2015

U.S. ARMY

RESOURCING READINESS TO WIN IN A COMPLEX WORLD

FISCAL YEAR 2015 UNITED STATES ARMY ANNUAL FINANCIAL REPORT

RESOURCING READINESS TO WIN IN A COMPLEX WORLD

COVER PHOTOS

(FRONT: LEFT TO RIGHT)

Participating in rappel training. (Photo by Pfc. Yvette)

Conducting helocast training in the Arkansas River. (Photo by Master Sgt. Michel Sauret)

Soldiers hover over a landing zone in UH-60 Black Hawk helicopters during air assault training. (Photo by Capt. Charles Emmons)

Paratroopers conduct an airborne operation. (Photo by Paolo Bovo)

A U.S. Army combat engineer rushes to breach a wire obstacle during platoon lane training. (Photo by Staff Sgt. Anthony Housey)

A Green Beret uses a power saw to cut through locks securing a door during a training mission. (Photo courtesy of the U.S. Army)

Negotiating an obstacle course during the Ranger Course on Fort Benning, GA. U.S. (Photo by Spc. Nikayla Shodeen/Released)

Boarding an Air Force C-17 Globemaster III aircraft loaded with a heavy-drop-rigged Humvee for a night jump. (Photo courtesy of the U.S. Army)

(BACK: LEFT TO RIGHT)

Soldiers secure a landing zone during an infiltration/exfiltration mission. (Photo by Matthew B. Fredericks)

A helicopter crew chief conducts water bucket operations during a fire fighting mission south of Tok, AK. (Photo by Sherman Hogue)

Driving the new Light Tactical All Terrain Vehicle on Fort Bragg, NC. U.S. (Photo by Staff Sgt. Jason Hull)

Soldiers compete in a unit assessment. (Photo courtesy of the U.S. Army)

Performing a metal inert gas weld at Fort Hood, TX. (Photo by Sgt. Brandon Banzhaf)

Providing security while mounted on a camouflaged Lightweight Tactical All Terrain Vehicle. (Photo by Sgt. Flor Gonzalez)

(INSIDE:)

Jumping out of a C-130H3 Hercules for Emerald Warrior at Hurlburt Field, FL. (Photo by Joshua J. Garcia /Released)

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A U.S. Army crew chief scans his sector from a CH-47 Chinook helicopter in Afghanistan. (Photo by Sgt. 1st Class David Wheeler)

Today's Army must be well equipped to handle elevated, geographically dispersed areas of global instability and insecurity. These requirements, often immediate and unforeseeable, require the unwavering commitment and support of our Soldiers, Civilians and their Families, as we aim to uphold the unquestioned superiority of our US military capabilities.

In fiscal year (FY) 2015 the Army introduced the new Army Operating Concept, "Win in a Complex World," which is the foundation of the Army's ability to conduct joint combined arms maneuvers. As we acknowledge the changing, highly technological and unstable world around us, the Army Operating Concept seeks to ensure an Army that is expeditionary, tailorable, scalable and prepared to meet the challenges of this complex environment.

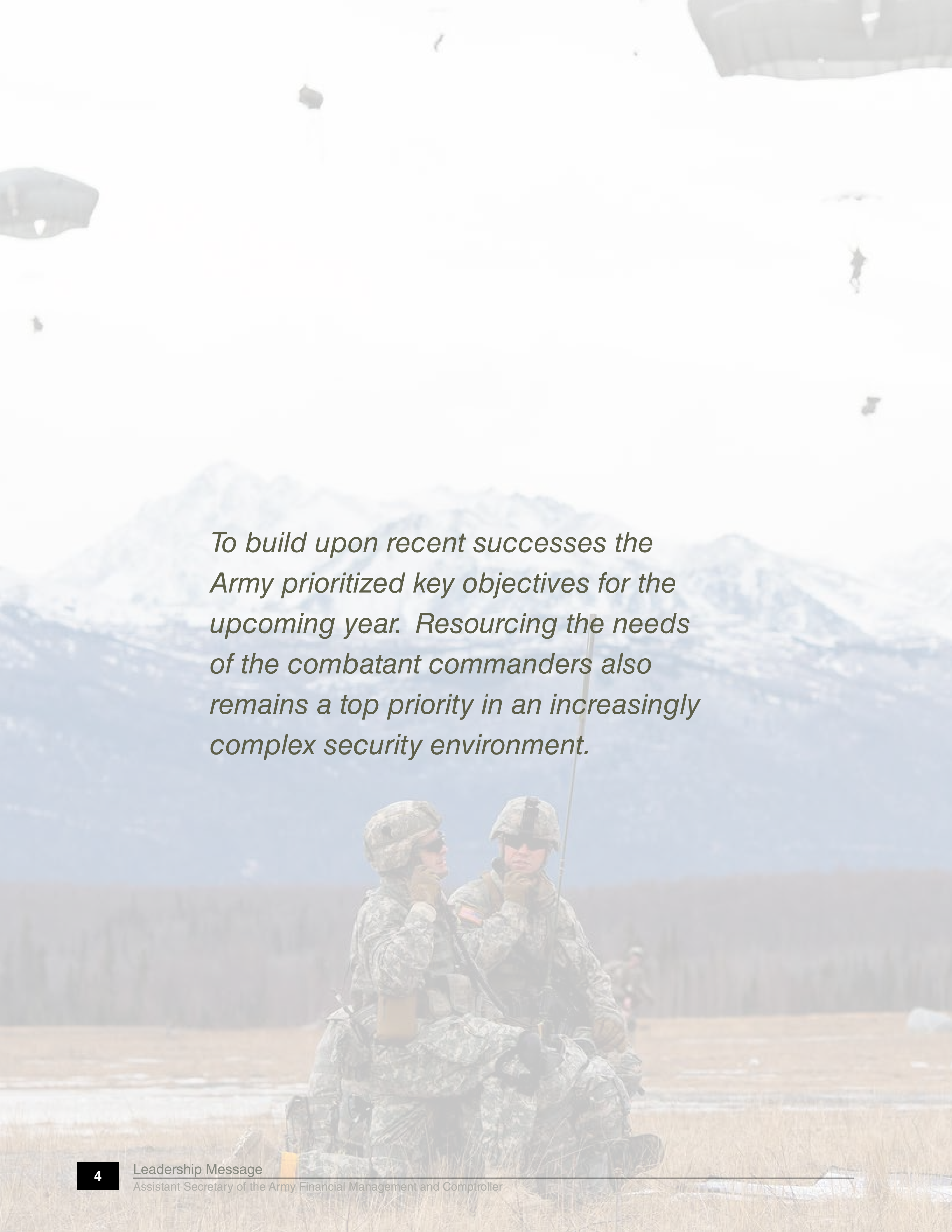
The FY 2015 budget provided additional challenges for commanders to sustain readiness, respond to restrictions and maintain the Army's effectiveness, while also reorganizing to operate as a smaller force wherever possible. The Army's FY 2016 budget request continues to focus on building near term readiness through predictability and continuity in funding levels. The Army recognizes that the American people accept nothing less than a military that is prepared and ready for whatever challenges arise in our uncertain world.

The Army's Annual Financial Report (AFR), in an alternative format to the Performance and Accountability Report, provides a window for the American people to accurately view the broad landscape of Army operations from a fiscally responsible perspective. Stewardship of these resources entrusted to us remains a top priority and the Army is progressing toward the goal of becoming audit ready in FY 2017. This AFR contains a discussion of the financial reporting material internal control weaknesses challenging those audit readiness goals and the corrective actions the Army is taking to resolve them.

Within this budget-constrained environment, the Army is implementing organizational and process improvements, along with enhanced business systems, to provide agile, responsive financial capabilities to further mission objectives. Recent Enterprise Resource Planning system upgrades enhance accountability, revise business processes, implement necessary internal controls and permit the retirement of legacy systems that will ultimately reduce our overall costs, generate operating efficiencies and allow the Army to meet audit readiness assertion in September 2017. Our Army leaders are actively engaged in change management to achieve this priority goal.

Today's Army must be well equipped to handle elevated, geographically dispersed areas of global instability and insecurity. These requirements, often immediate and unforeseeable, require the unwavering commitment and support of our Soldiers, Civilians and their Families, as we aim to uphold the unquestioned superiority of our US military capabilities. In addition, the Army, as part of the Joint Force, has been called upon to address humanitarian and disaster relief missions. Our duty as stewards of these resources, whether human or financial, is to use them prudently and effectively, in the successful attainment of our mission goals.

Secretary of the Army



To build upon recent successes the Army prioritized key objectives for the upcoming year. Resourcing the needs of the combatant commanders also remains a top priority in an increasingly complex security environment.

Fiscal year (FY) 2015 represented a transitional year for the Army, as the Army moved closer to its ultimate goal of asserting financial statement audit readiness by September 30, 2017. This Annual Report reflects the absolute commitment of our financial management (FM) resources toward achieving this objective. The Army Financial Management Optimization Task Force, focusing upon the transformation effort, has driven towards improving capabilities, finding greater efficiency and achieving audit readiness by 2017. As of October 2015, the Army is 10 months into the audit of the General Fund Schedule of Budgetary Activity (SBA) for FY 2015 financial transactions. This effort is the largest external validation of the Army's financial activity to date.

Complementing our progress on the SBA, the Department of Defense Office of Inspector General issued opinions in August 2015 on the Army's audit readiness assertions of General Fund and Working Capital Fund real property and operating materiel and supplies. In FY 2016, for the first time, the Army will undergo an audit, conducted by an Independent Public Accounting firm, of selected line items of the Working Capital Fund financial statements. This is a significant milestone on our path to achieving auditable financial statements. These external reviews are a vital part of our full financial statement audit readiness strategy, as they provide the Army with the necessary corrective actions needed to improve our systems, processes, and controls. The time frames for correcting audit weaknesses and noncompliance are synchronized with audit milestones. In addition, the Army built momentum in support of audit readiness efforts by driving focused improvements to our enterprise-wide Information Technology architecture to support Army audit goals.

To build upon recent successes the Army prioritized key objectives for the upcoming year. The Army continues to improve General Fund Enterprise Business System (GFEBS) and Logistics Modernization Program (LMP) and add functionality, as well as address challenges identified by the user community, to ensure timely and accurate financial information in operational decision making. Auditable data in GFEBS and LMP provides the foundation for Army cost data. In the next fiscal year, Army organizations will learn from prior audits and examinations how to develop or improve business practices, standard operating procedures and user training in order to achieve the 2017 audit readiness mandate. As this assertion date approaches the volume and accuracy of the cost data within GFEBS and LMP continues to improve.

Resourcing the needs of the combatant commanders also remains a top priority in an increasingly complex security environment. In accordance with the Army's strategy, the Army continues to prioritize near-term readiness and support to our Soldiers at the expense of modernization. We expect this readiness versus modernization imbalance to continue through FY 2018. Meanwhile, reshaping the workforce within a downsized Army, during this period of limited budgetary resources, will present significant challenges, but opportunities nonetheless. Maintaining the processes supporting formulation and justification of Army budgets, along with timely funds control and execution year agility, requires expanded capability. We must ensure timely and accurate information to enable effective decisions by senior leaders.

The Army is committed to the September 30, 2017 audit readiness goals as well as the legislative requirement of being wholly auditable in 2018. The American taxpayer has an inherent right to know the money entrusted to the Army is being used properly. The FM team recognizes this, and their enthusiasm and support in achieving Army objectives will benefit Soldiers, Civilians and their Families, and help keep America's Army strong and successful in all its missions.

Robert M. Speer

Assistant Secretary of the Army (Financial Management and Comptroller)

2015

RESOURCING READINESS TO WIN IN A COMPLEX WORLD

OVERVIEW

As the foundation of the Joint Force, the Army provides the Nation a distinct capability. The Army is the only military service that can decisively defeat an enemy in large-scale ground combat. The Army projects land power to seize and hold territory, assures partners, deters conflict, and consolidates gains to enforce the Nation's will. The Army's ability to deploy and sustain an unmatched scale of land-based forces is a result of the Nation's investment in Army readiness. Readiness – the ability to deploy trained and equipped Soldiers as part of the Joint Force – is key for the Army to meet combatant commander requirements, respond to unforeseen threats, and win decisively. Since the Army exists to fight and win wars in the defense of the United States of America, readiness is the Army's number one priority.

Even though today's Army is the most capable ground force in the world, it is challenged to maintain the balance between readiness, end strength, and modernization due to declining budgets and unpredictable funding – the result of sequestration and continuing resolutions. During this period of fiscal uncertainty, the increased velocity of instability in the strategic environment has created additional demands and the Army has responded by deploying Soldiers to Iraq, West Africa, and Eastern Europe while simultaneously conducting ongoing combat operations in Afghanistan.

In the future, the United States will encounter threats that require the Army to provide a broad range of capabilities to achieve our national objectives. Only through predictable funding can the Army build and maintain readiness across the Total Army – the Regular Army, Army National Guard (ARNG), and the Army Reserve (USAR). Building readiness now allows the Army to meet not only current requirements, but also to respond to the next crises as they occur, whether overseas or in our homeland.

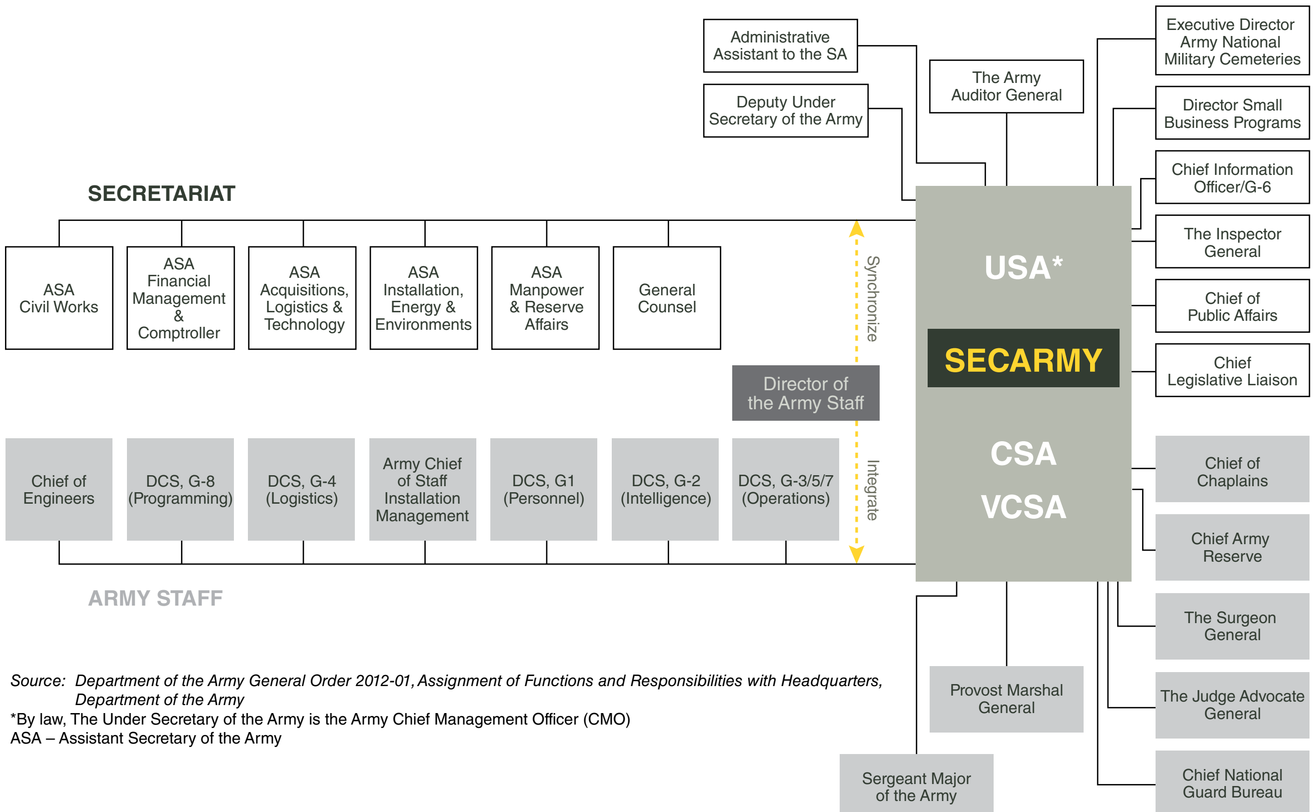
Mission and Organization of the Army

The mission of the United States Army is to fight and win the Nation's wars through prompt and sustained land combat as the foundation 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, leads and manages the entire Army. The HQDA

Staff is composed of the Secretariat and the Army Staff (ARSTAF). The HQDA Staff:

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



Source: Department of the Army General Order 2012-01, Assignment of Functions and Responsibilities with Headquarters, Department of the Army

*By law, The Under Secretary of the Army is the Army Chief Management Officer (CMO)

ASA – Assistant Secretary of the Army

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

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

U.S. Army Soldiers, assigned to the Arkansas National Guard, pass through a breach cleared by a Mine Clearing Line Charge at the National Training Center, Fort Irwin, CA. (Photo by Spc. Ashley Marble)

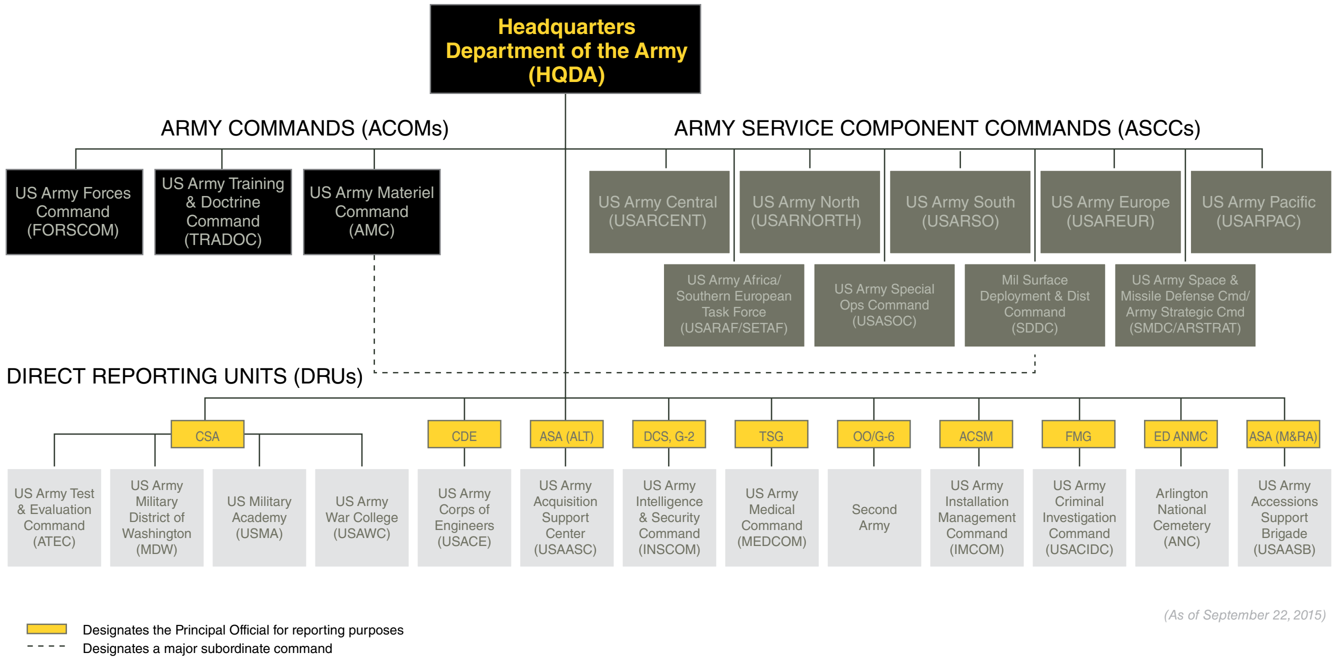


FIGURE 2 – Army Command Structure

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

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

Sustain

The Army must maintain the quality and viability of the all-volunteer force, as well as the many capabilities it provides the Nation, to sustain Soldiers, their Families, and Army Civilians in an era of persistent conflict. Sustainment ensures that Soldiers and their Families have the quality of life they deserve which leads to improved retention rates.

