3. Total	$ 671,388	$ 0	$ 671,388

As of September 30	2012		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 109,060	$ N/A	$ 109,060
2. Nonfederal Payables (to the Public)	392,970	0	392,970
3. Total	$ 502,030	$ 0	$ 502,030

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by AWCF. The AWCF's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable and recorded as supported undistributed.

NOTE 13. DEBT

Not applicable.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Not applicable.

NOTE 15. OTHER LIABILITIES

As of September 30	2013			2012
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	$ 669	$ 0	$ 669	$ 5,887
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	20,974	47,190	68,164	60,761
F. Custodial Liabilities	1,982	0	1,982	1,857
G. Employer Contribution and Payroll Taxes Payable	19,142	0	19,142	19,734
H. Other Liabilities	0	0	0	0
I. Total Intragovernmental Other Liabilities	$ 42,767	$ 47,190	$ 89,957	$ 88,239
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 196,115	$ 0	$ 196,115	$ 217,041
B. Advances from Others	78,914	0	78,914	65,780
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	339	0	339	0
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	0
H. Capital Lease Liability	0	0	0	0
I. Contract Holdbacks	771	0	771	16,262
J. Employer Contribution and Payroll Taxes Payable	8,914	0	8,914	30,418
K. Contingent Liabilities	0	12,896	12,896	14,582
L. Other Liabilities	85,933	0	85,933	95,751
M. Total Nonfederal Other Liabilities	$ 370,986	$ 12,896	$ 383,882	$ 439,834
3. Total Other Liabilities	$ 413,753	$ 60,086	$ 473,839	$ 528,073

Capital Lease Liability

Not applicable.

Nonfederal Other Liabilities primarily consists of $85.1 million for industrial operations service accruals.

Contingent Liabilities

Contingent liabilities of $12.9 million relate to contracts authorizing payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to a contractor's work vests with the federal government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contractor nonperformance. It is DoD policy that these rights not be misconstrued as rights of ownership. The AWCF is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the AWCF has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance.

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

NOTE 16. COMMITMENTS AND CONTINGENCIES

The AWCF may be a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. We are not aware of any contingent liabilities for legal actions at this time.

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

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2013			2012
(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-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 Benefits				
A. FECA	$ 248,118	$ 0	$ 248,118	$ 215,104
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 Benefits	$ 248,118	$ 0	$ 248,118	$ 215,104
3. Total Military Retirement and Other Federal Employment Benefits:	$ 248,118	$ 0	$ 248,118	$ 215,104

Federal Employees Compensation Act (FECA)

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

The AWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to AWCF at the end of each fiscal year. The liability includes the estimated liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. In FY 2013, the fund effected a change in accounting estimate to refine the methodology used for selecting the interest rate assumptions and enhance matching of the interest rates to the projected cash flows; the change in accounting estimate did not affect amounts previously reported for FY 2012. The actuarial liability for FECA increased $33.0 million between FY 2012 and FY 2013.

In FY 2013, the fund effected a change in accounting estimate to refine the methodology used for selecting the interest rate assumptions and enhance matching between the timing of cash flows and interest rates. For FY 2013, projected annual payments were discounted to present value based on Office of Management and Budget's (OMB's) interest rate assumptions which were interpolated to reflect the average duration in years for income payments and medical payments. In FY2012 and prior years, these projected annual benefit payments were discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for FY 2013 discounting were as follows:

Discount Rates
For wage benefits:
2.727% in Year 1
3.127% in Year 2 and thereafter;

For medical benefits:
2.334% in Year 1
2.860% in Year 2 and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2013 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2013	N/A	N/A
2014	1.67%	3.46%
2015	1.80%	3.82%
2016	2.20%	3.83%
2017	2.20%	3.82%
2018+	2.20%	3.82%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2013 to the average pattern observed during the most current three CBY, and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections of the most recent three projections.