MANNING THE FORCE—RECRUITING AND RETAINING SOLDIERS

While the recruiting environment is challenging, the Army remains committed to bringing only the very best into its ranks. The Army's goal is to achieve no less than a 90% rate of new recruits with Tier 1 educational credentials, i.e., high school diploma or above. The Army achieved approximately 98% Tier 1 recruits in Fiscal Year (FY) 2015. 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.

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Tier 1 Goal	90%	90%	90%	90%	90%
Tier 1 Actual	99%	96%	99%	95%	98%

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

The Army met its recruiting requirements in the Active Component. A tougher recruiting environment made recruiting for the USAR and ARNG more difficult in FY 2015.

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Goal	FY 2015 Actual
Active Component	64,019	60,489	69,154	57,101	59,000	59,177
Army National Guard	47,206	43,297	44,734	43,280	43,250	38,430
U.S. Army Reserve	19,996	15,729	15,568	14,595	17,313	14,971

TABLE 2 – Enlisted Recruiting

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Goal	569,400	562,000	552,100	520,000	490,000
Actual	565,463	550,763	532,506	508,210	491,365
Percent Delta	-0.7%	-2.0%	-3.5%	-2.3%	+0.3%

TABLE 3 – Active Component End Strength

Performance Measure: *The number of Soldiers on active duty at the end of the year; data as of September 30, 2015. Under presidential-declared states of national emergency, end-strength limits may be waived. Goals based upon Section 401 of appropriate fiscal year's National Defense Authorization Act.*

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Goal	FY 2015 Actual
Army National Guard	361,051	358,078	357,735	354,072	350,200	350,023
Army Reserve	204,803	201,166	198,209	195,438	202,000	198,552

TABLE 4 – Reserve (ARNG and USAR) End Strength

Performance Measure: *The number of Soldiers in the ARNG and the USAR as of September 30, 2015.*

	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Goal	FY 2015 Actual
Active Component	60,000	43,626	64,012	58,739	51,628	46,750	50,083
Army National Guard	30,472	39,750	49,272	51,145	43,817	35,627	35,713
U.S. Army Reserve	11,163	10,330	14,377	15,731	15,230	14,199	16,102

TABLE 5 – Active and Reserve Component Retention

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

Due to Overseas Contingency Operations (OCO), several special skills remain in high demand. In FY 2015, the Army offered a Critical Skills Retention and Selective Reenlistment Bonus to attract and retain personnel in specific skill areas, including Special Forces, Explosive Ordnance Disposal, and Military Intelligence. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army to exceed its FY 2015 retention goal. Careful and deliberate adjustments to bonuses, including designation of targeted critical skills, ensured the correct mixture of skilled Soldiers. Recruiting and retaining Soldiers—confident, adaptive, competent, and able to handle the complexity of 21st century warfare in a combined, joint, expeditionary environment—is a highly-competitive endeavor. The Army will continue to develop and implement programs to address them.

STRENGTHENING SOLDIER AND FAMILY READINESS

Family readiness means being prepared to navigate effectively the challenges of daily living experienced in the unique context of military service. Prepared

Soldiers and their Families understand the challenges they may face, are aware of supportive resources, have the skills needed to function in the face of challenges, and use those skills and resources to manage challenges.

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

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

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

WARRIOR CARE AND TRANSITION

With the continued maturation of the Army's Warrior Care and Transition Program, wounded, ill, and injured Soldiers, Veterans, and their Families are receiving the care, medical management and transition support they need and deserve. The Warrior Transition Command ensures focused and effective management across all aspects of the Warrior Care and Transition Program. In FY 2015, the Army dedicated $217 million to resource the Warrior Care and Transition Program with support staff, training, information technology, and adaptive reconditioning/rehabilitative programs and events.

As the Army's proponent for Warrior Care and Transition, the Warrior Transition Command provides

Reuniting with family after a yearlong deployment. (Photo by Sgt. John Crosby)

The funding-supported pillars of the Warrior Care and Transition 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. Warrior Games offers the opportunity to highlight the incredible strength of our Soldiers. The Warrior Transition Command, in partnerships with Department of Defense (DoD) agencies and coalition forces, prepares our Soldiers to compete in Warrior Games and in events, such as The Invictus Games.
- COMPREHENSIVE SOLDIER AND FAMILY FITNESS—performance enhancement and resilience training.
- THE CAREER, EDUCATION, AND READINESS PROGRAM provides a disciplined and deliberate approach to prepare Warrior Transition Unit Soldiers properly for success before, during, and after their transition.
- COMPREHENSIVE TRANSITION PLAN. As described above.

Conducting a rope bridge water crossing lane during a competition. (Photo by Visual Information Specialist Gertrud Zach)

centralized oversight, guidance, and advocacy empowering wounded, ill, or injured Soldiers, Veterans, and their Families using integrated medical and nonmedical plans for successful reintegration into the force or the community with dignity, respect, and self-determination. Currently, there are approximately 3,066 Soldiers receiving care and transition services at 25 Warrior Transition Units (WTUs) on Army installations throughout the continental United States, Germany, Alaska, Hawaii, and Puerto Rico. In support at each of these locations are the Army's Soldier Family Assistance Centers and other installation provided support activities. In FY 2016, the same quality care and support will be provided at 14 WTU locations across the continental United States and Hawaii executing the Army's initiative to ensure efficiency, effectiveness, and greater accessibility for our Soldiers and their Families. The Army's Wounded Warrior Program, under the direction of the Warrior Transition Command, supports over 21,500 Soldiers and Veterans with the holistic assistance of over 200 advocates, acting as recovery care coordinators, located at major military treatment facilities, Army installations, Department of Veterans Affairs medical centers, and in local communities throughout the continental United States, Germany, Alaska, Hawaii, and Puerto Rico. These advocates function as integrated, collaborative members of multidisciplinary healthcare and benefit teams within the Warrior Care and Transition Program to assist the most severely wounded, ill, and injured Soldiers, Veterans, their Family members and caregivers.

To empower each Warrior Care and Transition Program Soldier to either return to the Force or transition to veteran status, the Army developed a systematic framework known as the Comprehensive Transition Plan (CTP). The CTP is a dynamic living plan of action that focuses on the Soldier's future and encompasses the six domains of career, physical, emotional, social, family, and spiritual. The individual plan is created by the Soldier with the assistance of a dedicated Triad of Care and Interdisciplinary Teams. Using a standardized framework, and specifically developed software, the process enables wounded, ill, and injured Soldiers to customize their recovery plans to set and reach their personal and professional goals. In FY 2015, resourcing allowed approximately 23% of the wounded warrior population to Return to the Force, while enabling others through internships, civilian education and training, to transition to civilian life confidently and, when possible, successfully enter the workforce. The program's success can be attributed, in part, to an aggressive clinical and non-clinical rehabilitative approach and career and education assistance.

READY AND RESILIENT CAMPAIGN

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

IMPROVING SOLDIER AND FAMILY HOUSING

The Army's commitment, coupled with congressional support for housing programs, confirms its 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 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 11,113 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 United States locations through the Privatization of Army Lodging (PAL) program, and either the demolition or divestiture of uneconomical and excess lodging buildings.

The privatization of homes at 44 installations was completed on schedule in FY 2010. These 44 installations have an end-state inventory of 86,077 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 2,408 bedrooms 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 41 installations, and are in the development phase, which is scheduled to be completed by FY 2022 with a projected end-state of 12,492 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. As of FY 2015, the Army has 156,101 adequate permanent party bedrooms.

The Army's Training Barracks Modernization Program constructs, restores, and modernizes initial entry and institutional 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 2015, the Army has 125,716 adequate spaces in the training barracks inventory.

Prepare

To prepare Soldiers, units, and equipment, the Army must maintain a high level of readiness for the current operational environment, 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 to maintain a technological advantage over any enemy soldiers they may face.

PROVIDING READY FORCES

The Army built its current system for force generation – Army Force Generation – while sustaining large combat operations in two theaters over an extended period. Now the Army is changing its force generation system to adapt to a strategic environment characterized by persistent forward presence and global engagement, uncertain demands, and limited resources.

This new system – the Sustainable Readiness – will enable the Army to meet operational demands while remaining optimally postured to surge rapidly for unforeseen contingencies. Sustainable Readiness is the Army's force generation concept adapted to the needs of a contingency force that is globally and regionally engaged. Given the resources available and planned for our Army, it will build and preserve the highest possible unit and service-level readiness while minimizing risk to meeting operational demands both known and contingent. The priority for all Army units is to build decisive action readiness to enable Army forces to deploy rapidly to conduct Unified Land Operations (ULO) as part of a Joint Force and to win in a complex world. To meet the demands of a contingency force that is also continuously regionally engaged, the Army requires a force generation concept that is supported by a comprehensive resourcing strategy and that provides appropriately trained, manned, and equipped forces to meet current operational demands while simultaneously remaining optimally postured to surge for unforeseen contingencies. Sustainable Readiness is an evolutionary Army force generation enhancement that postures the Army to manage risk effectively while supporting a mindset shift from a Latest Arrival Date-focused model to an agile and adaptive framework necessary to win in a complex world. It is underpinned by a driving philosophy and culture that seeks to maximize opportunities to build and sustain decisive action readiness consistent with current resourcing levels.

TRAINING SOLDIERS

Initial entry training develops warfighting capability through training in individual warrior tasks and battle drills as well as in 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 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 and cyber operations, counter-explosive hazards, and operational law.

Initial Military Training[1]	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
FY 2012 Trained (Actual)	65,320	27,131	79,316	16,004	1,002	1,755	1,244
FY 2013 Trained (Actual)[2]	75,860	30,364	88,550	14,588	1,139	1,888	1,127
FY 2014 Trained (Actual)[2]	67,865	26,738	88,245	12,873	866	1,730	910
FY 2015 Trained (Interim)[2]	40,940	14,149	60,477	7,380	489	1,209	385

TABLE 6 – Individual Training

Note 1: This data represents Active Component, ARNG, and USAR students graduating from Active Component schools. All data is based on start date, i.e., if a class started in FY 2014 and graduates in FY 2015, it is counted in the FY 2014 data, which helps explain the lower figures for FY 2015 compared with previous years.

Note 2: The actual trained data for FY 2012-FY 2014 and the interim trained data for FY 2015 are as of August 25, 2015.

TRAINING UNITS

In the 1st Quarter FY 2015, training by Army units was significantly constrained by the Continuing Resolution Authority (CRA) and budget controls. The Army focused resources on maintaining the decisive action readiness of a select number of Brigade Combat Teams (BCTs), while asking other units to prepare as much as possible with comparatively fewer resources. The FY 2015 Funding Letter was signed at the end of January 2015 and alleviated constraints on training activity for the remainder of the FY. Official results for training miles and hours executed in FY 2015 were not yet available at the time of this publication.

Training at an Army Combat Training Center (CTC) represents the pinnacle training readiness preparations of BCTs and Division/Corps Headquarters (HQs). Each Brigade, Division and Corps Commander will train at a CTC to further enhance leader professional development at some point during his or her command tenure. The CTCs offer a tough, realistic, decisive action training environment that cannot be replicated at home station with available resources. Training at the CTCs replicates complex, hybrid threats of the anticipated operational environment using a dedicated opposing force, reinforces the expeditionary mindset, demands Conventional Force / Special Operation Forces / Unified Action partner interdependence, and is supported by a high fidelity training support system to provide feedback on unit performance through a professional staff of Observer-Controllers.

As mission requirements are reduced in Afghanistan, the Army will conduct fewer mission rehearsal exercises at the CTCs and instead focus more rotations to prepare units for a wider range of contingencies, that is, decisive action during ULO (DA/ULO). BCTs, unless scheduled to deploy, conduct a DA/ULO rotation.

In FY 2015 the Army conducted 19 rotations at maneuver CTCs: 15 DA/ULO rotations for Active BCTs, two DA/ULO rotations for ARNG BCTs, and two enabler rotations (Mission Command/ Fire Control Exercise and Defense Chemical Biological Radiological Nuclear Response Force Exercise). The Mission Command Training Program conducted command post exercises for 46 HQs (five Army Service Component Command HQs, three Corps HQs, four Division HQs, five BCT HQs, four Expeditionary Sustainment Commands, four Sustainment Brigade HQs, and 21 Functional or Multifunctional Brigade HQs).

U.S. Army officer candidates conduct a 10-mile ruck march at Camp Ripley, MN. (Photo by Staff Sgt. Anthony Housey)

TRAINING SUPPORT SYSTEMS

The Army's Training Support System (TSS) enables training at home stations, CTCs, and other institutions by creating realistic conditions that reflect the operational environment. The TSS also enables Soldier self-development by maintaining the Army's distributed learning point of delivery infrastructure. 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. FY 2015 funding levels provided base capability to enable training readiness. The TSS will continue to utilize the Long Range Investment Requirements Analysis (LIRA) to provide strategic guidance to prioritize and sequence the products within the TSS portfolio.

Developing leaders today is the key to preparing the Army for 2020 and beyond. The increasingly uncertain, complex, and interconnected global environment demands that an Army of preparation invests in leader development; the life-long synthesis of training, education, and experience acquired through opportunities in the operational, institutional, and self-development domains.

The CTC Modernization Program (CTC Mod) continued to field the Range Communications System which provides an updated voice and data communications system that enables the CTC Instrumentation System (CTC IS) to include a third maneuver battalion and to provide a realistic operational environment necessary to stimulate and track rotational units, Opposing Force (OPFOR), and role player activities. It also tracks operational ground-truth, combat engagements, and unit performance necessary to provide rotational unit's fully analyzed feedback in the form of After Action Reviews. Delays were incurred by the failure of the prime contractor to successfully complete the Systems Assessment Test in June 2015.

The Mission Command Training Support Program (MCTSP) modernizes Mission Training Complexes (MTCs) and training simulations to upgrade individual and collective training to include battle-staff training for mission-rehearsal capabilities for units. The MTCs provide units the ability to train and sustain critical individual/operator and collective battle-staff skills on Mission Command Information Systems. The MTCs network with other installations and simulation capabilities to support Army, Joint, and Coalition training events. New TSS capabilities were fielded to support requirements driven by the Army Campaign Plan. A persistent Live, Virtual, Constructive-Integrating Architecture (LVC-IA) has been implemented at selected home stations. The LVC-IA links Home Station Instrumentation Training Systems in live training areas to MTCs, which house constructive, virtual and gaming TADSS. The MTC serves as the nexus for the installation's LVC-IA, which has completed fieldings to twelve installations.

Sustainable Range Program (SRP) and Integrated Training Area Management (ITAM) maximize the capability, availability, and accessibility of ranges and training lands to support doctrinal requirements, mobilization, and deployments under normal and surge conditions. SRP provides modernization of the Army's range complexes using training systems fielded on ranges. SRP also provides range operations and maintenance to support individual and crew serviced weapons qualification at over 100 Continental United States (CONUS) and outside the Continental United States (OCONUS) locations, and collective live fire capability on the largest 25 installations. The capabilities provided at each of these locations was reduced to levels appropriate with the reduction of the force. Ranges continue to be modernized to integrate digital systems that enable squads and platoons to train as they fight, as well as to provide commanders and leaders with objective data to assess their units' performance and training levels. ITAM provides Army range officers with the capabilities to manage and maintain training lands and support mission readiness. By implementing a uniform land management program, ITAM integrates the mission requirements derived from the SRP, with environmental requirements and environmental management practices. It also establishes the policies and procedures to achieve optimal, sustainable use of training and testing lands.

Soldier Training Support Program (STSP) reduced programmed acquisition and fielding for systems, such as the Homestation Instrumentation System (HITS), Engagement Skills Trainer (EST), Call for Fire Trainer (CFFT) and Medical Simulation Training Centers (MSTC), which are critical components of the Live, Virtual, Constructive – Integrated Training Event (LVC-ITE). However, Instrumentable Multiple Integrated Laser Engagement System (IMILES) buyout was accelerated to achieve "pure fleet" fielding. Additionally, the lack of funding for planned upgrades and improvements to support concurrency, relevance, and usefulness of fielded devices, such as the EST, CFFT, and the Improvised Explosive Device Effects Simulator (IEDES), has had a negative impact on modernization of devices fielded at home station and institutional locations for nearly a decade. The STSP continued to provide Common Levels of Support (CLS) manpower and services, however directed TSS manpower Table of Distribution and Allowances authorization reductions have significantly challenged execution commands in delivering specified services to mission commanders. New requirements, driven by the fielding of approved systems, e.g., flight simulators, MSTCs, and the LVC-ITE, increased manpower requirements in an era of significant reductions. The result will be a reduction of baseline services to all customers at most installations. Because Reserve Component (RC) units must habitually train on evenings and weekends, there will be an even greater reduction in available services to the RC customer base at installations with regional training support service delivery responsibility. Additionally, reductions in authorized Training Support Center manpower have resulted in systemic maintenance challenges and operational ready rates for complex TADSS, e.g. IMELS, as diagnostics and troubleshooting are conducted by inexperienced users, rather than by trained contact teams, resulting in significant increases in repair costs, repair turnaround times and decreases in training benefit to Soldiers and commanders.

Army Training Information System (ATIS) will provide an enterprise capability to enable the training environment for scheduling, development, learning management, training management, and resource management for individual and collective training and education. The Army Acquisition Executive (AAE) approved the Materiel Development Decision, which authorized proceeding to the Material Solution

Analysis phase of the Acquisition process. In addition, the AAE signed the Acquisition Decision Memorandum on October 7, 2014, which authorized the performance of the Analysis of Alternatives. The ATIS Team is seeking a Milestone A Decision from AAE in 1st Quarter FY 2016. Army TSS, including manpower and operations support required to maintain and operate TADSS, must continue to keep pace with equipment modernization and Army transformation. This will ensure that training supports current operations, addresses Sustainable Readiness Model training and readiness requirements, and enables training Army forces for prompt and sustained land combat operations.

ADAPTIVE ARMY LEADERS FOR A COMPLEX WORLD

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

The Army must balance its commitment to the training, education, and experience components of leader development. 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 careers. As a result, the Army experienced a large backlog at nearly all educational levels in both the Active Component and RC. To reduce 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 Active Component. The Army anticipates an increasing number of leaders will attend PME in accordance with their career timeline.

Professional Development (Active Component Schools Only)

	NonCommissioned Officer Education System (NCOES) Graduates				Officer Education System (OES) Graduates		Warrant Officer Education System (WOES) Graduates		
	Warrior Leader Course	Advanced Leader Course	Senior Leader Course	Sergeants Major Course Resident/ Ph 2 Non-resident	Intermediate Level Education Resident/ Common Core	Senior Service College (SSC) Resident/ Distance Learning	Warrant Officer Advance Course Resident/ Non-resident	Warrant Officer Staff Course Resident/ Non-resident	Warrant Officer Senior Staff Course Resident/ Non-resident
2012 Trained (Actual)	27,755	18,443	10,459	592/671	1,075/951	468/309	2,688/430	1,034/1,014	316/347
2013 Trained (Actual)	23,256	17,890	9,609	450/520	1,131/946	501/360	2,485/291	1,087/900	381/345
2014 Trained (Actual)	19,484	16,155	8,842	404/563	1,118/943	505/401	2,348/331	969/928	387/387
2015 Trained (Interim)	15,467	9,636	6,644	0/390	0/627	491/450	2,023/379	941/995	356/329

TABLE 7 – Professional Development (Active Component Schools Only)[1]

Note 1: This data represents Active Component, ARNG, and USAR students graduating from Active Component schools. All data is based on start date, i.e., if a class starts in FY 2014 and graduates in FY 2015, it is counted as FY 2014 data.

Note 2: Actual FY 2014 trained data and interim FY 2015 trained data are as of September 30, 2015.

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.

	Students
Army War College	14
Dwight D. Eisenhower School for National Security and Resource Strategy	8
Civilian Education System (includes three online courses)	43,432
DoD Executive Leader Development Program	16
DoD Civilian Emerging Leader Program	39
DoD Senior Leader Development Program	11

TABLE 8 – Civilian Professional Development

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

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

Special Forces Underwater Operations instructors demonstrate buddy rescue techniques. (Photo by Mr. John G. Martinez)

on which they are 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. 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 continues to use the CTSA, and will subsequently place graduates in enterprise positions most needed by the Army. Recently the Army renamed the CTSA to Civilian Personnel Training Account (CPTA). 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 CES curricula to meet emerging initiatives and requirements and enhance employee performance.

Reset

In FY 2015, Congress appropriated $3.62 billion to resource operational (OMA) and procurement programs (OPA) for OCO Reset. The Army obligated its full Reset operational and sustainment funding. Seven brigades completed Field Level Reset in FY 2015. Three brigades are in the Reset process. Army Materiel Command (AMC) reported the completion of 38,086 items of the FY 2015 Annual Sustainment Level Reset requirement. FY 2015 requirements were adjusted periodically to reflect real-world changes in demand, due to the dynamic operating environment that existed overseas. Equipment deemed beyond economical repair accounted for fluctuations in both carry-in and FY 2015 requirements. The Army executed $576.4 million of the $739.0 million (78%) available Procurement Funding in FY 2014. Procurement Funding for FY 2013 reports indicate that 3,110 (100%) of items are on contract.

MODERNIZATION

The Army's Equipment Modernization was a mixture of divestiture, incremental upgrades to existing platforms, modernization of aging platforms, and prioritized science and technology investments to mature and develop next generation technologies in support of future modernization efforts. The centerpiece of the Army's Modernization Strategy continues to be the Soldier and the Squad. The FY 2015 budget supported this priority by investing in technologies that provide enhanced weapon effects, next generation optics and night vision devices, advanced body armor and individual protection equipment, unmanned aerial systems, ground based robots, and Soldier power systems. The Army objective to facilitate decision making with real-time data across the Joint Force down to the Soldier is being met with commodity-like procurement and rapid innovation. The FY 2015 budget resourced enhanced mission command capabilities and operational network integration through Capability Sets, software applications for the Common Operating Environment, operations/intelligence network convergence and platform integration of network components. The Army objective to increase lethality and mobility, while optimizing survivability, provided a full suite of capabilities to enable the most stressing war fight. The FY 2015 budget resourced the Armored Multi-Purpose Vehicle (AMPV), the Paladin Integrated Management (PIM) program, Joint Light Tactical Vehicle (JLTV) and critical Aviation programs. The Army's ten critical funded programs that synchronize equipment modernization in FY 2015 were:

Network

- Warfighter Information Network-Tactical (WIN-T): $945 million
- Family of Networked Tactical Radios: $73 million
- Joint Battle Command-Platform (JBC-P): $92 million

- Distributed Common Ground System-Army (DCGS-A): $149 million
- Nett Warrior: $77 million

Vehicles

- Armored Multi-Purpose Vehicle (AMPV): $92 million
- Paladin Integrated Management (PIM): $328 million
- Joint Light Tactical Vehicle (JLTV): $210 million

Aviation

- AH-64 Apache: $1,012 million
- UH-60 Blackhawk: $1,583 million

The Army's modernization strategy focused on effectively using constrained resources for near-term requirements and tailoring long-term investments to provide the right capabilities for Soldiers in the future.

Brigade Combat Team Reorganization

By the end of 2015 the Active Component will have reduced Brigade Combat Teams from 45 to 32, a reduction of 13. At the same time all remaining BCTs and those in the ARNG are in the process of converting to the Army 2020 BCT design. This design includes the addition of a third maneuver battalion, a Brigade Engineer Battalion, and precision indirect fire capability in the Infantry BCTs (IBCTs). It removes military police platoons, returns the fire support elements to the fire battalions and adds Forward Support Companies to Stryker BCTs. Three Active Component IBCTs outside the continental United States (Italy, Alaska, and Hawaii) remain resourced with two maneuver battalions, but are converting to the new design.

To meet added budgetary constraints, the Secretary of the Army announced that the Active Component would inactivate two BCTs, the 4/25 IBCT from Fort Richardson, Alaska and 3/3 ID, from Fort Stewart, Georgia bringing the number of Active BCTs to 30. At the same time, two Battalion Task Forces will be created at the locations of the inactivated brigades to retain combat power and provide the means to grow the Army if necessary in the future. These battalions will also be available to be employed for a variety of missions or to round out the OCONUS IBCTs, bringing them up to a three maneuver battalion BCT. This reduction is a part of a larger effort to comply with the 2011 Budget Control Act, reducing the Active Component from 490,000 to 450,000. Part of the reduction strategy is also to redesign the Armored Brigade Combat Team (ABCT) by reducing each brigade by two Infantry Companies. As a result, the ABCT will field two Armor heavy Combined Arms Battalions (two Tank Companies (COs) and one Infantry CO) and one Infantry heavy Combined Arms Battalion. To preserve the same number of Armor COs, a Tank CO will be added to the Cavalry Squadron. There still may be other minor changes to the designs of all BCTs to meet the goal of a 450,000 Active Component Army.

The Army's employment of modular formations and their reset following sustained combat operations helps manage the impact and mitigate the effects of high operational demand. As America's dominant and decisive force, the Army remains committed to securing United States interests across the full range of operations—from aiding civil authorities and citizens at home, to combating insurgents abroad.

Science and Technology Program

The Army's Science and Technology (S&T) investments support Army modernization goals to develop and field affordable equipment in a rapidly changing technological environment. The Army's S&T mission is to foster invention, innovation, and the use of new technologies to enable 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. The Army's S&T investments reflect a balanced approach to far-term, basic research for discovery and understanding of phenomena [Research, Development, Test, and Engineering (RDT&E) Budget Activity (BA 1)]; mid-term, applied research for laboratory concept demonstrations to develop and evaluate the feasibility and practicality of proposed solutions (RDT&E BA 2); and near-term, advanced technology demonstrations of subsystems and components in relevant environments (RDT&E BA

6.3). In addition, the Army S&T and Acquisition communities have partnered to invest a portion of the Army's RDT&E BA 4 funding (Advanced Component Development and Prototypes) to more mature high potential technologies, reduce transition risk to Army programs of record, more quickly provide mature technologies earlier in the acquisition life cycle, and increase competitive prototyping. For FY 2015, the Army dedicated more than $2.51 billion to its S&T Program, all of which is aligned with the Army's needs and priorities: $424 million in RDT&E BA 1, $981 million in RDT&E BA 2, and $1.113 billion in RDT&E BA 3.

Physics modeling to simulate real-world conditions that a new weapons system might be subject to on display at the Association of the U. S. Army Annual Meeting held in Washington, DC. (Photo by David Vergun)

The Army S&T program is organized into eight investment portfolios that address challenges across six Army-wide capability areas (Soldier/Squad, Ground, Air, Lethality, Command, Control, Communications, and Intelligence (C3I) and Medical) and two S&T enabling areas (Basic Research and Innovation Enablers). The Soldier Portfolio executes innovative S&T programs that increase the effectiveness, health, and reliability of the human component of the total Army and develops and integrates the equipment which can unburden Soldiers/Squad during dismounted operations. The Ground Portfolio provides overmatch of offensive, defensive, and mobility capabilities in weapons and military vehicles. Sustainment S&T efforts are focused within the Soldier/Squad and Ground Portfolios. The Air Portfolio aims to be the global leader in providing game changing range, payloads, speed, survivability and lethality to maintain technical superiority and combat overmatch for vertical lift systems. The Lethality Portfolio includes Weapon Enablers, Fire Support, Directed Energy, Close Combat and Air Defense to provide affordable weapon systems with improved performance and increased survivability. The C3I Portfolio vision is to provide Soldiers at the tactical edge with trusted and responsive sensors, communications, and information adaptable in dynamic and austere environments to support battlefield operations and non-kinetic warfare. The Medical Portfolio is focused on material and knowledge-based medical solutions to increase warfighter fitness, health, protection, resilience, improve downrange health delivery and enhance recovery, rehabilitation or reintegration. Innovation Enablers support all of the Army's generating and operational forces with environmental quality and installations and high performance computing. The Basic Research program underpins all of the Army S&T efforts to build an agile and adaptive foundation of technical understanding and knowledge so that the Army can respond to future threats and maintain technological overmatch. Integrated within each of these programs is the Army's Technology Maturation Initiative and Manufacturing Technology (ManTech) program. The Technology Maturation Initiative invests in technology efforts that are closely partnered with planned or existing programs of record, seeking to further mature and prototype technologies before Milestone B. The ManTech program is a key aspect of the Army mission to provide Soldiers with a decisive advantage in any mission. It addresses required manufacturing maturation for critical S&T efforts, provides cost reduction in current manufacturing and repair processes, and enables above the shop floor efforts related to digital product and production data. The Army S&T Program continues to identify and harvest technologies suitable for transition to our current and future Force. A strategic approach to modernization is being executed to address emerging threats; current and future technology gaps; and leverage state-of-the-art commercial, academic, other government agency, and international partner research, and limited resources. The focus remains on the Soldier; Army S&T consistently seeks new avenues to increase the Soldier's capability and ensures their technological superiority today, tomorrow, and decades from now.

LANDWARNET OPERATIONAL CAPABILITIES AND FOCUS

In the complex world described in the Army Operating Concept, the network operating environment presents ever-evolving threats and opportunities. Even as network capabilities enable the Army to conduct successful business and warfighting functions, our adversaries have access to similar technologies with which to avoid our strengths and exploit our vulnerabilities. This and other challenges to the development and defense of an "always on, always available" capability require a robust combination of materiel, personnel, processes and policy solutions. From a network perspective, changes in the Army's operating environment are manifested in several major areas: the strategic conditions, fiscal boundaries and technological evolution, which includes the cyberspace mission.

Recent and ongoing conflicts reinforce the need to balance the technological focus of Army modernization with recognition of the limits of technology and an emphasis on the human, cultural and political aspects of armed conflict. The strategic environment is characterized by a constantly shifting geopolitical landscape facilitated by the proliferation of information and communications technologies that increase the momentum of human interaction. The Army cannot predict whom it will fight, where it will fight and with what coalition it will fight, so the network must support a broad range of potential missions with a myriad of possible unified action partners. An Army that is globally engaged and regionally aligned requires access at the point of need, robust network capacity, and capability that is tailorable and scalable to support the full range of business and warfighting processes.

To achieve these capabilities, the Army is following an enterprise and regional approach. The investments made in FY 2015 focus on optimizing the Signal force, enhancing cybersecurity capabilities, increasing network capacity, delivering IT services to the edge, and strengthening network operations. These efforts are consistent with the Joint Information Environment, cover 95% of the CONUS population, and represent the most significant modernization of the CONUS network in DoD history.

DEVELOPING THE NETWORK OF 2025

To enable the Army of 2025 to meet the challenges of the 21st century, the Army is working to rebalance and unify the network to provide an end-to-end capability. The Army will synchronize the hardware, applications and services that support both warfighting and business operations. Using assessments conducted as part of the Army Enterprise Network portfolio management process and the Army Warfighter Challenge process, the Army will continue to maintain and modernize the network. Efficiencies from FY 2015 network modernization efforts will be realized over the Future Years Defense Program. The main goal of network modernization is to change the break-fix methodology that is currently being used and transition to a managed services model, Army Enterprise Service Management, in alignment with DoD and Joint guidance.

EFFICIENCIES AND COST SAVINGS

A key goal for LandWarNet investments in FY 2015 was to better adapt for the continuing uncertain financial environment during the Program Objective Memorandum (POM) years. The Army has taken disciplined steps to deliver standardized solutions, to improve network resilience and regionalize data centers continuously, and to enhance cyber security, by leveraging commodity buys, consolidation activities, and proactive contract management. As a result, the Army could reduce operating costs and create efficiencies to reinvest in LandWarNet modernization. Table 9 lists specific cost reduction/avoidance successes.

Commodity Buys (Enabled Regionalization and Divestiture Strategy)	
	Utilized bulk-purchase for MPLS routers and end-user building switches
Army Data Center Consolidation	
	Data Center Closures: 349
	Personnel Efficiencies: 72 (Reductions)
	Application Efficiencies: 1,179 applications (Kills in Closure Reports)
	Server Efficiencies: 1,851 servers (Decommissioned)
	Floor Space Efficiencies: 90,864 square feet (Relinquished or Repurposed)
	Reported Cost Savings: $41.9 million
	Estimated Annual Energy Savings: $966,563
Contract Management	
	Saved $40 million by turning off unused wireless devices
	Negotiated and managed 8 Enterprise License Agreements for commercial software and IT maintenance; saving 33% across Army and Joint partners

TABLE 9 – Efficiencies and Cost Savings

Looking forward, these investments are the precursor to meeting the Secretary of the Army's directive (Secretary of the Army's memo September 9, 2011, subject: Information Technology (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.

Initiative (Amounts in millions)	Total To-Date Realized Savings	Total Expected Savings thru FY19
Enterprise Services	(260.6)	(633.7)
Enterprise License/Service Agreements	(76.9)	(348.9)
Enterprise E-mail	(142.8)	(185.1)
Elimination of Devices (Desktop/Laptop/Tablets/Mobile Devices/Air Cards)	(40.9)	(39.2)
Unified Communications (Voice, Video & Chat)	0.0	(60.5)
Capacity	(42.8)	(345.8)
Army Data Center Consolidation Plan (ADCCP)	(42.8)	(56.6)
Bulk Buys for Switches - EAS, ACS & ADS	0.0	(289.2)
Security	0.0	(341.6)
Network Modernization - Top Level Architecture (TLA) to JRSS (NIPR & SIPR)	0.0	(341.6)
Grand Total	($303.4)	($1,321.1)

TABLE 10 – Expected Savings

INFORMATION TECHNOLOGY MANAGEMENT REFORMS

In addition to improving the physical network and creating resource efficiencies, the Army continues to implement cross-cutting strategic management practices for the network that are critical to achieving the LandWarNet 2020 and Beyond Enterprise Architecture. These management reforms focus 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. The AENC governance forums lead the integration of priorities from each of the mission areas to prioritize resource allocations across mission areas to align decisions and inform the resourcing, requirements, and acquisition processes. The governance forums include members from across the Operational and Generating Force and participation from representatives of all mission areas. In addition, the Army IT community partnered with the acquisition and financial communities to provide more transparency into IT procurements.

Architecture: The Army maintains nine critical architectural guidance documents to improve interoperability, security, identity access management controls, unified capabilities and enterprise services. These documents provide architecture guidance and direction for the Army's network to achieve the vision outlined in the Army Network Campaign Plan. This includes policy, principles and rules, constraints, technical guidance, standards, and implementation conventions. This year, the Army published the Enterprise Service Management Reference Architecture (RA) and Unified Capabilities RA while updating both the Network Operations RA and End-User Devices RA. All of these RAs provide the foundation for implementing the Army Cloud Computing Strategy for delivering cloud-enabled network capabilities to improve mission and business effectiveness, increase operational IT efficiencies and protect Army data and infrastructure. Overall, these products support the Army's strategic vision and objectives for the enterprise network of 2020 and the associated IT investment planning and capability management to implement network modernization efforts effectively.

Agile IT Acquisition: The Army expanded the availability of flexible enterprise contract vehicles to provide continuing IT hardware and software to the Army communities at reduced costs. In addition, the Army Federal Acquisition Regulation Supplement (AFARS) has been updated to reflect mandatory use of the Computer Hardware Enterprise Software and Solutions Contracts as the Army's designated "primary source" for commercial information technologies to achieve and promote enterprise-wide network interoperability and efficiencies.

DEVELOPING FORCE PROJECTION PLATFORMS IN SUPPORT OF ARMY FORCE GENERATION

No new deployment out-load infrastructure projects were initiated in FY 2015. Sustaining deployment out-load capabilities at installations is a key part of the Rapid Expeditionary Deployment Initiative (REDI) to ensure the Nation's power projection capabilities. The Army's deployments over the last decade have been deliberate, allowing installations time to prepare well in advance. The Army recognizes the need to improve its ability to project power with effectively little notice, and is completing already funded Military Construction (MILCON) /Sustainment, Restoration, and Modernization (SRM) projects to ensure our ability to rapidly deploy. In FY 2015, one MILCON project and three of four SRM projects were completed to maintain power projection capabilities. All of these efforts were initiated in FY 2012.

Upgrade the main rail line serving McAlester Army Ammunition Plant (AAP), Oklahoma from 90-lb steel rail to 115-lb steel rail to allow access for commercial heavy rail equipment. Failure to replace the rail would have resulted in an unserviceable rail line and contributed to delays in shipping ammunition to Soldiers. The mainline rail project was completed in February 2015.

Repair/restore project at Crane Army Ammunition Activity, Indiana, using FY 2013 year-end funds. This project repaired and restored ammunition magazines, thereby maintaining a high level of operational readiness for supplying conventional munitions to support contingency requirements. Facilities improved include nine magazines repaired, five docks replaced, eight wing walls replaced, three parapet walls repaired, and various other repairs (doors, painting, hand rails, windows, and cracks). Project was completed in August 2015.

Repair/restore the failing Taxiway M at Pope Army Airfield and Taxiway J at Mackall Army Airfield to support deployment at Fort Bragg, North Carolina. Maintaining adequate air out-loading capability for Fort Bragg is important as it supports our Global Reaction Force (GRF). The Army made small repairs by sealing cracks in the pavement as a short term solution. The long term repair consisted of replacing the entire taxiway. The contract was awarded in October 2013, with an estimated completion date in June 2015. Taxiway M at Pope Army Airfield and Taxiway J at Mackall Army Airfield was completely repaired/restored in FY 2015. The final inspection was conducted June 18, 2015.

Repair failed asphalt taxiways and aprons around T-20/A 19 at Fort Bliss, Texas. The contract was awarded September 29, 2013 and the project was completed in March 2015. Maintaining the airfield at Biggs Army Airfield plays an important part in supporting Fort Bliss' role as both a Mobilization Force Generation Installation and Power Projection Platform (deployment).

Dredge Skiffe's Creek going into the 3rd Port at Fort Eustis, Virginia. This project consists of multiple phases that will continue into FY 2016. For FY 2014, there were two parts related to the dredging. The first part consisted of disposal site clearing and draining while the second part was environmental sampling and testing. Contracts for both phases were awarded in September 2014. Interim dredging was completed in January 2015. The Dredge Spoils area repairs are in progress, but the contract is behind schedule due to inclement weather; work will resume as soon as it is sufficiently dry. The final dredging (paid for by U.S. Air Force) was awarded September 26, 2015. Estimated completion date for this project is late spring 2016.