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

Intragovernmental Costs and Exchange Revenue
As of September 30

(Amounts in thousands)	2013	2012
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,965,579	$ 3,136,647
B. Nonfederal Cost	23,548,068	30,229,255
C. Total Cost	$ 25,513,647	$ 33,365,902
2. Earned Revenue		
A. Intragovernmental Revenue	$ (9,226,963)	$ (14,099,933)
B. Nonfederal Revenue	(13,382,539)	(16,692,909)
C. Total Revenue	$ (22,609,502)	$ (30,792,842)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	0	0
4. Costs Not Assigned to Programs	0	0
5. (Less: Earned Revenues) Not Attributed to Programs	0	0
Total Net Cost	$ 2,904,145	$ 2,573,060

Abnormal balances are found on the trial balance for the 6100 accounts at the object class level. These accounts are normal at the summary level by USSGL account. In 4th Quarter, FY 2013, DDRS-AFS began capturing amounts by object class detail at the USSGL account level. Historical detail was not captured at this level in the source accounting system (LMP) resulting in amounts not properly flowing to the correct object class. Expected completion date is 1st Quarter, FY 2015 with the implementation of Standard Financial Information Structure (SFIS) 10.0.

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

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

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

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

While AWCF activities generally record transactions on an accrual basis, as is required by federal generally accepted accounting principles, the systems do not always capture actual costs. Some of the information presented on the Consolidated Statement of Net Cost is based on non-financial feeder systems, including property accountability and logistics systems.

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

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

Effective with FY 2013 reporting, the Department has elected an alternative presentation for the Statement of Changes in Net Position (SCNP) as provided for in Statement of Federal Financial Accounting Standards (SFFAS) No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. Prior to the implementation of SFFAS 43, the SCNP contained separate columns for reporting of funds from dedicated collections. Beginning in FY 2013, the SCNP will provide a reference to the "Funds from Dedicated Collections" footnote and will no longer include separate columns on the face of the statement.

A change in procedure from FY 2012 to FY 2013 resulted in the AWCF WAR appropriations received appearing on separate lines of the SCNP. In FY 2012, appropriations were incorrectly recorded using USSGL 4119 (Other Appropriations Realized). In FY 2013, appropriations were recorded as a transfer in using USSGL 4170 (Transfer - Current Year Authority Transfers In). The procedural change was to correctly reflect how appropriations are received by the overall working capital fund (97X4930) and transferred to the individual activities.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30

(Amounts in thousands)	2013	2012
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 5,486,630	$ 6,087,248
2. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

Abnormal balances are found on the trial balance for the 48XX and 49XX series accounts at the object class level. These accounts are normal at the summary level by USSGL account. In 4th Quarter, FY 2013, DDRS-AFS began capturing amounts by object class detail at the USSGL account level. Historical detail was not captured at this level in the source accounting system (LMP) resulting in amounts not properly flowing to the correct object class. Expected completion date is 1st Quarter, FY 2015 with the implementation of SFIS 10.0.

The AWCF obligations represent reimbursable obligations of $10.7 billion and direct obligations of $185.9 million in apportionment category B, apportioned by project or activity.

The AWCF 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.

The AWCF received appropriations in FY 2013 in the amount of $102.6 million to fund War Reserve materiel.

In June 2013, AWCF received a funds transfer of $154.0 million from DLA via the DoD Working Capital Fund (97X4930.0000) as a result of BRAC 2005 recommendation #176, Legal Authority: Defense Base Closure and Realignment Act of 1990 (part A of title XXIX of Public Law 101-510; 10 U.S.C. 2687).

A change in procedure from FY 2012 to FY 2013 resulted in the AWCF WAR appropriations received appearing on separate lines of the SCNP. In FY 2012, appropriations were incorrectly recorded using USSGL 4119 (Other Appropriations Realized). In FY 2013, appropriations were recorded as a transfer in using USSGL 4170 (Transfer - Current Year Authority Transfers In). The procedural change was to correctly reflect how appropriations are received by the overall working capital fund (97X4930) and transferred to the individual activities.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the years ended September 30