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 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 66%, or 46,728 of BRAC 2005 excess acres. In total, the Army's BRAC 2005 and Legacy BRAC program conveyed 79% of all excess BRAC 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 the Office of the Secretary of Defense (OSD)'s most recent request for an additional BRAC round in 2017. 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 Infrastructure Consolidation (EIC) analysis be conducted, with a focus on reducing long-term expenses through footprint consolidation, eliminating excess capacity while ensuring that the infrastructure properly supports the operational requirements and strategic commitments. The Army, other services, and four Joint Working Groups, identified and analyzed opportunities for consolidation of functions, including common support functions, such as logistics, training, medical, and C4IT (Command, Control, Communications, Computers, and Information Technology).

On November 13, 2014, the Secretary of Defense approved 26 EIC "Full Analysis" actions. OSD assigned 20 to the Army for implementation, along with 13 "Quick Win" EIC actions that the Secretary of Defense approved in FY 2014. The Army spent approximately $49 million in FY 2015 to implement the 33 EIC actions. The Army will receive approximately $177 million in FY 2016 and FY 2017 from OSD to continue implementation. Collectively, the 33 EIC actions require one-time costs across FY 2016-21 of $365 million and will yield $160 million in annual savings beginning in FY 2021. The EIC effort will produce beneficial outcomes for the Army and the Joint Force. The net effect of the EIC effort will be to significantly reduce cost; eliminate excess infrastructure; and validate the remaining European infrastructure without degrading strategic or operational capabilities.

Business Transformation Initiatives

Throughout FY 2015, the Army significantly improved the effectiveness of its business governance while accelerating its business transformation. Army business transformation efforts continue to focus on linking business processes to defined strategies based on complete understanding and analysis of requirements and cost drivers. From the strategy we continue to improve 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 provide trained and ready forces in a smarter, faster, and cheaper way. Army business transformation seeks to:

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

In 2015, the Army initiated more targeted business process reengineering "deep dives" to improve business processes and identify improvement opportunities. Deep dives included: streamlining ammunition logistics, prioritization of IT systems by Program Evaluation Group, Program Executive Office - Owned Assets to account for property using the Defense Property Accountability System (DPAS) and interface with the Army's Enterprise Resource Planning (ERP) systems for management and auditability, and determination for military pay disbursement for future ERP development. These deep dives removed unnecessary duplication and complexity from selected business processes and their supporting information technology systems. Efforts currently underway include: cost of Training Readiness, Aviation Logistics Platform for an auditable maintenance management and recordkeeping for both Army Doctrine and FAA requirements, and streamline problem statement and out-of-cycles.

In response to persistent resource constraints and vital strategic shifts that force constant change on our institutions, continuing process improvement (CPI) leadership is accelerating efforts to streamline and improve Army processes, infrastructure and organization. The desired end state is an Army generating force that: (1) strives to eliminate all process activity that does not directly lead to enabling operational capability and adaptability, (2) possesses a multi-disciplinary capability and institutionalizes various levels of this capability in Army training and schools, (3) employs technology as applicable to streamline the Army generating processes, and (4) continues to improve the adaptability of generating processes through organizational redesign, innovation, and integration. To that end, the Army is revitalizing its CPI strategy and approach to assure that the best methods and tools are applied to the complex challenges the Army faces by focusing on the effective integration of the CPI capabilities that exist in our Army without additional programs or resources.

In FY 2015 the Army completed over 750 projects with over $3.1 billion in reported financial benefits-conferred (savings and cost avoidance). Since 2006 when the CPI effort was initiated by the Secretary and Chief of Staff of the Army, it has averaged annual savings of $1.6 billion. That is new saving on average every year. In FY 2015 CPI efforts produced $280 million in cost avoidance by standardizing and improving aircraft attrition processes; $80 million in cost avoidance in US Army Europe by streamlining unliquidated obligations approval; and $72 million combined cost saving and avoidance by incorporating recycled material in Abrams main battle tank armor packages. 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. This capability introduces real efficiencies for our Soldiers, their Families, and our Civilians. Processes reduced in length, with lines cut short. These make a difference in people's lives every single day.

The Army's portfolio management of Army business systems, its compliance orientation in support of DoD business system certification requirements, and its continued emphasis upon the ERP system federation generated many successes in FY 2015. Based on the plan developed last year to reduce the number of businesses in its portfolio by more than one-third over the Future Years Defense Program, the Army exceeded system reduction targets by two-fold, and expanded oversight into business systems residing within the warfighter and Enterprise Information Mission areas. With the publication of the Army Business Management Strategy in December 2013, along with continued progress in development and use of the Army business enterprise architecture, structured annual business portfolio reviews, and business system certification processes, the Army 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 2015. 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 OSD 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 asserted readiness for the audit of the Schedule of Budgetary Activity (SBA) for FY 2015, and the Army is on-track to achieve 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 was implemented across the Army, i.e., the Active Army, ARNG and USAR, and, within the CONUS and with the deployed Army world-wide. Since the Army's full deployment in 2012, there have been 36,000 active end users in over 200 locations and 71 countries. The use of GFEBS enabled the Army to retire over 48 separate systems to date and has plans for an additional anticipated 64 systems by FY 2021.

While GFEBS involved implementing a new system, changes in business processes and the integration of data, it also improved standardization and common business processes across the Army. GFEBS has achieved a 97% compliance rate with over 5,500 Federal Financial Management Improvement Act of 1996 (FFMIA), Business Enterprise Architecture, Standard Financial Information Structure (SFIS), Federal Information System Controls Audit Manual and other statutory and regulatory requirements, standards, attributes and business rules. In FY 2015, the Army:

- Obligated $135 billion in GFEBS – an increase of $24 billion over FY 2014.
- Processed payroll of 215,000 civilian employees bi-weekly and processed Military Pay for Active component for the first time in March 2015.
- Processed over 66 million transactions.

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

The Army is in the early planning phases to build additional GFEBS capabilities by providing core ERP Central Component enhancements and Business Intelligence Architecture/Infrastructure upgrades. Also, GFEBS implemented a direct disbursing solution with the Department of the Treasury, with an increase of 33% of GFEBS-entitled CONUS payments from the end of FY 2014 to the end of FY 2015. The disbursing solution enables the Army to maintain zero difference between GFEBS accounting and Fund Balance with

Treasury, integrated payment offsets for unsettled debts, and accelerated vendor payments.

Conclusion

Continued investment in readiness allows the Army to meet current demands, respond to unforeseeable threats, and decisively defeat our enemies on land. To enforce our Nation's will and win in combat, the Army prepares leaders to take the best-trained and equipped Soldiers to war. The cost of unpreparedness in war is the lives of our Soldiers. Predictable funding allows the Army to provide the means to equip and train the Army that wins while reducing the risk of loss of life.

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 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 (USGAAP) 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 Annual Statement of Assurance at http://asafm.army.mil/offices/FO/IntControl.aspx?OfficeCode=1500

ICOFR AND ICOFS

As stated in the Army's Annual Statement of Assurance dated August 28, 2015, "The Army also conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*. Based on the results of this assessment, the Army is able to provide a qualified statement of assurance that the internal controls over financial reporting as of June 30, 2015, were operating effectively, with the exception of 23 material weaknesses. The Army continues to show progress in strengthening the internal control environment through leadership involvement, monthly testing events, and audit readiness training efforts."

In addition to the 23 ICOFR material weaknesses, there are three ICOFS material weaknesses for a total of 26 material weaknesses.

ANALYSIS OF FINANCIAL STATEMENTS

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

Army General Fund Financial Results and Balance Sheet

The Army General Fund Balance Sheet includes total assets of $282.6 billion. Two asset categories, Fund Balance with Treasury and General Property, Plant and Equipment (PP&E), comprise 87% of total assets, with values of $113.1 billion and $133.7 billion, respectively.

Liabilities primarily consist of $27.5 billion in Environmental Liabilities, $11.7 billion in Other Liabilities and $2.3 billion in Accounts Payable.

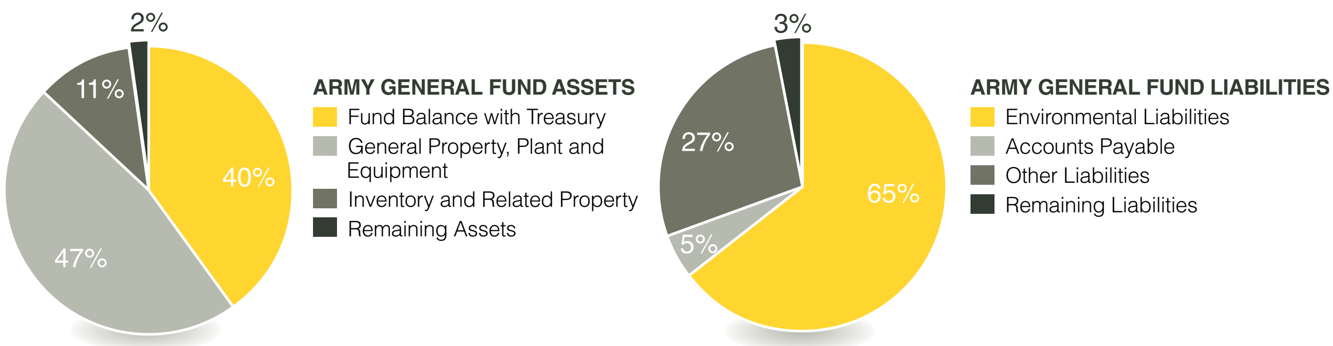


FIGURE 3 – Composition of Army General Fund Assets and Liabilities

(Amounts in billions)

Asset Type	FY 2014	FY 2015	Change	Percentage of FY 2015 Assets
Fund Balance with Treasury	$128.7	$113.1	($15.6)	40%
General Property, Plant and Equipment	135.4	133.7	(1.7)	47%
Inventory and Related Property	33.2	31.3	(1.9)	11%
Remaining Assets	6.5	4.5	(2.0)	2%
Total Assets	**$303.8**	**$282.6**	**($21.2)**	**100%**

Liability Type	FY 2014	FY 2015	Change	Percentage of FY 2015 Liabilities
Environmental Liabilities	$26.3	$27.5	$1.2	65%
Accounts Payable	2.8	2.3	(0.5)	5%
Other Liabilities	14.3	11.7	(2.6)	27%
Remaining Liabilities	1.3	1.2	(0.1)	3%
Total Liabilities	**$44.7**	**$42.7**	**($2.0)**	**100%**

TABLE 11 – Select Army General Fund Assets and Liabilities

Army Working Capital Fund Financial Results

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

CASH MANAGEMENT

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

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

The cash balance is primarily affected by cash generated from operations; however, the balance is also affected by appropriations, transfers, and withdrawals. Maintaining a proper cash balance depends on setting rates to recover full costs—including prior year losses—accurately projecting workload and meeting established operational goals. The Army Working Capital Fund ended FY 2015 with a cash balance of $1,810.4 million within the upper and lower operating range for the year.

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

(Amounts in millions)	FY 2013	FY 2014	FY 2015
Beginning Cash	$1,334.5	$1,399.9	$1,835.2
Collections	9,425.7	8,542.1	8,132.0
Disbursements	9,616.9	8,185.7	7,840.9
Net Disbursements and Collections	(191.2)	356.4	291.1
Appropriations Received	102.6	219.9	238.7
Transfers In	154.0	0	0
Transfers Out	0	141.0	554.6
Net Cash Transactions	65.4	435.3	(24.8)
Ending Cash Balance	**$1,399.9**	**$1,835.2**	**1,810.4**

TABLE 12 – Army Working Capital Fund Cash

NET OPERATING RESULTS AND ACCUMULATED OPERATING RESULTS

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

(Amounts in millions)	FY 2013	FY 2014	FY 2015
Industrial Operations NOR	($349.5)	$100.4	($47.5)
Industrial Operations AOR*	331.9	432.3	384.8
Supply Management NOR*	(177.6)	(176.9)	(14.7)
Non-Recoverable AOR	0	487.8	0
Supply Management AOR*	(153.2)	157.8	143.1

*Includes prior-period AOR and NOR adjustments.

TABLE 13 – Net and Accumulated Operating Results by Activity Group

CARRYOVER

Carryover is the dollar amount of orders accepted from customers that have not been completed by fiscal year-end. It is a normal part of doing business. These orders enable the industrial workforce to maintain continuity in production operations. The Army expects the carryover for FY 2015 to be less than the maximum allowable amount. The figures shown in Table 14 for FY 2015 are estimates.

(Amounts in millions)	FY 2013	FY 2014	FY 2015
New Orders*	$5,127.2	$4,396.3	$4,473.8
Allowable Carryover	4,296.8	3,379.3	3,084.3**
Calculated Carryover	4,491.3	4,444.5	4,022.7**

*Includes prior year adjustments **Preliminary

TABLE 14 – Army Working Capital Fund Carryover

STOCK AVAILABILITY

Stock availability measures the percentage of requisitions filled within established timeframes. The DoD and Army have set a target average 85% first pass stock availability. For FY 2014, the average stock availability exceeded the 85% target at 87%. For FY 2015, the average stock availability was below the 85% target at 84%.

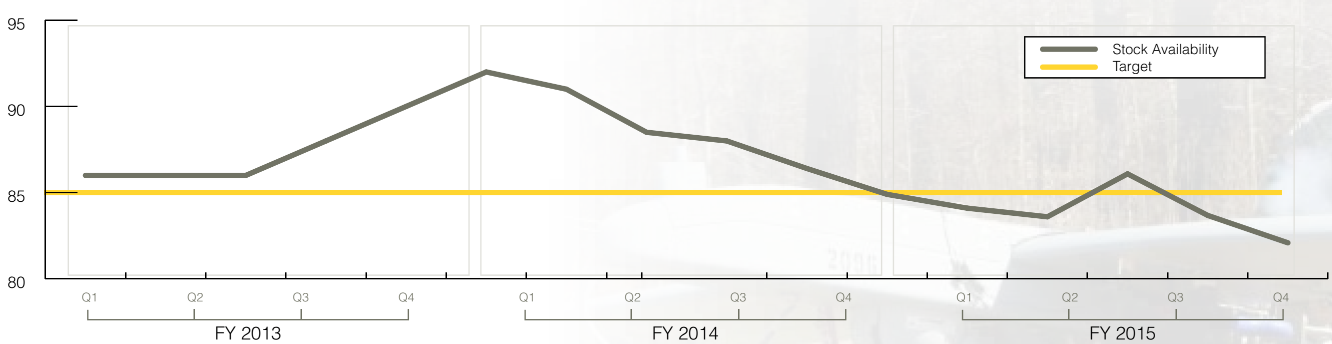


FIGURE 4 – Stock Availability (percentage)

PRODUCTION

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

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

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

	Pre-War	FY 2013	FY 2014	FY 2015
Aircraft	4	69	72	69
Helicopter Engines	<200	614	631	534
Bradleys	144	252	306	102
HMMWVs	<100	5,491	5,637	1,108
Firefinder Radars	<1	37	4	18
Track Shoes	120,000	28,273	23,151	40,524

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

TABLE 15 – Annual Production Throughput[1]

Army Working Capital Fund Balance Sheet

The Army Working Capital Fund balance sheet shows assets of $23.5 billion, primarily in Inventory, PP&E and Fund Balance with Treasury. Liabilities consist of Accounts Payable and Other Liabilities, which include payroll, benefits, accrued annual leave, and workers' compensation

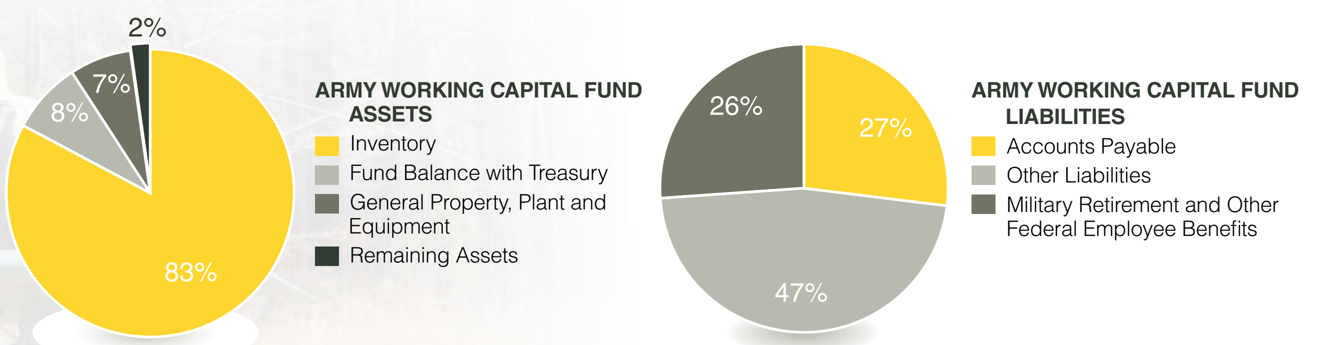


FIGURE 5 – Army Working Capital Fund Assets and Liabilities

(Amounts in millions)

Asset Type	FY 2014	FY 2015	Change	Percentage of FY 2015 Assets
Inventory	$20,958.6	$19,484.1	($1,474.5)	83%
Fund Balance with Treasury	1,835.2	1,810.4	(24.8)	8%
General Property, Plant and Equipment	1,840.8	1,738.7	(102.1)	7%
Remaining Assets	415.1	458.8	43.7	2%
Total Assets	**$25,049.7**	**$23,492.0**	**($1,557.7)**	**100%**

Liability Type	FY 2014	FY 2015	Change	Percentage of FY 2015 Liabilities
Accounts Payable	$379.3	$277.3	($102.0)	27%
Other Liabilities	508.7	478.3	(30.4)	47%
Military Retirement and Other Federal Employee Benefits	242.2	265.4	23.2	26%
Total Liabilities	**$1,130.2**	**$1,021.0**	**($109.2)**	**100%**

Amounts may not sum due to rounding.

TABLE 16 – Army Working Capital Fund Assets and Liabilities

Rope climbing during an obstacle course event. (Photo by Staff Sgt. Ty Stafford)

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 2015, the Army reported approximately $ 29.1 billion in deferred real property maintenance on facilities with a replacement value of approximately $245.4 billion. Real property deferred maintenance totals approximately 12% of estimated replacement value of the facilities requiring maintenance. The 10 major categories of military equipment deferred maintenance totaled approximately $839.4 million at the end of FY 2015. General Purpose Equipment represented the largest identifiable category of deferred equipment maintenance at approximately $462.0 million.

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

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

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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 4. SFFAS 29 found at http://www.fasab.gov/pdffiles/sffas_29.pdf on October 23, 2011. Technical Release 9 can be found at http://www.fasab.gov/pdffiles/handbook_tr_9.pdf

LIMITATIONS

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.