(Amounts in thousands)	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 10,743,731	$ 12,766,482
2. Less: Spending authority from offsetting collections and recoveries (-)	(11,249,892)	(13,425,383)
3. Obligations net of offsetting collections and recoveries	$ (506,161)	$ (658,901)
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	$ (506,161)	$ (658,901)
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(266,469)	(91,948)
8. Imputed financing from costs absorbed by others	158,266	178,843
9. Other (+/-)	(95,791)	96,715
10. Net other resources used to finance activities	$ (203,994)	$ 183,610
11. Total resources used to finance activities	$ (710,155)	$ (475,291)
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 (-)	$ 600,619	$ 1,365,146
12b. Unfilled Customer Orders	249,618	(976,031)
13. Resources that fund expenses recognized in prior Periods (-)	(1,706)	(9,532)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
15. Resources that finance the acquisition of assets (-)	(3,447,558)	(4,395,874)
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 (+/-)	362,259	(4,767)
17. Total resources used to finance items not part f the Net Cost of Operations	$ (2,236,768)	$ (4,021,058)
18. Total resources used to finance the Net Cost of Operations	$ (2,946,923)	$ (4,496,349)
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 0	$ 0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	(339)	0
23. Other (+/-)	40,417	2,544
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 40,078	$ 2,544
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 321,959	$ 255,811
26. Revaluation of assets or liabilities (+/-)	(79,093)	(833,774)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	10,785,235	14,113,747
27c. Operating Material and Supplies Used	0	0
27d. Other	(5,217,111)	(6,468,919)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 5,810,990	$ 7,066,865
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 5,851,068	$ 7,069,409
30. Net Cost of Operations	$ 2,904,145	$ 2,573,060

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

Resources that Finance the Acquisition of Assets were adjusted by $324.6 million to bring the note schedule into agreement with the Statement of Net Cost.

Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated 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

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

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

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

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

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

Not applicable.

NOTE 23. FUNDS FROM DEDICATED COLLECTIONS

Not applicable.

NOTE 24. FIDUCIARY ACTIVITIES

Not applicable.

NOTE 25. OTHER DISCLOSURES

Not applicable.

NOTE 26. RESTATEMENTS

Not applicable.

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

December 9, 2013

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

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund FY 2013 and FY 2012 Basic Financial Statements (Report No. DODIG-2014-015)

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the accompanying Army Working Capital Fund Consolidated Balance Sheet as of September 30, 2013 and 2012, and the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and notes to the basic financial statements.

Management's Responsibility for the Annual Financial Statements

The annual financial statements are the responsibility of Army management. Management is responsible for (1) preparing basic financial statements that conform with generally accepted accounting principles in the United States (U.S. GAAP); (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that they met broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); (3) ensuring that the Army Working Capital Fund's financial management systems fully comply with Federal Financial Management Improvement Act of 1996 (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 14-02, "Audit Requirements for Federal Financial Statements," October 21, 2013. Based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by U.S. generally accepted government auditing standards that are consistent with the representations made by management. Army management asserted to us that the Army Working Capital Fund FY 2013 and FY 2012 Basic Financial Statements would not substantially conform to U.S. GAAP and that Army Working Capital Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2013. Accordingly, we did not perform all the auditing procedures required by U.S. generally accepted government auditing standards and OMB Bulletin No. 14-02 to determine whether material amounts on the basic financial statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Army Working Capital Fund FY 2013 and FY 2012 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Army management presented the Management's Discussion and Analysis, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements; these elements are not required parts of the basic financial statements. We reviewed the other information for inconsistencies with the audited basic financial statements. However, we do not express an opinion or provide any assurance on the information. Based on our limited review, we found material inconsistencies between the other information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," October 21, 2013, and DoD 7000.14-R, "Financial

Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements," April 2013. Specifically, Management's Discussion and Analysis did not contain sufficient information specific to the Army Working Capital Fund to meet the guidance requirements.

Report on Other Legal and Regulatory Requirements, Contracts, and Grant Agreements

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

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

Agency Comments and Our Evaluation

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

This report is intended solely for the information and use of Army management, the DoD Office of the Inspector General, OMB, the U.S. Government Accountability Office, and U.S. Congress, and is not intended to be used, and should not be used by anyone other than these specified parties.

Lorin T. Venable

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

Attachments: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

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

Management Responsibilities

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

Auditor's Responsibilities

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

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist in the following areas. 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 basic financial statements will not be prevented, or detected and corrected on a timely basis. The Army also reported 11 material weaknesses in its FY 2013 Agency Financial Report.