CONSOLIDATED BALANCE SHEET

As of September 30, 2015 and 2014

(Amounts in thousands)		2015 Consolidated		2014 Consolidated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	113,051,240	$	128,695,911
Investments (Note 4)		2,177		431
Accounts Receivable (Note 5)		228,611		480,740
Other Assets (Note 6)		228,888		355,263
Total Intragovernmental Assets	$	113,510,916	$	129,532,345
Cash and Other Monetary Assets (Note 7)		862,976		1,031,584
Accounts Receivable,Net (Note 5)		467,944		838,984
Inventory and Related Property,Net (Note 9)		31,333,626		33,171,486
General Property, Plant and Equipment,Net (Note 10)		133,748,058		135,428,016
Other Assets (Note 6)		2,704,180		3,755,823
TOTAL ASSETS	$	282,627,700	$	303,758,238
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)				
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	1,744,839	$	2,303,549
Other Liabilities (Notes 15 & 16)		2,255,167		1,864,456
Total Intragovernmental Liabilities	$	4,000,006	$	4,168,005
Accounts Payable (Note 12)		516,915		455,357
Military Retirement and Other Federal Employment Benefits (Note 17)		1,239,177		1,363,390
Environmental and Disposal Liabilities (Note 14)		27,508,693		26,303,513
Other Liabilities (Notes 15 and 16)		9,445,368		12,401,744
TOTAL LIABILITIES	$	42,710,159	$	44,692,009
COMMITMENTS AND CONTINGENCIES (NOTE 16)				
NET POSITION				
Unexpended Appropriations - Other Funds	$	105,905,462	$	122,656,579
Cumulative Results of Operations - Dedicated Funds		55,780		37,768
Cumulative Results of Operations - Other Funds		133,956,299		136,371,882
TOTAL NET POSITION	$	239,917,541	$	259,066,229
TOTAL LIABILITIES AND NET POSITION	$	282,627,700	$	303,758,238

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

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2015 and 2014

(Amounts in thousands)	2015 Consolidated	2014 Consolidated
Program Costs		
Gross Costs	$ 158,314,042	$ 185,055,428
Military Personnel	58,639,011	61,686,222
Operations, Readiness & Support	56,681,723	75,834,938
Procurement	15,261,999	5,119,536
Research, Development, Test & Evaluation	10,880,461	12,521,942
Family Housing & Military Construction	16,850,848	29,892,790
(Less: Earned Revenue)	$ (6,845,700)	$ (14,868,782)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 151,468,342	$ 170,186,646
Net Program Costs Including Assumption Changes	$ 151,468,342	$ 170,186,646
Net Cost of Operations	$ 151,468,342	$ 170,186,646

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

CONSOLIDATED CHANGES IN NET POSITION

For the periods ended September 30, 2015 and 2014

(Amounts in thousands)	2015 Dedicated Collections	2015 All Other Funds	2015 Eliminations	2015 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 37,731	$ 136,371,919	$ 0	$ 136,409,650
Beginning balances, as adjusted	$ 37,731	$ 136,371,919	$ 0	$ 136,409,650
Budgetary Financing Sources:				
Appropriations used	0	155,031,142	0	155,031,142
Nonexchange revenue	1,571	3,521	0	5,092
Donations and forfeitures of cash and cash equivalents	25,377	152,564	0	177,941
Transfers-in/out without reimbursement	0	828,344	0	828,344
Other budgetary financing sources	0	(1,755,633)	0	(1,755,633)
Other Financing Sources:				
Donations and forfeitures of property	0	76	0	76
Transfers-in/out without reimbursement (+/-)	0	2,226,377	0	2,226,377
Imputed financing from costs absorbed by others	0	991,361	0	991,361
Other (+/-)	2,207	(8,436,136)	0	(8,433,929)
Total Financing Sources	$ 29,155	$ 149,041,616	$ 0	$ 149,070,771
Net Cost of Operations (+/-)	11,106	151,457,236	0	151,468,342
Net Change	$ 18,049	$ (2,415,620)	$ 0	$ (2,397,571)
Cumulative Results of Operations	$ 55,780	$ 133,956,299	$ 0	$ 134,012,079
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 122,656,579	$ 0	$ 122,656,579
Budgetary Financing Sources:	$	$	$	$
Appropriations received	0	148,334,705	0	148,334,705
Appropriations transferred-in/out	0	478,422	0	478,422
Other adjustments (rescissions, etc)	0	(10,533,102)	0	(10,533,102)
Appropriations used	0	(155,031,142)	0	(155,031,142)
Total Budgetary Financing Sources	$ 0	$ (16,751,117)	$ 0	$ (16,751,117)
Unexpended Appropriations	0	105,905,462	0	105,905,462
Net Position	$ 55,780	$ 239,861,761	$ 0	$ 239,917,541

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

CONSOLIDATED CHANGES IN NET POSITION

For the periods ended September 30, 2015 and 2014

(Amounts in thousands)	2014 Dedicated Collections	2014 All Other Funds	2014 Eliminations	2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 34,706	$ 154,136,169	$ 0	$ 154,170,875
Beginning balances, as adjusted	$ 34,706	$ 154,136,169	$ 0	$ 154,170,875
Budgetary Financing Sources:				
Appropriations used	0	163,019,371	0	163,019,371
Nonexchange revenue	1,636	(1,556)	0	80
Donations and forfeitures of cash and cash equivalents	16,923	346,605	0	363,528
Transfers-in/out without reimbursement	0	161,000	0	161,000
Other budgetary financing sources	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	8,139	0	8,139
Transfers-in/out without reimbursement (+/-)	0	3,697,568	0	3,697,568
Imputed financing from costs absorbed by others	0	1,133,422	0	1,133,422
Other (+/-)	2,589	(15,960,276)	0	(15,957,687)
Total Financing Sources	$ 21,148	$ 152,404,273	$ 0	$ 152,425,421
Net Cost of Operations (+/-)	18,123	170,168,523	0	170,186,646
Net Change	$ 3,025	$ (17,764,250)	$ 0	$ (17,761,225)
Cumulative Results of Operations	$ 37,731	$ 136,371,919	$ 0	$ 136,409,650
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 124,090,262	$ 0	$ 124,090,262
Budgetary Financing Sources:	$	$	$	$
Appropriations received	0	166,636,438	0	166,636,438
Appropriations transferred-in/out	0	(704,677)	0	(704,677)
Other adjustments (rescissions, etc)	0	(4,346,073)	0	(4,346,073)
Appropriations used	0	(163,019,371)	0	(163,019,371)
Total Budgetary Financing Sources	$ 0	$ (1,433,683)	$ 0	$ (1,433,683)
Unexpended Appropriations	0	122,656,579	0	122,656,579
Net Position	$ 37,731	$ 259,028,498	$ 0	$ 259,066,229

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2015 and 2014

(Amounts in thousands)	2015 Combined	2014 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	$ 42,912,597	$ 38,637,403
Adjustment to unobligated balance, brought forward, Oct 1 (+ or -)		
Unobligated balance brought forward, Oct 1, as adjusted,	$ 42,912,597	$ 38,637,403
Recoveries of prior year unpaid obligations	19,843,020	20,929,036
Other changes in unobligated balance (+ or -)	(8,130,048)	(3,441,622)
Unobligated balance from prior year budget authority, net	$ 54,625,569	$ 56,124,817
Appropriations (discretionary and mandatory)	147,266,432	165,208,672
Spending Authority from offsetting collections (discretionary and mandatory)	17,563,468	19,466,036
Total Budgetary Resources	$ 219,455,469	$ 240,799,525
Status of Budgetary Resources:		
Obligations Incurred	$ 184,224,655	$ 197,886,928
Unobligated balance, end of year		
Apportioned	17,476,932	26,642,530
Exempt from Apportionment	34,321	15,466
Unapportioned	17,719,561	16,254,601
Total unobligated balance, end of year	$ 35,230,814	$ 42,912,597
Total Budgetary Resources	$ 219,455,469	$ 240,799,525
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 111,937,128	$ 120,710,671
Obligations incurred	184,224,655	197,886,928
Outlays (gross) (-)	(176,500,463)	(185,731,435)
Recoveries of prior year unpaid obligations (-)	(19,843,020)	(20,929,036)
Unpaid obligations, end of year	99,818,300	111,937,128
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(26,393,857)	(27,142,620)
Change in uncollected pymts, Fed sources (+ or -)	3,467,414	748,763
Uncollected pymts, Fed sources, end of year (-)	(22,926,443)	(26,393,857)
Obligated balance, start of year (+ or -)	$ 85,543,271	$ 93,568,051
Obligated balance, end of year (+ or -)	$ 76,891,857	$ 85,543,271
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 164,829,900	$ 184,674,708
Actual offsetting collections (discretionary and mandatory) (-)	(21,029,321)	(20,210,352)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	3,467,414	748,763
Budget Authority, net (discretionary and mandatory)	$ 147,267,993	$ 165,213,119
Outlays, gross (discretionary and mandatory)	176,500,463	185,731,435
Actual offsetting collections (discretionary and mandatory) (-)	(21,029,321)	(20,210,352)
Outlays, net (discretionary and mandatory)	155,471,142	165,521,083
Distributed offsetting receipts (-)	(930,148)	(469,932)
Agency Outlays, net (discretionary and mandatory)	$ 154,540,994	$ 165,051,151

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

The Army General Fund currently has 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) Operating Materiel and Supplies; (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, 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 240-year life of the Army, but the environment and nature of conflict have undergone many changes over that time, especially with overseas contingency operations. These contingency operations have required that the Army simultaneously transform the way that it fights, trains, and equips its soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the nation's domestic and international security obligations today and into the future.

1.C. Appropriations and Funds

The Army General Fund receives appropriations and funds as general, trust, 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.

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

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

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

The Army General Fund receives allocation transfers from the Federal Highway Administration and the U.S. 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.

In accordance with *Statement of Federal Financial Accounting Standards (SFFAS) 43: "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds"*, the Department has elected to display a combined presentation of the non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections with all other funds. See Note 19 for additional discussion regarding dedicated collections.

1.D. Basis of Accounting

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

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

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. The Army has implemented ERP systems, which contain a chart of accounts based on the United States Standard General Ledger (USSGL). The Army has also created additional subsidiary accounts within the ERP systems to track its General Fund financial activities at a detailed level. However, until all of the Army General Fund's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, there will be instances when 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, and on occasion, will also receive congressional appropriations for Working Capital Funds (WCF). These funds either expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Army General Fund recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and 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.

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

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, it will be the source for the Army General Fund to derive a substantial portion of its reported data. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of operating materiel and supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S 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 ERP systems to address these limitations. However, Army continues to rely partially on some current financial and nonfinancial feeder systems that were not designed to collect and record financial information on the full accrual accounting basis.

1.G. Accounting for Intragovernmental Activities

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

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

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

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

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

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

1.J. Cash and Other Monetary Assets

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

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

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

1.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, as receivables from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the *Treasury Financial Manual*.

1.L. Direct Loans and Loan Guarantees

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

1.M. Inventories and Related Property

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

Related property includes OM&S and stockpile materiel. The OM&S, including 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 2013 and FY 2014, the Army General Fund expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD; long-term system corrections are in process. Once the proper systems are in place, ammunition will be accounted for under the consumption method of accounting. All remaining OM&S items will be accounted for under the purchase method because management has deemed these items are in the hands of the end-users.

Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than general equipment. As a result, 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.

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, issued to federal agencies by the U.S. Treasury Bureau of Fiscal Services. These securities are not traded on any financial exchange but are priced consistently with publicly traded U.S. Treasury securities.

1.O. General Property, Plant and Equipment

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

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

General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DoD capitalization threshold. The DoD capitalizes improvements to existing General

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

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

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

1.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% 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% 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 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. In addition, DoD recognizes nonenvironmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

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

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

1.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

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

1.Z. Significant Events

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

NOTE 2. NONENTITY ASSETS

As of September 30	2015		2014	
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	178,173	$	50,816
B. Accounts Receivable		0		0
C. Other Assets		0		0
D. Total Intragovernmental Assets	$	178,173	$	50,816
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	$	844,324	$	1,031,585
B. Accounts Receivable		50,217		52,013
C. Other Assets		0		0
D. Total Nonfederal Assets	$	894,541	$	1,083,598
3. Total Nonentity Assets	$	1,072,714	$	1,134,414
4. Total Entity Assets	$	281,554,986	$	302,623,824
5. Total Assets	$	282,627,700	$	303,758,238

Information Related to Nonentity Assets

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

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

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

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2015	2014
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 112,814,269	$ 128,604,729
B. Revolving Funds	0	0
C. Trust Funds	30,470	11,136
D. Special Funds	28,328	29,230
E. Other Fund Types	178,173	50,816
F. Total Fund Balances	$ 113,051,240	$ 128,695,911
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 113,087,767	$ 128,726,271
B. Fund Balance per Army	113,051,240	128,695,911
3. Reconciling Amount	$ 36,527	$ 30,360

Information Related to Fund Balance with Treasury

Other Fund Types

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

Reconciling Amount:

The U.S. Treasury reported $36.5 million more in FBWT than reported by the Army General Fund. This difference includes $5.3 million in fiduciary activity and $31.2 million in net differences because of the U.S. Treasury treatment of allocation transfers. 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 has 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	2015	2014
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 17,511,252	$ 26,657,996
B. Unavailable	17,721,374	16,255,713
2. Obligated Balance not yet Disbursed	$ 99,818,300	$ 111,937,129
3. Nonbudgetary FBWT	$ 928,929	$ 239,320
4. NonFBWT Budgetary Accounts	$ (22,928,615)	$ (26,394,247)
5. Total	$ 113,051,240	$ 128,695,911

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 consists primarily 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 i*ncludes 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, investment accounts, and accounts receivable as well as unfilled orders without advance from customers.

NOTE 4. INVESTMENTS AND RELATED INTEREST

	2015				
As of September 30	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	$ 0		$ 0	$ 0	$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	2,182		(8)	2,174	2,171
5. Total Nonmarketable, Market-Based	2,182		(8)	2,174	2,171
B. Accrued Interest	3		0	3	3
C. Total Intragovernmental Securities	$ 2,185		$ (8)	$ 2,177	$ 2,174
2. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

As of September 30	2014 Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	$ 0		$ 0	$ 0	$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	405		(7)	398	389
5. Total Nonmarketable, Market-Based	405		(7)	398	389
B. Accrued Interest	33			33	33
C. Total Intragovernmental Securities	$ 438		$ (7)	$ 431	$ 422
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 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. government wide financial statements.

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

NOTE 5. ACCOUNTS RECEIVABLE

	2015		
As of September 30	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 228,611	N/A	$ 228,611
2. Nonfederal Receivables (From the Public)	$ 697,438	$ (229,494)	$ 467,944
3. Total Accounts Receivable	$ 926,049	$ (229,494)	$ 696,555

	2014		
As of September 30	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 480,740	N/A	$ 480,740
2. Nonfederal Receivables (From the Public)	$ 1,001,051	$ (162,067)	$ 838,984
3. Total Accounts Receivable	$ 1,481,791	$ (162,067)	$ 1,319,724

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	2015	2014
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 228,888	$ 355,263
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 228,888	$ 355,263
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 1,516,020	$ 2,503,615
B. Advances and Prepayments	1,188,160	1,252,208
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	$ 2,704,180	$ 3,755,823
3. Total Other Assets	$ 2,933,068	$ 4,111,086

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 contractors' creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the 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.

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

Outstanding Contract Financing Payments

The balance of Outstanding Contract Financing Payments includes $986.0 million in contract financing payments and an additional $530.0 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	2015	2014
(Amounts in thousands)		
1. Cash	$ 154,022	$ 136,129
2. Foreign Currency	708,954	895,455
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 862,976	$ 1,031,584

Information Related to Cash

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

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

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

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

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30	2015	2014
(Amounts in thousands)		
1. Inventory, Net	$ 0	$ 0
2. Operating Materiel & Supplies, Net	31,333,626	33,171,486
3. Stockpile Materiel, Net	0	0
4. Total	$ 31,333,626	$ 33,171,486

Inventory, Net

Not applicable.

Operating Materiel and Supplies, Net

	2015			
As of September 30	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 28,697,609	$ 0	$ 28,697,609	Standard Price
B. Held for Repair	2,636,017	0	2,636,017	Standard Price
C. Excess, Obsolete, and Unserviceable	420,888	(420,888)	0	Standard Price
D. Total	$ 31,754,514	$ (420,888)	$ 31,333,626	

	2014			
As of September 30	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 30,739,048	$ 0	$ 30,739,048	Standard Price
B. Held for Repair	2,432,438	0	2,432,438	Standard Price
C. Excess, Obsolete, and Unserviceable	355,515	(355,515)	0	Standard Price
D. Total	$ 33,527,001	$ (355,515)	$ 33,171,486	

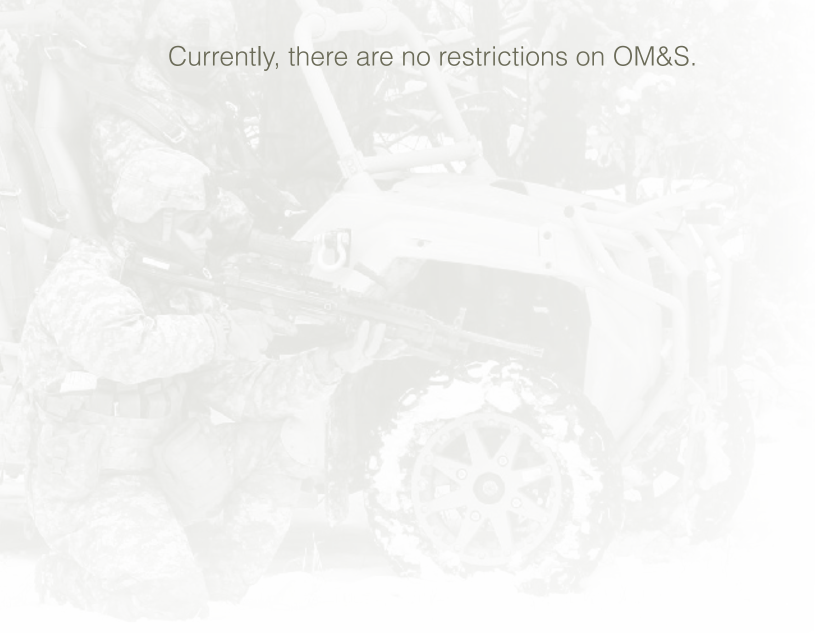
Information Related to Operating Materiel and Supplies, Net

OM&S include ammunition, tactical missiles, and their related spare and repair parts. The Held for Use category, which includes all materiel available to be issued, consists of $26.4 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.



NOTE 10. GENERAL PP&E, NET

As of September 30	2015 Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 600,250	N/A	$ 600,250
B. Buildings, Structures, and Facilities	S/L	20 Or 40	91,163,029	$ (36,415,884)	54,747,145
C. Leasehold Improvements	S/L	lease term	24,634	(16,383)	8,251
D. Software	S/L	2-5 Or 10	501,718	(206,237)	295,481
E. General Equipment	S/L	Various	150,235,830	(79,961,681)	70,274,149
F. Assets Under Capital Lease	S/L	lease term	0	0	0
G. Construction-in-Progress (Excludes General Equipment)	N/A	N/A	7,822,667	N/A	7,822,667
H. Other			115	(0)	115
I. Total General PP&E			$ 250,348,243	$ (116,600,185)	$ 133,748,058

As of September 30	2014 Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 562,191	N/A	$ 562,191
B. Buildings, Structures, and Facilities	S/L	20 Or 40	86,865,950	$ (33,728,491)	53,137,459
C. Leasehold Improvements	S/L	lease term	24,926	(16,477)	8,449
D. Software	S/L	2-5 Or 10	513,887	(218,029)	295,858
E. General Equipment	S/L	Various	153,028,162	(78,006,367)	75,021,795
F. Assets Under Capital Lease	S/L	lease term	166,617	(166,617)	0
G. Construction-in-Progress (Excludes General Equipment)	N/A	N/A	6,402,126	N/A	6,402,126
H. Other			370	(232)	138
I. Total General PP&E			$ 247,564,229	$ (112,136,213)	$ 135,428,016

[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 PP&E

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

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

Other includes General PP&E not otherwise classified above.