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 continues to derive a portion of its financial information for the Army Working Capital Fund from budgetary transactions and data from nonfinancial feeder systems, such as the Commodity Command Standard System. The Army has implemented the Logistics Modernization Program system at all Army Materiel Command activities, except for TACOM Non-Army Managed Items and U.S. Army Medical Materiel Agency. These activities will continue to use the Commodity Command Standard System to report financial information until FY 2014.

In FY 2013, the Army began submitting trial balance data from the Logistics Modernization Program system to the Defense Departmental Reporting System in the required Standard Financial Information Structure format. However, as a part of their financial reporting reconciliation efforts, Defense Finance and Accounting Service personnel used a significant number of journal vouchers within the Defense Departmental Reporting System–Budgetary module to prepare the basic financial statements because the trial balance data did not report all financial data correctly.

DoD Inspector General Report No. DODIG-2012-087, "Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses," May 29, 2012, reported that Army financial and system managers did not reengineer the Logistics Modernization Program system to perform Procure-to-Pay functions correctly or correct known material weaknesses. The Logistics Modernization Program system developers did not identify the system requirements needed to correct the root causes of material weaknesses, and Army managers did not review control activities to assess internal control effectiveness. As a result, Army managers continued to use legacy business processes, and the Logistics Modernization Program system failed to provide reliable financial data. This audit also identified data integrity issues associated with weak system access controls and the use of incorrect data attributes due to the lack of a single source for vendor data.

In December 2011, Increment 1 of the Logistics Modernization Program system entered into the sustainment phase, and all new functionality for the system will be added as part of Increment 2. Increment 2 is in the planning stages and the implementation of this increment will continue through at least FY 2015, when the Logistics Modernization Program system will also transfer from a contractor-owned to a Government-owned system. The Government Accountability Office's Report No. GAO-14-51, "Army Should Track Financial Benefits Realized from its Logistics Modernization Program," November 2013, cites Army officials as stating that although the Logistics Modernization Program system is functional, it currently does not support certain critical requirements that have emerged since its initial development, such as automatically tracking repair and manufacturing operations on the shop floor of depots and arsenals. The report further states that the current system will not enable the Army to generate auditable basic financial statements by 2017, the statutory deadline for this goal.

Furthermore, in response to the Army's submission of its Organizational Execution Plan for FY 2014, the Deputy Chief Management Officer has tasked the Army in its Investment Decision Memorandum dated September 25, 2013, to submit the strategy and execution plan on how the Army will configure Increment 2. This task includes defining the use of the DoD U.S. Government Standard General Ledger as a part of proper posting logic for budgetary and proprietary accounting and use of the transaction library. The Army does not expect to complete all corrective actions to resolve the financial management systems weakness until FY 2015.

Inventory (Plan-to-Stock). As of September 30, 2013, the Army reported 92 percent of its resale inventory in the Logistics Modernization Program system, which is capable of recording inventory using moving average cost. The inventory valuation method used for the other 8 percent of the Army Working Capital Fund inventory does not produce an auditable approximation of historical cost as required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The Army uses the latest acquisition cost method of valuing this inventory because the Army designed the Commodity Command Standard System for materiel management, rather than for accounting in conformance with U.S. GAAP.

Furthermore, the Army reported that it did not properly baseline the transitioning of on-hand balances into the Logistics Modernization Program system using moving average cost. However, a recent internal audit report stated that the method used within the Logistics Modernization Program system to calculate the moving average cost was correct at the initial deployment site. Therefore, inventory valuations over time should have changed to comply with Statement of Federal Financial Accounting Standards No. 3. However, further audit work is required to confirm this change. Additionally, since the majority of the sites were added during subsequent system deployments, the Army Working Capital Fund could not confirm the actual historical cost of this inventory and recognized that a significant portion may not be currently valued in compliance with Statement of Federal Financial Accounting Standards No. 3.

DoD Inspector General Report No. DODIG-2013-025, “Accountability Was Missing for Government Property Procured on the Army’s Services Contract for Logistics Support of Stryker Vehicles,” November 30, 2012, identified that inventory within this program, valued at $892.3 million, was not properly accounted for as Government property and not included within the amounts listed in the prior year basic financial statements. The Army acknowledged that contractor-acquired inventory may not be properly accounted for within the FY 2013 basic financial statements due to a system limitation. The Army does not expect to complete all corrective actions to resolve this material weakness until FY 2015.