Heritage Assets and Stewardship Land Information

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

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

The Army General Fund is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2015 due to limitations of the Department of the Army's financial and nonfinancial management processes and systems.

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

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

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

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

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	38,670	2,431	0	41,101
Archeological Sites	Each	8,123	1,913	89	9,947
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

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

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

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

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

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

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	4,981	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

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2015	2014
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	364,322	423,469
D. Total Intragovernmental Liabilities	$ 364,322	$ 423,469
2. Nonfederal Liabilities		
A. Accounts Payable	$ 455,940	$ 210,860
B. Military Retirement and Other Federal Employment Benefits	1,239,177	1,363,389
C. Environmental and Disposal Liabilities	25,109,476	23,738,556
D. Other Liabilities	4,153,086	5,959,876
E. Total Nonfederal Liabilities	$ 30,957,679	$ 31,272,681
3. Total Liabilities Not Covered by Budgetary Resources	$ 31,322,001	$ 31,696,150
4. Total Liabilities Covered by Budgetary Resources	$ 11,388,158	$ 12,995,859
5. Total Liabilities	$ 42,710,159	$ 44,692,009

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 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 $1.2 billion. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

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

Nonfederal Other Liabilities primarily consist of $3.4 billion in unfunded annual leave.

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

	2015		
As of September 30	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 1,744,839	$ N/A	$ 1,744,839
2. Nonfederal Payables (to the Public)	495,325	21,590	516,915
3. Total	$ 2,240,164	$ 21,590	$ 2,261,754

	2014		
As of September 30	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 2,303,549	$ N/A	$ 2,303,549
2. Nonfederal Payables (to the Public)	437,109	18,248	455,357
3. Total	$ 2,740,658	$ 18,248	$ 2,758,906

Accounts payable include amounts owed to federal and nonfederal entities for goods and services received by the Army General Fund. While the Army General Fund ERP systems track intragovernmental transactions by customer at the transaction level, the Army General Fund legacy systems do not. 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

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

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2015	2014
(Amounts in thousands)		
1. Environmental Liabilities--Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 2,162,067	$ 2,517,436
2. Active Installations—Military Munitions Response Program (MMRP)	1,144,773	1,182,631
3. Formerly Used Defense Sites—IRP and BD/DR	3,055,005	2,896,462
4. Formerly Used Defense Sites--MMRP	10,767,920	10,427,077
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	542,126	530,020
2. Environmental Closure Requirements	185,971	186,808
3. Environmental Response at Operational Ranges	75,002	109,622
4. Asbestos	241,759	242,847
5. Non-Military Equipment	0	0
6. Other	0	0
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	569,880	673,014
2. Military Munitions Response Program	396,779	677,066
3. Environmental Corrective Action / Closure Requirements	204,735	206,912
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)	3,046,397	882,644
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	5,116,279	5,770,974
3. Other	0	0
2. Total Environmental Liabilities	$ 27,508,693	$ 26,303,513

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.

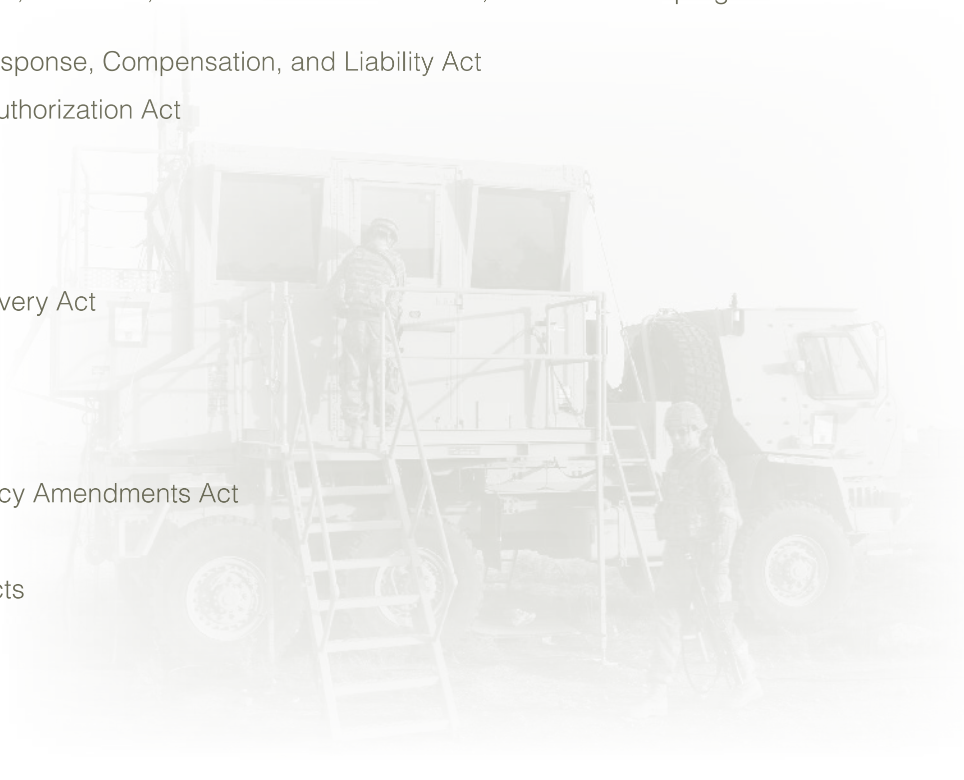
The Federal Accounting Standards Advisory Board (FASAB) published Technical Bulletin (TB) 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Cost, and Technical Release 10, Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment, which clarify 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 Non-stockpile 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 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 non-stockpile chemical material. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations, and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance, and disposal. 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.

The Army General Fund is not aware of any pending changes but the liability can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

NOTE 15. OTHER LIABILITIES

	2015		
As of September 30	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 22,349	$ 0	$ 22,349
B. Deposit Funds and Suspense Account Liabilities	775,693	0	775,693
C. Disbursing Officer Cash	852,357	0	852,357
D. Judgment Fund Liabilities	23,088	0	23,088
E. FECA Reimbursement to the Department of Labor	102,704	130,633	233,337
F. Custodial Liabilities	40,931	1,254	42,185
G. Employer Contribution and Payroll Taxes Payable	192,724	0	192,724
H. Other Liabilities	113,434	0	113,434
I. Total Intragovernmental Other Liabilities	$ 2,123,280	$ 131,887	$ 2,255,167
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 2,593,869	$ 0	$ 2,593,869
B. Advances from Others	1,393,196	0	1,393,196
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	152,362	0	152,362
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	5,974	5,974
G. Accrued Unfunded Annual Leave	3,381,305	0	3,381,305
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	380,194	0	380,194
J. Employer Contribution and Payroll Taxes Payable	130,281	0	130,281
K. Contingent Liabilities	112,457	1,295,730	1,408,187
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	$ 8,143,664	$ 1,301,704	$ 9,445,368
3. Total Other Liabilities	$ 10,266,944	$ 1,433,591	$ 11,700,535

As of September 30	2014 Current Liability	2014 Noncurrent Liability	2014 Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 6,167	$ 0	$ 6,167
B. Deposit Funds and Suspense Account Liabilities	185,043	0	185,043
C. Disbursing Officer Cash	1,039,842	0	1,039,842
D. Judgment Fund Liabilities	38,824	0	38,824
E. FECA Reimbursement to the Department of Labor	108,860	135,044	243,904
F. Custodial Liabilities	41,810	1,945	43,755
G. Employer Contribution and Payroll Taxes Payable	159,434	0	159,434
H. Other Liabilities	147,487	0	147,487
I. Total Intragovernmental Other Liabilities	$ 1,727,467	$ 136,989	$ 1,864,456
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 2,888,979	$ 0	$ 2,888,979
B. Advances from Others	1,855,579	0	1,855,579
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	53,779	0	53,779
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	2,078,291	2,078,291
G. Accrued Unfunded Annual Leave	3,633,126	0	3,633,126
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	387,392	0	387,392
J. Employer Contribution and Payroll Taxes Payable	243,954	0	243,954
K. Contingent Liabilities	40,947	1,219,697	1,260,644
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	$ 9,103,756	$ 3,297,988	$ 12,401,744
3. Total Other Liabilities	$ 10,831,223	$ 3,434,977	$ 14,266,200

Advances from Others

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

Deposit Fund and Suspense Accounts

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

Disbursing Officers Cash

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

Custodial Liabilities

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where the Army is acting on behalf of another Federal entity.

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 $530 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 2015 Army Legal Representation Letter outlines claims against the Army General Fund totaling approximately $2.0 trillion for which the Army OGC is unable to express an opinion. The historical payout percentage for these cases is less than 1%. 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, 2015, the Army General Fund had $190.0 million in claims considered reasonably possible. 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 $26.1 million.

(Amounts in thousands)

Title of Contingent Liabilities	Estimate
U.S. Army Litigation Division	$44,187
Contract Appeals Division	$34,694
USACE	$321,600
Total	$400,481

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

	2015		
As of September 30	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 1,239,177	$ 0	$ 1,239,177
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	$ 1,239,177	$ 0	$ 1,239,177
3. Total Military Retirement and Other Federal Employment Benefits:	$ 1,239,177	$ 0	$ 1,239,177

	2014		
As of September 30	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 1,363,390	$ 0	$ 1,363,390
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	$ 1,363,390	$ 0	$ 1,363,390
3. Total Military Retirement and Other Federal Employment Benefits:	$ 1,363,390	$ 0	$ 1,363,390

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 FECA decreased $124.2 million between FY 2014 and FY 2015.

Actuarial Cost Method

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

Assumptions

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

Interest rate assumptions utilized for discounting were as follows:

Discount Rates
For wage benefits:
3.134% in Year 1
3.134% in Year 2 and thereafter;

For medical benefits:
2.496% in Year 1
2.496% 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) 2015 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
2015	N/A	N/A
2016	1.64%	2.94%
2017	1.47%	2.98%
2018	1.33%	3.09%
2019	1.43%	3.39%
2020	1.65%	3.69%

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 2015 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the 2015 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	2015	2014
(Amounts in thousands)		
Military Personnel		
1. Gross Cost		
A. Intragovernmental Cost	$ 28,465,425	$ 15,425,492
B. Nonfederal Cost	30,173,586	46,260,730
C. Total Cost	$ 58,639,011	$ 61,686,222
2. Earned Revenue		
A. Intragovernmental Revenue	$ (343,038)	$ (338,564)
B. Nonfederal Revenue	0	(41)
C. Total Revenue	$ (343,038)	$ (338,605)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 58,295,973	$ 61,347,617
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	$ 6,156,343	$ 17,127,552
B. Nonfederal Cost	50,525,380	58,707,386
C. Total Cost	$ 56,681,723	$ 75,834,938
2. Earned Revenue		
A. Intragovernmental Revenue	$ 4,909,662	$ 855,518
B. Nonfederal Revenue	7,952	(4,368,044)
C. Total Revenue	$ 4,917,614	$ (3,512,526)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 61,599,337	$ 72,322,412

Intragovernmental Costs and Exchange Revenue

As of September 30	2015		2014	
Procurement				
1. Gross Cost				
A. Intragovernmental Cost	$	1,347,870	$	6,015,073
B. Nonfederal Cost		13,914,129		(895,537)
C. Total Cost	$	15,261,999	$	5,119,536
2. Earned Revenue				
A. Intragovernmental Revenue	$	(1,699,966)	$	(519,010)
B. Nonfederal Revenue		(99,594)		(533,240)
C. Total Revenue	$	(1,799,560)	$	(1,052,250)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Total Net Cost	$	13,462,439	$	4,067,286
Research, Development, Test & Evaluation				
1. Gross Cost				
A. Intragovernmental Cost	$	1,156,807	$	1,854,024
B. Nonfederal Cost		9,723,654		10,667,918
C. Total Cost	$	10,880,461	$	12,521,942
2. Earned Revenue				
A. Intragovernmental Revenue	$	(3,865,809)	$	(1,308,351)
B. Nonfederal Revenue		(212,891)		(2,822,455)
C. Total Revenue	$	(4,078,700)	$	(4,130,806)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Total Net Cost	$	6,801,761	$	8,391,136
Family Housing & Military Construction				
1. Gross Cost				
A. Intragovernmental Cost	$	557,055	$	725,915
B. Nonfederal Cost		16,293,793		29,166,875
C. Total Cost	$	16,850,848	$	29,892,790
2. Earned Revenue				
A. Intragovernmental Revenue	$	(5,260,074)	$	(5,082,362)
B. Nonfederal Revenue		(281,942)		(752,233)
C. Total Revenue	$	(5,542,016)	$	(5,834,595)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Total Net Cost	$	11,308,832	$	24,058,195
Consolidated				
1. Gross Cost				
A. Intragovernmental Cost	$	37,683,500	$	41,148,056
B. Nonfederal Cost		120,630,542		143,907,372
C. Total Cost	$	158,314,042	$	185,055,428
2. Earned Revenue				
A. Intragovernmental Revenue	$	(6,259,225)	$	(6,392,769)
B. Nonfederal Revenue		(586,475)		(8,476,013)
C. Total Revenue	$	(6,845,700)	$	(14,868,782)
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	$	151,468,342	$	170,186,646

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 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 required by the generally accepted accounting principles. The information presented also includes data from nonfinancial feeder systems to ensure that all cost and financing sources are captured for the Army General Fund.

Additional Disclosures

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

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

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

The abnormal balance impacting Procurement cost includes gains and losses that resulted from adjustments necessary to balance the Army General Fund's feeder systems with DoD's financial reporting system and to correct inherent limitations 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 $1.1 billion difference is due to additional resources included in the Appropriation line item on the SCNP.

Eliminations

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

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2015	2014
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 93,873,145	$ 106,008,842
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 SBR include Undelivered Orders-Unpaid for both direct and reimbursable funds.

Reporting of Appropriations Received

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

Presentation of Statement of Budgetary Resources

The SBR includes 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:

	Budgetary	
Type	Direct *($ in billions)*	Reimbursable *($ in billions)*
Category A	$128.4	$4.7
Category B	$34.9	$16.2
Exempt from Apportionment	*	**
Total	**$163.3**	**$20.9**

	Non-Budgetary	
Type	Direct *($ in billions)*	Reimbursable *($ in billions)*
Category A	—	—

* The Exempt from Apportionment amount is $6.7 Million.
** The Exempt from Apportionment amount is $0.0 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.

Information Related to the Statement of Budgetary Resources

Undelivered Orders

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

Reporting of Appropriations Received

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

Presentation of Statement of Budgetary Resources

The SBR includes intra-entity transactions because the statements are presented as combined.

Breakdown of Apportionment Categories

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

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30	2015	2014
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 184,224,655	$ 197,886,928
2. Less: Spending authority from offsetting collections and recoveries (-)	(37,404,927)	(40,390,625)
3. Obligations net of offsetting collections and recoveries	$ 146,819,728	$ 157,496,303
4. Less: Offsetting receipts (-)	(930,148)	(469,932)
5. Net obligations	$ 145,889,580	$ 157,026,371
Other Resources:		
6. Donations and forfeitures of property	76	8,139
7. Transfers in/out without reimbursement (+/-)	2,226,375	3,697,568
8. Imputed financing from costs absorbed by others	991,360	1,133,422
9. Other (+/-)	(8,433,930)	(15,957,687)
10. Net other resources used to finance activities	$ (5,216,119)	$ (11,118,558)
11. Total resources used to finance activities	$ 140,673,461	$ 145,907,813
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 (-)	$ 12,135,697	$ 5,394,296
12b. Unfilled Customer Orders	(2,814,076)	(900,715)
13. Resources that fund expenses recognized in prior Periods (-)	(4,528,637)	(2,339,350)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	587,158	469,932
15. Resources that finance the acquisition of assets (-)	(14,825,120)	(15,883,665)
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 (+/-)	6,550,650	12,251,980
17. Total resources used to finance items not part of the Net Cost of Operations	$ (2,894,328)	$ (1,007,522)
18. Total resources used to finance the Net Cost of Operations	$ 137,779,133	$ 144,900,291
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	$ 34	$ 74,834
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 (-)	(35,913)	(8,748)
23. Other (+/-)	3,461,295	2,176,913
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 3,425,416	$ 2,242,999
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 12,136,274	$ 25,107,416
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 Materiel and Supplies Used	(4)	(201)
27d. Other	(1,872,477)	(2,063,859)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 10,263,793	$ 23,043,356
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 13,689,209	$ 25,286,355
30. Net Cost of Operations	$ 151,468,342	$ 170,186,646

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 $240.1 million and was reported in the category of Other Components Not Requiring or Generating Resources.

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

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

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

	2015				
As of September 30 (Amounts in thousands)	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
BALANCE SHEET					
ASSETS					
Fund balance with Treasury	$ 0	$ 0	$ 58,797	$ 0	$ 58,797
Investments	0	0	2,177	0	2,177
Accounts and Interest Receivable	0	0	0	0	0
Other Assets	0	0	(77)	0	(77)
Total Assets	$ 0	$ 0	$ 60,897	$ 0	$ 60,897
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	0	0	5,117	0	5,117
Total Liabilities	$ 0	$ 0	$ 5,117	$ 0	$ 5,117
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	55,780	0	55,780
Total Liabilities and Net Position	$ 0	$ 0	$ 60,897	$ 0	$ 60,897
STATEMENT OF NET COST					
For the period ended September 30					
Program Costs	$ 0	$ 0	$ 11,158	$ 0	$ 11,158
Less Earned Revenue	0	0	(52)	0	(52)
Net Program Costs	$ 0	$ 0	$ 11,106	$ 0	$ 11,106
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	$ 0	$ 11,106	$ 0	$ 11,106
STATEMENT OF CHANGES IN NET POSITION					
For the period ended September 30					
Net Position Beginning of the Period	$ 0	$ 0	$ 37,731	$ 0	$ 37,731
Net Cost of Operations	0	0	11,106	0	11,106
Budgetary Financing Sources	0	0	26,948	0	26,948
Other Financing Sources	0	0	2,207	0	2,207
Change in Net Position	$ 0	$ 0	$ 18,049	$ 0	$ 18,049
Net Position End of Period	$ 0	$ 0	$ 55,780	$ 0	$ 55,780

As of September 30 (Amounts in thousands)	2014									
	Harbor Maintenance Trust Fund		Rivers and Harbors Contributed and Advance Fund		Other Funds		Eliminations		Consolidated Total	
BALANCE SHEET										
ASSETS										
Fund balance with Treasury	$	0	$	0	$	40,366	$	0	$	40,366
Investments		0		0		431		0		431
Accounts and Interest Receivable		0		0		0		0		0
Other Assets		0		0		11		0		11
Total Assets	$	0	$	0	$	40,808	$	0	$	40,808
LIABILITIES and NET POSITION										
Accounts Payable and Other Liabilities		0		0		3,077		0		3,077
Total Liabilities	$	0	$	0	$	3,077	$	0	$	3,077
Unexpended Appropriations		0		0		0		0		0
Cumulative Results of Operations		0		0		37,731		37		37,768
Total Liabilities and Net Position	$	0	$	0	$	40,808	$	37	$	40,845
STATEMENT OF NET COST										
For the period ended September 30										
Program Costs	$	0	$	0	$	18,120	$	(37)	$	18,083
Less Earned Revenue		0		0		3		0		3
Net Program Costs	$	0	$	0	$	18,123	$	(37)	$	18,086
Less Earned Revenues Not Attributable to Programs		0		0		0		0		0
Net Cost of Operations	$	0	$	0	$	18,123	$	(37)	$	18,086
STATEMENT OF CHANGES IN NET POSITION										
For the period ended September 30										
Net Position Beginning of the Period	$	0	$	0	$	34,709	$	0	$	34,709
Net Cost of Operations		0		0		18,123		(37)		18,086
Budgetary Financing Sources		0		0		18,559		0		18,559
Other Financing Sources		0		0		2,586		0		2,586
Change in Net Position	$	0	$	0	$	3,022	$	37	$	3,059
Net Position End of Period	$	0	$	0	$	37,731	$	37	$	37,768

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 are 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	2015	2014
(Amounts in thousands)		
1. Fiduciary net assets, beginning of year	$ 4,790	$ 83,952
2. Fiduciary revenues	0	0
3. Contributions	382	809
4. Investment earnings	0	0
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	109	(79,971)
8. Increase/(Decrease) in fiduciary net assets	$ 491	$ (79,162)
9. Fiduciary net assets, end of period	$ 5,281	$ 4,790

Schedule of Fiduciary Net Assets

For the period ended September 30	2015	2014
(Amounts in thousands)		
FIDUCIARY ASSETS		
1. Cash and cash equivalents	$ 5,281	$ 4,790
2. Investments	0	0
3. Other Assets	0	0
FIDUCIARY LIABILITIES		
4. Less: LIABILITIES	$ 0	$ 0
5. TOTAL FIDUCIARY NET ASSETS	$ 5,281	$ 4,790

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

NOTE 25. OTHER DISCLOSURES

The Army General Fund has no other required disclosures.

NOTE 26. RESTATEMENTS

The Army General Fund has no prior period restatements.

FISCAL YEAR 2015 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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

Nonfederal Physical Property: Yearly Investments in State and Local Governments
for Fiscal Years 2011 through 2015

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
Transferred Assets:					
1. National Defense Mission-Related	$21.2	$21.2	$20.8	$32.4	$31.5
Funded Assets:					
2. National Defense Mission-Related	0	0	0	0	0
Totals	$21.2	$21.2	$20.8	$32.4	$31.5

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

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

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

Yearly Investments in Research and Development
for Fiscal Years 2011 through 2015

(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
Basic Research	$444.3	$437.6	$354.3	$356.5	$414.4
Applied Research	935.2	858.5	876.7	1,102.4	1,161.6
Development					
Advanced Technology Development	1,128.0	1,104.9	1,016.3	1,151.0	1,187.2
Advanced Component Development and Prototypes	421.3	511.1	491.7	737.3	989.9
Systems Development and Demonstration	1,924.1	2,550.4	2,962.0	2,823.8	3,424.0
Research, Development, Test and Evaluation Management Support	1,268.4	1,277.6	1,275.3	1,320.6	1,397.4
Operational Systems Development	1,270.9	1,261.8	1,150.3	1,173.4	1,291.0
Total	$7,392.2	$8,001.9	$8,126.6	$8,665.0	$9,865.5

Narrative Statement

Research and development programs are classified in the following categories: basic research, applied research, and development. The definition of 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 more extensive 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 Developmen*t is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operations and producibility rather than the development of hardware for service use. It employs demonstration activities intended to prove or test a technology or method.

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.

<u>Electronic Warfare Advanced Technology (PE 0603008A)</u>: 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 computer 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.

FISCAL YEAR 2015 REQUIRED SUPPLEMENTARY INFORMATION

Real Property Deferred Maintenance and Repair

For Fiscal Years Ended September 30, 2015 & September 30, 2014

(Amounts in millions)	Prior Fiscal Year (PFY) 2014			Current Fiscal Year (CFY) 2015		
Property Type	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage(Required Work/Plant Replacement Value)
Category 1	$227,896	$32,140	14%	$239,967	$27,677	12%
Category 2	$10,111	$2,860	28%	$5,376	$1,417	26%
Category 3	$5,989	$1,788	30%	$100	$8	8%

Narrative Statement

Per DoD Financial Management Regulation 7000.14-R (February 2012), Volume 6B, Chapter 12; Para 120302. B.1., the Army's deferred maintenance estimates for FY 2015 include all facilities in which DoD has ownership interest under the control of the Army. Previous deferred maintenance estimates did not include non-Army assets.

The deferred maintenance estimates are based on the facility Q-ratings reported in the Installation Status Report (ISR) 4th Quarter FY 2015 or Q-ratings obtained by application of business rules described below. For FY 2015, the Q-rating values range from 0 to 100. Deferred maintenance and repair is calculated as follows:

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

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

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

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. (Fee owned facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of "Active" or "Semi-Active" are included, less those with a disposal reason code other than blank.)
- 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", "Excess", "Non-Functional", "Outgrant", "Surplus", plus "Closed" non-heritage assets plus "Active" and "Semi-active" with a disposal reason code.)
- 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 code indicating the asset has been determined to have historic/ architectural/ cultural significance or "NEV" for not yet evaluated. Codes of DNR (designation rescinded), DNE (not eligible), NCE (non-contributing element) and blanks are excluded.)

Equipment Deferred Maintenance and Repair
for Fiscal Year Ended September 30, 2015

(Amounts in thousands)

Major Categories	PY DM&R	CY OP-30/PB-45/ PB-61 Amounts	Adjustments	CY Totals
Aircraft	$0	$0	$0	$0
Automotive Equipment	207,829	306,355	0	306,355
Combat Vehicles	169,312	10,740	0	10,740
Construction Equipment	1,857	5,831	0	5,831
Electronics and Communications Systems	152,480	9,771	0	9,771
General Purpose Equipment	349,696	461,989	0	461,989
Missiles	3,710	193	0	193
Ordnance Weapons and Munitions	22,076	33,994	0	33,994
Other	7,122	10,504	0	10,504
Ships	143	0	0	0
Grand Total	**$914,225**	**$839,377**	**$0**	**$839,377**

The OP-30 from the FY 2015 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 12-16 for depot maintenance adequately supported the Army's most critical modernization and equipping strategies. The program ensured that Soldiers have the equipment needed to execute their assigned mission as they progress through the Army Force Generation (ARFORGEN) cycle. The bottom-line is that depot maintenance requirements continue to grow while the Army continues to get fewer resources with reduced budgets.

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

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2015

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.

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the periods ended September 30, 2015 and 2014

Amounts in thousands	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction
Budgetary Resources:				
Unobligated balance brought forward, Oct 1	$ 3,788,171	$ 10,901,593	$ 1,252,191	$ 6,483,373
Adjustment to unobligated balance, brought forward, Oct 1 (+ or -)				
Unobligated balance brought forward, Oct 1, as adjusted,	$ 3,788,171	$ 10,901,593	$ 1,252,191	$ 6,483,373
Recoveries of prior year unpaid obligations	954,523	2,733,299	4,708,805	1,058,491
Other changes in unobligated balance (+ or -)	(319,419)	(950,383)	(1,149,579)	(264,520)
Unobligated balance from prior year budget authority, net	$ 4,423,275	$ 12,684,509	$ 4,811,417	$ 7,277,344
Appropriations (discretionary and mandatory)	6,739,134	14,678,367	59,471,071	962,106
Spending Authority from offsetting collections (discretionary and mandatory)	3,894,508	1,441,237	383,735	4,181,143
Total Budgetary Resources	$ 15,056,917	$ 28,804,113	$ 64,666,223	$ 12,420,593
Status of Budgetary Resources:				
Obligations Incurred	$ 11,496,233	$ 20,072,230	$ 63,378,420	$ 6,550,784
Unobligated balance, end of year				
Apportioned	2,367,930	7,009,900	226,338	4,403,294
Exempt from Apportionment	0	0	0	0
Unapportioned	1,192,753	1,721,983	1,061,465	1,466,515
Total unobligated balance, end of year	$ 3,560,683	$ 8,731,883	$ 1,287,803	$ 5,869,809
Total Budgetary Resources	$ 15,056,916	$ 28,804,113	$ 64,666,223	$ 12,420,593
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, Oct 1	$ 8,636,023	$ 26,683,792	$ 7,243,202	$ 12,364,538
Obligations incurred	11,496,233	20,072,230	63,378,420	6,550,784
Outlays (gross) (-)	(11,596,260)	(19,025,704)	(59,446,870)	(7,926,744)
Recoveries of prior year unpaid obligations (-)	(954,523)	(2,733,299)	(4,708,805)	(1,058,491)
Unpaid obligations, end of year	7,581,473	24,997,019	6,465,947	9,930,087
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(3,933,666)	(3,631,673)	(40,475)	(9,744,379)
Change in uncollected pymts, Fed sources (+ or -)	420,688	290,139	8,762	1,577,750
Uncollected pymts, Fed sources, end of year (-)	(3,512,978)	(3,341,534)	(31,713)	(8,166,629)
Obligated balance, start of year (+ or -)	$ 4,702,357	$ 23,052,119	$ 7,202,727	$ 2,620,159
Obligated balance, end of year (+ or -)	$ 4,068,495	$ 21,655,485	$ 6,434,234	$ 1,763,458
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$ 10,633,642	$ 16,119,604	$ 59,854,806	$ 5,143,249
Actual offsetting collections (discretionary and mandatory) (-)	(4,315,197)	(1,729,816)	(392,497)	(5,758,893)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	420,688	290,139	8,762	1,577,750
Budget Authority, net (discretionary and mandatory)	$ 6,739,133	$ 14,679,927	$ 59,471,071	$ 962,106
Outlays, gross (discretionary and mandatory)	11,596,260	19,025,704	59,446,870	7,926,744
Actual offsetting collections (discretionary and mandatory) (-)	(4,315,197)	(1,729,816)	(392,497)	(5,758,893)
Outlays, net (discretionary and mandatory)	7,281,063	17,295,888	59,054,373	2,167,851
Distributed offsetting receipts (-)	0	0	0	0
Agency Outlays, net (discretionary and mandatory)	$ 7,281,063	$ 17,295,888	$ 59,054,373	$ 2,167,851

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the periods ended September 30, 2015 and 2014	Operations, Readiness & Support	2015 Combined	2014 Combined
Budgetary Resources:			
Unobligated balance brought forward, Oct 1	$ 20,487,269	$ 42,912,597	$ 38,637,403
Adjustment to unobligated balance, brought forward, Oct 1 (+ or -)			
Unobligated balance brought forward, Oct 1, as adjusted,	$ 20,487,269	$ 42,912,597	$ 38,637,403
Recoveries of prior year unpaid obligations	10,387,902	19,843,020	20,929,036
Other changes in unobligated balance (+ or -)	(5,446,147)	(8,130,048)	(3,441,622)
Unobligated balance from prior year budget authority, net	$ 25,429,024	$ 54,625,569	$ 56,124,817
Appropriations (discretionary and mandatory)	65,415,754	147,266,432	165,208,672
Spending Authority from offsetting collections (discretionary and mandatory)	7,662,845	17,563,468	19,466,036
Total Budgetary Resources	$ 98,507,623	$ 219,455,469	$ 240,799,525
Status of Budgetary Resources:			
Obligations Incurred	$ 82,726,988	$ 184,224,655	$ 197,886,928
Unobligated balance, end of year			
Apportioned	3,469,470	17,476,932	26,642,530
Exempt from Apportionment	34,321	34,321	15,466
Unapportioned	12,276,845	17,719,561	16,254,601
Total unobligated balance, end of year	$ 15,780,636	$ 35,230,814	$ 42,912,597
Total Budgetary Resources	$ 98,507,624	$ 219,455,469	$ 240,799,525
Change in Obligated Balance:			
Unpaid obligations:			
Unpaid obligations, brought forward, Oct 1	$ 57,009,573	$ 111,937,128	$ 120,710,671
Obligations incurred	82,726,988	184,224,655	197,886,928
Outlays (gross) (-)	(78,504,885)	(176,500,463)	(185,731,435)
Recoveries of prior year unpaid obligations (-)	(10,387,902)	(19,843,020)	(20,929,036)
Unpaid obligations, end of year	50,843,774	99,818,300	111,937,128
Uncollected payments:			
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(9,043,664)	(26,393,857)	(27,142,620)
Change in uncollected pymts, Fed sources (+ or -)	1,170,075	3,467,414	748,763
Uncollected pymts, Fed sources, end of year (-)	(7,873,589)	(22,926,443)	(26,393,857)
Obligated balance, start of year (+ or -)	$ 47,965,909	$ 85,543,271	$ 93,568,051
Obligated balance, end of year (+ or -)	$ 42,970,185	$ 76,891,857	$ 85,543,271
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	$ 73,078,599	$ 164,829,900	$ 184,674,708
Actual offsetting collections (discretionary and mandatory) (-)	(8,832,918)	(21,029,321)	(20,210,352)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	1,170,075	3,467,414	748,763
Budget Authority, net (discretionary and mandatory)	$ 65,415,756	$ 147,267,993	$ 165,213,119
Outlays, gross (discretionary and mandatory)	78,504,885	176,500,463	185,731,435
Actual offsetting collections (discretionary and mandatory) (-)	(8,832,918)	(21,029,321)	(20,210,352)
Outlays, net (discretionary and mandatory)	69,671,967	155,471,142	165,521,083
Distributed offsetting receipts (-)	(930,148)	(930,148)	(469,932)
Agency Outlays, net (discretionary and mandatory)	$ 68,741,819	$ 154,540,994	$ 165,051,151

The accompanying notes are an integral part of these statements.

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

November 16, 2015

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

SUBJECT: Independent Auditor's Report on the Army General Fund FY 2015 and FY 2014 Basic Financial Statements (Report No. DODIG-2016-012)

Report on the Basic Financial Statements

Public Law 101-576, "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, 2015, and 2014, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements," August 4, 2015. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Army management asserted to us that the Army General Fund FY 2015 and FY 2014 Basic Financial Statements would not substantially conform to U.S. GAAP and that the Army General Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2015. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic 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 appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Army General Fund FY 2015 and FY 2014 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Army management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 4, 2015, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements," April 2013.

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

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have direct and material effect on the basic statements, and compliances with OMB regulations and audit requirements for financial reporting because 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 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 Acting Deputy Assistant Secretary of the Army (Financial Operations), who provided technical comments that we have incorporated as appropriate. The Acting Deputy expressed the Army's continuing commitment to address the problems this report outlines. See Attachment 2 for the full text of the management comments.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; Army management; and the DoD Office of the Inspector General. It is not intended to be used and should not be used by anyone else.

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

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 audit, 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 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 financial operations.

Previously Identified Material Weaknesses

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

Financial Management Systems. Army General Fund 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, nonfinancial feeder systems, and accruals. Also, 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 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. Furthermore, DoD Inspector General Report No. DODIG-2014-090, "Improvements Needed in the General Fund Enterprise Business System Budget-to-Report Business Process," July 2, 2014, reported that the Army did not configure GFEBS to properly record at least $6.3 billion in Army General Fund Budget-to-Report transactions.

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. Specifically, collections and disbursements at the detailed transaction level do not reconcile with the records of the Department of the Treasury. DoD Inspector General Report No. DODIG-2015-038, "Additional Actions Needed to Effectively Implement the Army Fund Balance With Treasury Reconciliation Tool," November 20, 2014, reported that the Army and Defense Finance and Accounting Service Indianapolis did not design and implement the Tool and corresponding processes in a manner that effectively reconciles Army's Fund Balance with Treasury account balance.

Accounts Receivable (Budget-to-Report). 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.

Operating Materials and Supplies (Plan-to-Stock). Army 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." In addition, Army systems do not 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-2015-165, "Independent Auditor's Report on the Attestation of the

Existence, Completeness, and Rights of Select Army-Held Operating Materials and Supplies–Ammunition," August 28, 2015, reported that the Army did not have effective controls over the OM&S assertion process. Specifically, Army personnel did not:

- provide a complete September 30, 2014, OM&S universe that reconciled to the general ledger and financial statements;

- provide rights criteria and supporting documentation necessary to verify which Service owned the assets tested; or

- have effective controls over recording the acquisitions, disposals, and transfers of Ammunition.

Because of the effect of these material deviations from DoD Financial Improvement and Audit Readiness Guidance, the report concluded that Army-held ammunition, as of September 30, 2014, was not ready for audit.

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. In response to an Army assertion as to the existence, completeness, and rights and obligations of real property assets as of September 30, 2014, DoD Inspector General Report No. DODIG-2015-166, September 2, 2015, stated that except for the material deficiencies associated with rights documentation, the Army's real property assets, as of September 30, 2014, were ready for audit in accordance with DoD Financial Improvement and Audit Readiness Guidance.

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

Environmental Liabilities. 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 basic financial statements were not adequate to establish or maintain sufficient documentation and audit trails. The Army did not document supervisory reviews of estimates and did not have adequate quality control programs to ensure the reliability of data.

Statement of Net Cost (Budget-to-Report). The Army did not present financial information 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 U.S. GAAP. To capture all cost and financing sources for the Army, the information presented also includes data from the nonfinancial feeder systems. In addition, the Army General Fund budgetary and proprietary information does not correlate.

Statement of Budgetary Resources (Budget-to-Report). Army accounting systems did not provide or capture the data needed for obligations incurred or prior-year obligations recovered in accordance with OMB Circular No. A-11, “Preparation, Submission, and Execution of the Budget Requirements,” July 2014. 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 statement of budgetary resources does not completely agree with the information submitted in the year-end “Reports on Budget Execution and Budgetary Resources” (SF 133).

KPMG LLP examined the design, implementation, and operating effectiveness of the control activities over its preparation of the Schedule of Budgetary Activity (SBA) for the period ending September 30, 2013. In its April 30, 2014, attestation report, KPMG LLP concluded that, because of the effect of material weaknesses, the design and operating effectiveness of the Army's control activities over its preparation of the SBA and the sufficiency and availability of the key documentation supporting the SBA were not in conformity with the audit readiness criteria.

DoD Inspector General Report No. DODIG-2014-090, reported that GFEBS Program Management Office and the Army Budget Office personnel did not implement the DoD Business Enterprise Architecture Budget-to-Report business process to properly support the Army General Fund statement of budgetary resources. In addition to GFEBS not being configured to properly record the Army General Fund Budget-to-Report transactions, Army Budget Office personnel did not accurately record $103.2 billion of the Army General Fund Budget-to-Report transactions in GFEBS and did not record 22 FY 2013 Army General Fund appropriations, totaling $176.5 billion, in a timely manner. On December 1, 2014, KPMG LLP was awarded a contract to audit the FY 2015 Army General Fund SBA.

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. 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. As a result, Defense Finance and Accounting Service personnel made $17.4 billion in unsupported adjustments to the Army General Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners.

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. Defense Finance and Accounting Service personnel reported that they did not adequately support $46.8 billion in journal voucher adjustments used to prepare the Army General Fund basic financial statements.

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.

Reconciliation of Net Cost of Operations to Budget (Budget-to-Report). DoD Inspector General Report No. DoDIG-2015-023 stated that 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 Net Cost of Operations line on the Army General Fund statement of net cost without preparing $4.8 billion in unsupported adjustments.

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 in a contingency environment. Payments that are not properly supported do not provide the necessary assurance that funds were used as intended.

Previously Identified Significant Deficiency

Management acknowledged that the previously identified significant deficiency continues 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.