General Property, Plant, and Equipment (Acquire-to-Retire). The reported value of Army Working Capital Fund’s 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, 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 due to system limitations.

Office of the Under Secretary of Defense (Comptroller) memorandum, “Accounting Policy Update for Real Property Financial Reporting,” March 1, 2013, requires the recording of the acquisition value of real property assets less associated depreciation on the basic financial statements of the DoD entity that controls the asset. When the entity that controls the asset is different from the sponsoring entity, the sponsoring entity records the asset while it is undergoing construction. When construction is complete, the sponsoring entity records a transfer-out of the asset to the controlling entity, which records a transfer-in of the asset at its full acquisition cost. The Army has not yet taken actions to assess the assets reported in the Army Working Capital Fund real property accounts to determine whether the Army Working Capital Fund sponsored the assets reported on the basic financial statements. The Army expects to complete all corrective actions to resolve this material weakness in FY 2015.

Accounts Payable (Procure-to-Pay). Statement of Federal Financial Accounting Standards No. 1, “Accounting for Selected Assets and Liabilities,” requires intragovernmental transactions to be reported separately from amounts owed to the public. The Army acknowledged that Army Working Capital Fund’s systems do not track intragovernmental transactions by customer at the transaction level. As a result, the Army relies on unsupported adjustments processed by Defense Finance and

Accounting Service personnel to report accounts payable balances including an adjustment to Accounts Payable with the Public downward by $115.8 million for undistributed disbursements.

Additionally, DoD Inspector General Report No. DODIG-2012-087 reaffirmed that the Logistics Modernization Program system could not generate an Accounts Payable upon acceptance of goods until they actually arrived at their final destination. This report further stated that the Procure-to-Pay business processes developed for use within the Logistics Modernization Program system did not properly approve, verify, or reconcile transactions or record and document business events accurately, including Accounts Payable. The Army plans to resolve this material weakness in FY 2015.

Statement of Budgetary Resources (Budget-to-Report). OMB Circular No. A-136 (Revised) states that the entity should develop the Statement of Budgetary Resources predominantly from the budgetary general ledger accounts in accordance with budgetary accounting rules. In FY 2013, the Army began using the data from the Army Working Capital Fund budgetary general ledger accounts reported by the Logistics Modernization Program system to populate the Statement of Budgetary Resources. However, Defense Finance and Accounting Service personnel entered a significant number of adjustments into the Defense Departmental Reporting System–Budgetary module to reconcile the trial balance data. Additionally, Defense Finance and Accounting Service personnel made adjustments of $289.7 million 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 material weakness is FY 2015.

Statement of Net Cost (Budget-to-Report). 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 (Revised). 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. This was not possible because Army Working Capital Fund financial management systems did not accurately account for intragovernmental transactions or capture actual costs. Therefore, some of the information presented in the Army Working Capital Fund's Statement of Net Cost was based on non-financial feeder systems. The Army plans to resolve this material weakness in FY 2015.

Intragovernmental Eliminations (Budget-to-Report). The Army Working Capital Fund was unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that were not verifiable. DoD Inspector General Report No. DODIG-2012-087 reported that the Logistics Modernization Program system did not capture the correct Standard Financial Information Structure business partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. DoD procedures require that the Army adjust its buyer-side transaction data to agree with seller-side transaction data from other Government entities, without the entities performing proper reconciliations. As a result, Defense Finance and Accounting Service personnel made $948.2 million in adjustments to Army Working Capital Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners. The Army plans to resolve this material weakness in FY 2015.

Accounting Adjustments-Other Accounting Entries (Budget-to-Report). Defense Finance and Accounting Service personnel made an additional unsupported accounting adjustment, valued at $3.3 billion, to reclassify expenses based on issues identified with the posting logic. The unsupported accounting adjustments represent a material uncertainty regarding the line item balances on the FY 2013 Army Working Capital Fund Basic Financial Statements. The Army plans to resolve this material weakness in FY 2015.

Reconciliation of Net Cost of Operations to Budget (Budget-to-Report). Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. The Army could not reconcile the information reported in Note 21 with the Army Working Capital Fund's Statement of Net Cost without preparing $324.6 million in unsupported adjustments to the general ledger accounts to force costs to match obligation information. To resolve this material weakness, the Army identified the implementation of tie point analysis capability within the Logistics Modernization Program system; however, the identified solution remained an unfunded requirement in FY 2013. The Army plans to resolve this material weakness in FY 2015.

Abnormal Account Balances (Budget-to-Report). In FY 2013, the Army Working Capital Fund Industrial Operations and Supply Management activities (limit-level) reported 18 abnormal account balances, valued at $158.1 million. Army and Defense Finance and Accounting Service personnel used the 18 abnormal balances to compute the amounts reported on the Balance Sheet for such items as Accounts Receivable; Advances and Prepayments; General Property, Plant, and Equipment; Inventory; Accounts Payable; and Liabilities - Advances and Prepayments. In addition, the posting accounts used to develop the proprietary and budgetary trial balances in the Logistics Modernization Program system contained at least 905 abnormal account balances valued at $73.8 billion. However, the roll-up of limit-level account balances to produce amounts on the basic financial statements hid abnormal account balances identified in the posting accounts. The Army plans to resolve this material weakness in FY 2015.

Army managers identified the following additional material weakness in FY 2013:

Fund Balance with Treasury (Budget-to-Report). Army managers reported this material weakness in the FY 2013 Annual Statement of Assurance. They stated that the Army Working Capital Fund is currently unable to reconcile its detailed transaction-level disbursements and collections with the Department of the Treasury records. For us to reach the same conclusion, additional audit work will need to be planned and performed.

Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies.*

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

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us instances of noncompliance and that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Army Working Capital Fund complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was

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

not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]) limits the Army Working Capital Fund and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army Working Capital Fund or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act, the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2013, the Army Working Capital Fund reported no Antideficiency Act violations.

Compliance With FFMIA Requirements

FFMIA requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. FFMIA also requires the Army to develop a remediation plan when its financial management systems do not comply with Federal financial management systems requirements. The remediation plan is to include remedies, resources required, and milestones. Army Audit Readiness personnel stated that the Army Working Capital Fund portion of the Army Financial Improvement Plan is currently under development.

For FY 2013, the Army Working Capital Fund did not fully comply with FFMIA. On December 9, 2013, the Army stated that Army Working Capital Fund financial management systems did not substantially comply with the Federal financial management systems requirements as of September 30, 2013. The Army previously acknowledged to us that the financial management and feeder systems could not provide adequate evidence supporting various material amounts on the basic financial statements and that previously identified material weaknesses continued to exist.

Recommendations

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

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

REPLY TO
ATTENTION OF

SAFM-FO

DEC 05 2013

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Management Response to the Fiscal Year 2013 Army Working Capital Fund Financial Statement Audit Report

1. Please accept our thanks for your efforts on behalf of the Army and the professionalism exhibited by your staff during the audit. We also appreciate the opportunity to comment on the draft report provided on December 4, 2013.

2. We generally concur with the findings identified in the draft report on Internal Control. We will ensure our audit readiness corrective action plans address the findings identified. We will continue work with our stakeholders to address issues related to our general ledger, adjustments, and abnormal balances. Our audit readiness contractor began their examination of the inventory line item for existence and completeness . During the upcoming year, they will continue work on developing a complete Army Working Capital Fund Financial Improvement Plan with discreet actions and obtainable milestones encompassing open financial reporting material weaknesses and open recommendations for the Procure to Pay and Budget to Report audits.

3. With continued Standard Financial Information Structure implementation and improved Army Enterprise Systems Integration Program governance, we anticipate obtaining waivers for our intragovernmental eliminations material weakness. Intragovernmental transactions will include specific Federal trading partner codes. This will enable reconciliation of intragovernmental transactions between Federal agencies, elimination of intragovernmental transactions in the financial statements, and supportable quarterly reporting to Treasury and OMB of US Standard General ledger account balances related to transactions with other Federal agencies.

4. Army point of contact for this action is [redacted]. [redacted] can be reached by telephone at [redacted], or by e-mail at [redacted].

James J. Watkins
James J. Watkins
Deputy Assistant Secretary Army
(Financial Operations)

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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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