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

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 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 and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517 (2004), the Army and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2015, the Army General Fund reported two ADA violations.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," November 2010, establishes time frames from identifying and reporting on ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. This includes the combined Army and Office of the Under Secretary of Defense (Comptroller) processing times. Investigations involving one of the two ADA violations took more than 15 months to complete. Additionally, 7 of the10 investigations of potential ADA violations had been open for more than 15 months.

Compliance With FFMIA Requirements

FFMIA requires the Army to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. The DoD Financial Improvement and Audit Readiness Plan Status Report, May 2015, identifies actions the Army is taking to improve the Army General Fund systems. The Army is committed to achieving and sustaining audit readiness.

For FY 2015, the Army General Fund did not substantially comply with FFMIA. The Army acknowledged to us that the Army General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management 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, 2015. Therefore, based on the representation of the Deputy Assistant Secretary of the Army (Financial Operations), we did not substantiate whether the Army General Fund complied with FFMIA and OMB implementation guidance.

Recommendations

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

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

SAFM-FO

NOV 06 2015

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Management Response to the Fiscal Year 2015 Army General Fund Financial Statement Audit Report

1. We appreciate the efforts and professionalism your staff exhibited during the audit of the fiscal year (FY) 2015 Army General Fund Financial Statements. We also appreciate the opportunity to comment on the draft report provided to us on November 5, 2015.

2. We concur with the findings identified in the draft Report on Internal Control and will ensure our corrective action plans address the findings identified. We will continue work with our stakeholders correcting issues related to our general ledger, journal voucher adjustments, enterprise resource system posting logic, and abnormal balances.

3. We will take time during FY 2016 documenting actions taken to correct the Contingency Payment Audit Trails material weakness, and follow up with the Army Audit Agency to determine whether it can validate if actions taken support closing the weakness or reducing it to a deficiency.

4. The results of continued audit readiness efforts and the Schedule of Budgetary Activity audit will also provide an indication of progress toward resolving longstanding financial reporting material weaknesses and indicate remaining gaps.

5. The audit report again identifies a significant deficiency with the legal representation process. We stand by our FY 2014 position that the accounting classification of contingent liabilities differs from the legal classification of outcomes. To identify the likelihood of loss before cases are heard or judgments rendered, could adversely jeopardize the Army's position with the cases.

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

Thomas C. Steffens
Deputy Assistant Secretary Army
(Financial Operations) (Acting)

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.

CONSOLIDATED BALANCE SHEET

As of September 30, 2015 and 2014

(Amounts in thousands)		2015 Consolidated		2014 Consolidated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	1,810,386	$	1,835,171
Accounts Receivable (Note 5)		302,109		253,807
Total Intragovernmental Assets	$	2,112,495	$	2,088,978
Cash and Other Monetary Assets (Note 7)	$	4,150	$	702
Accounts Receivable,Net (Note 5)		55,343		39,841
Inventory and Related Property,Net (Note 9)		19,484,195		20,958,629
General Property, Plant and Equipment,Net (Note 10)		1,738,658		1,840,759
Other Assets (Note 6)		97,125		120,756
TOTAL ASSETS	$	23,491,966	$	25,049,665
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)				
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	105,764	$	105,995
Other Liabilities (Note 15 & 16)		112,060		84,811
Total Intragovernmental Liabilities	$	217,824	$	190,806
Accounts Payable (Note 12)	$	171,556	$	273,320
Military Retirement and Other Federal Employment Benefits (Note 17)		265,430		242,192
Other Liabilities (Note 15 and Note 16)		366,229		423,835
TOTAL LIABILITIES	$	1,021,039	$	1,130,153
COMMITMENTS AND CONTINGENCIES (NOTE 16)				
NET POSITION				
Unexpended Appropriations - Other Funds	$	107,258	$	142,301
Cumulative Results of Operations - Other Funds		22,363,669		23,777,211
TOTAL NET POSITION	$	22,470,927	$	23,919,512
TOTAL LIABILITIES AND NET POSITION	$	23,491,966	$	25,049,665

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

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2015 and 2014

(Amounts in thousands)	2015 Consolidated	2014 Consolidated
Program Costs		
Gross Costs	$ 21,764,515	$ 20,080,264
Operations, Readiness & Support	21,764,515	20,080,264
(Less: Earned Revenue)	$ (20,384,862)	$ (22,195,098)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 1,379,653	$ (2,114,834)
Net Program Costs Including Assumption Changes	$ 1,379,653	$ (2,114,834)
Net Cost of Operations	$ 1,379,653	$ (2,114,834)

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2015 and 2014

(Amounts in thousands)	2015 Consolidated	2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 23,777,211	$ 21,521,436
Prior Period Adjustments:		
Beginning balances, as adjusted	$ 23,777,211	$ 21,521,436
Budgetary Financing Sources:		
Other adjustments (rescissions, etc.)	2	0
Appropriations used	273,770	265,934
Nonexchange revenue	(537)	0
Transfers-in/out without reimbursement	(554,614)	(141,000)
Other budgetary financing sources	(2)	0
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(7,981)	(115,116)
Imputed financing from costs absorbed by others	127,635	149,529
Other (+/-)	127,838	(18,406)
Total Financing Sources	$ (33,889)	$ 140,941
Net Cost of Operations (+/-)	1,379,653	(2,114,834)
Net Change	$ (1,413,542)	$ 2,255,775
Cumulative Results of Operations	$ 22,363,669	$ 23,777,211
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 142,301	$ 188,345
Beginning balances, as adjusted	$ 142,301	$ 188,345
Budgetary Financing Sources:		
Appropriations transferred-in/out (+/-)	$ 238,727	$ 219,890
Appropriations used	(273,770)	(265,934)
Total Budgetary Financing Sources	$ (35,043)	$ (46,044)
Unexpended Appropriations	107,258	142,301
Net Position	$ 22,470,927	$ 23,919,512

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2015 and 2014

(Amounts in thousands)		2015 Combined		2014 Combined
Budgetary Resources:				
Unobligated balance brought forward, Oct 1	$	2,783,613	$	2,916,828
Adjustment to unobligated balance, brought forward, Oct 1 (+ or -)				
Unobligated balance brought forward, Oct 1, as adjusted,	$	2,783,613	$	2,916,828
Recoveries of prior year unpaid obligations		1,154,192		1,075,100
Other changes in unobligated balance (+ or -)		(1,225,397)		(772,787)
Unobligated balance from prior year budget authority, net	$	2,712,408	$	3,219,141
Appropriations (discretionary and mandatory)		238,727		219,890
Contract Authority (discretionary and mandatory)		5,496,570		4,788,795
Spending Authority from offsetting collections (discretionary and mandatory)		4,938,550		4,431,150
Total Budgetary Resources	$	13,386,255	$	12,658,976
Status of Budgetary Resources:				
Obligations Incurred	$	10,862,807	$	9,875,363
Unobligated balance, end of year				
Apportioned		2,523,448		2,783,613
Total unobligated balance, end of year	$	2,523,448	$	2,783,613
Total Budgetary Resources	$	13,386,255	$	12,658,976
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, Oct 1	$	7,143,397	$	6,528,871
Obligations incurred		10,862,807		9,875,363
Outlays (gross) (-)		(7,840,872)		(8,185,737)
Recoveries of prior year unpaid obligations (-)		(1,154,192)		(1,075,100)
Unpaid obligations, end of year		9,011,140		7,143,397
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)		(7,016,482)		(6,314,117)
Change in uncollected pymts, Fed sources (+ or -)		(1,654,159)		(702,365)
Uncollected pymts, Fed sources, end of year (-)		(8,670,641)		(7,016,482)
Obligated balance, start of year (+ or -)	$	126,915	$	214,754
Obligated balance, end of year (+ or -)	$	340,499	$	126,915
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$	10,673,847	$	9,439,835
Actual offsetting collections (discretionary and mandatory) (-)		(8,131,973)		(8,542,141)
Change in uncollected customer payments from Federal		(1,654,159)		(702,365)
Budget Authority, net (discretionary and mandatory)	$	887,715	$	195,329
Outlays, gross (discretionary and mandatory)	$	7,840,872	$	8,185,737
Actual offsetting collections (discretionary and mandatory) (-)		(8,131,973)		(8,542,141)
Outlays, net (discretionary and mandatory)		(291,101)		(356,404)
Agency Outlays, net (discretionary and mandatory)	$	(291,101)	$	(356,404)

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

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

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

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

1.B. Mission of the Reporting Entity

The Army mission is to support the national security and defense strategies by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission encompasses the intent of the Congress, as defined in Title 10 of the U.S. 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. Each Army WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the Army WCF, as an infusion of cash, when revenues are inadequate to cover costs within the corpus.

1.D. Basis of Accounting

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

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

The DoD is 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). Until all of the Army WCF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, there will be instances when the Army WCF's financial data will be derived from data from 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 from the sale of inventory items.

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. However, the Army WCF cannot accurately identify intragovernmental transactions by customer because 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 and 2015 which incorporated data elements and attributes to enable the Army WCF to more correctly report, reconcile, and eliminate intragovernmental balances.

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

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

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

1.J. Cash and Other Monetary Assets

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

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

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 100% 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*.

During FY 2015, the Army WCF implemented changes that will comply with SFFAS No 3, Interpretation 7, *Items Held for Remanufacture*. SFFAS 3 and Interpretation 7 require that inventory held for repair and resale reflect all capitalized rebuild costs to include the cost of the unserviceable carcasses. Changes made to LMP in FY 2015 will now begin to capitalize those costs in a Work in Process account. Fully repaired and rebuilt items will be capitalized as Inventory Held for Sale. Unserviceable carcasses waiting for induction to repair programs will continue to be accounted for as Inventory Held for Remanufacture.

The Army WCF recognizes excess, obsolete, and unserviceable inventory at net 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 Army WCF's General Property, Plant & Equipment (PP&E) capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $20 thousand for real property) and are carried at the remaining net book value. The Army WCF 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 or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The Army WCF has implemented this policy for advances identified as military and civil service employee pay advances, travel advances, and advances in contract feeder systems.

1.Q. Leases

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

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 advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as Other Assets. The Army WCF has fully implemented this policy. Estimated future payments to contractors are offset by a contingent liability.

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

1.S. Contingencies and Other Liabilities

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.X. Fiduciary Activities

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	2015		2014	
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	0	$	0
B. Accounts Receivable		0		0
C. Other Assets		0		0
D. Total Intragovernmental Assets	$	0	$	0
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	$	0	$	0
B. Accounts Receivable		56		592
C. Other Assets		0		0
D. Total Nonfederal Assets	$	56	$	592
3. Total Nonentity Assets	$	56	$	592
4. Total Entity Assets	$	23,491,910	$	25,049,073
5. Total Assets	$	23,491,966	$	25,049,665

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

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

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30		2015		2014
(Amounts in thousands)				
1. Fund Balances				
A. Appropriated Funds	$	0	$	0
B. Revolving Funds		1,810,386		1,835,171
C. Trust Funds		0		0
D. Special Funds		0		0
E. Other Fund Types		0		0
F. Total Fund Balances	$	1,810,386	$	1,835,171
2. Fund Balances Per Treasury Versus Agency				
A. Fund Balance per Treasury	$	1,810,386	$	1,835,171
B. Fund Balance per Army WCF		1,810,386		1,835,171
3. Reconciling Amount	$	0	$	0

Status of Fund Balance with Treasury

As of September 30		2015		2014
(Amounts in thousands)				
1. Unobligated Balance				
A. Available	$	2,523,449	$	2,783,613
B. Unavailable		0		0
2. Obligated Balance not yet Disbursed	$	9,011,141	$	7,143,398
3. Nonbudgetary FBWT	$	0	$	0
4. NonFBWT Budgetary Accounts	$	(9,724,204)	$	(8,091,840)
5. Total	$	1,810,386	$	1,835,171

The Status of 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. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use.

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

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

NOTE 4. INVESTMENTS AND RELATED INTEREST

Not applicable.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2015		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 302,109	N/A	$ 302,109
2. Nonfederal Receivables (From the Public)	$ 55,873	$ (530)	$ 55,343
3. Total Accounts Receivable	$ 357,982	$ (530)	$ 357,452

As of September 30	2014		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 253,807	N/A	$ 253,807
2. Nonfederal Receivables (From the Public)	$ 51,010	$ (11,169)	$ 39,841
3. Total Accounts Receivable	$ 304,817	$ (11,169)	$ 293,648

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

NOTE 6. OTHER ASSETS

As of September 30	2015	2014
(Amounts in thousands)		
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	$ 97,075	$ 120,691
B. Advances and Prepayments	50	65
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	$ 97,125	$ 120,756
3. Total Other Assets	$ 97,125	$ 120,756

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

Outstanding Contract Financing Payments includes $86.3 million in contract financing payments and an additional $10.8 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. Refer to Note 15, *Other Liabilities*, for further information.

NOTE 7. CASH AND OTHER MONETARY ASSETS

(Amounts in thousands)	2015	2014
1. Cash	$ 4,150	$ 702
2. Foreign Currency	0	0
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 4,150	$ 702

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	2015	2014
(Amounts in thousands)		
1. Inventory, Net	$ 19,484,195	$ 20,958,629
2. Operating Materiel & Supplies, Net	0	0
3. Stockpile Materiel, Net	0	0
4. Total	$ 19,484,195	$ 20,958,629

Inventory, Net

As of September 30	2015			
(Amounts in thousands)	Inventory,Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 12,264,388	$ 0	12,264,388	MAC
B. Held for Repair	5,770,877	0	5,770,877	SC
C. Excess, Obsolete, and Unserviceable	204,210	(204,210)	0	NRV
D. Raw Materiel	1,448,930	0	1,448,930	MAC
E. Work in Process	0	0	0	AC, SC
F. Total	$ 19,688,405	$ (204,210)	19,484,195	

As of September 30	2014			
(Amounts in thousands)	Inventory,Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 12,878,670	$ 0	12,878,670	MAC
B. Held for Repair	6,197,364	399,005	6,596,369	SC
C. Excess, Obsolete, and Unserviceable	169,993	(169,993)	0	NRV
D. Raw Materiel	1,483,590	0	1,483,590	MAC
E. Work in Process	0	0	0	AC
F. Total	$ 20,729,617	$ 229,012	20,958,629	

Legend for Valuation Methods:
NRV = Net Realizable Value MAC = Moving Average Cost SC = Standard Cost AC = Actual Cost

Inventory Held for Repair Revaluation Allowance has an abnormal balance of $399.0 million for 4th Quarter FY 2014 as a result of postings in the LMP carried forward from the FY 2009 migration from Commodity Command Standard System (CCSS). The issue was addressed with multiple system change requests and was completed for the 3rd 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 $1.6 billion which includes petroleum products, subsistence items, spare parts, and medical materiel.

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

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

Operating Materiel and Supplies, Net

Not applicable.

Stockpile Materiel, Net

Not applicable.

NOTE 10. GENERAL PP&E, NET

As of September 30	2015				
(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	2,281,813	$ (1,624,465)	657,348
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	1,355,144	(975,178)	379,966
E. General Equipment	S/L	Various	1,830,428	(1,389,433)	440,995
F. Assets Under Capital Lease	S/L	lease term	0	0	0
G. Construction-in- Progress	N/A	N/A	246,770	N/A	246,770
H. Other			3,571	0	3,571
I. Total General PP&E			$ 5,727,734	$ (3,989,076)	$ 1,738,658

As of September 30	2014				
(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	2,228,633	$ (1,576,842)	651,791
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	1,266,089	(854,530)	411,559
E. General Equipment	S/L	Various	1,743,200	(1,318,690)	424,510
F. Assets Under Capital Lease	S/L	lease term	0	0	0
G. Construction-in- Progress	N/A	N/A	342,001	N/A	342,001
H. Other			890	0	890
I. Total General PP&E			$ 5,590,821	$ (3,750,062)	$ 1,840,759

[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	2015	2014
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	50,057	43,108
D. Total Intragovernmental Liabilities	$ 50,057	$ 43,108
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement and Other Federal Employment Benefits	265,430	242,192
C. Environmental and Disposal Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	$ 265,430	$ 242,192
3. Total Liabilities Not Covered by Budgetary Resources	$ 315,487	$ 285,300
4. Total Liabilities Covered by Budgetary Resources	$ 705,552	$ 844,853
5. Total Liabilities	$ 1,021,039	$ 1,130,153

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 FECA liabilities billed to the Army WCF by the 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 $265.4 million for FECA actuarial reserve. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

NOTE 12. ACCOUNTS PAYABLE

As of September 30	2015		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 105,764	$ N/A	$ 105,764
2. Nonfederal Payables (to the Public)	171,556	0	171,556
3. Total	$ 277,320	$ 0	$ 277,320

As of September 30	2014		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 105,995	$ N/A	$ 105,995
2. Nonfederal Payables (to the Public)	273,320	0	273,320
3. Total	$ 379,315	$ 0	$ 379,315

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by the Army WCF. The Army WCF's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with 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	2015			2014
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	$ 39,932	$ 0	$ 39,932	646
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	21,991	28,066	50,057	64,138
F. Custodial Liabilities	56	0	56	593
G. Employer Contribution and Payroll Taxes Payable	22,015	0	22,015	19,434
H. Other Liabilities	0	0	0	0
I. Total Intragovernmental Other Liabilities	$ 83,994	$ 28,066	$ 112,060	84,811
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 198,459	$ 0	$ 198,459	195,799
B. Advances from Others	62,436	0	62,436	108,715
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	4,150	0	4,150	702
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	252	0	252	545
J. Employer Contribution and Payroll Taxes Payable	10,630	0	10,630	10,086
K. Contingent Liabilities	0	10,777	10,777	8,637
L. Other Liabilities	79,525	0	79,525	99,351
M. Total Nonfederal Other Liabilities	$ 355,452	$ 10,777	$ 366,229	423,835
3. Total Other Liabilities	$ 439,446	$ 38,843	$ 478,289	508,646

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

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where Army WCF is acting on behalf of another Federal entity.

Nonfederal Other Liabilities of $79.5 million is for industrial operations service accruals.

Contingent liabilities include $10.8 million related 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. These rights should not be misconstrued as rights of ownership. The Army WCF is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Army WCF has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

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

Capital Lease Liability

Not applicable.

NOTE 16. COMMITMENTS AND CONTINGENCIES

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

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

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2015			2014
(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	$ 265,430	$ 0	$ 265,430	$ 242,192
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	$ 265,430	$ 0	$ 265,430	$ 242,192
3. Total Military Retirement and Other Federal Employment Benefits:	$ 265,430	$ 0	$ 265,430	$ 242,192

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

The Army WCF actuarial liability for workers' compensation benefits is developed by the DOL and provided to Army WCF at the end of each fiscal year. The liability includes the estimated liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. In FY 2015, the fund effected a further refinement to the methodology used for selecting the interest rate assumptions and enhance matching of the interest rates to the projected cash flows; the further refinement did not affect amounts previously reported for FY 2014. The actuarial liability for FECA increased $23.2 million between FY 2014 and FY 2015.

In FY 2015, DOL refined the approach for selecting the COLA factors, CPIM factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.
In FY 2014, DOL selected the COLA and CPIM factors based on one year. DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. For FY 2015, discount rates were based on averaging the TNC Yield Curves for the current and prior four years; for FY 2014, discount rates were based on the TNC Yield Curve for one year. Interest rate assumptions utilized for FY 2015 discounting were as follows:

Discount Rates
For wage benefits:
3.134% in year 1
3.134% in Year 2 and thereafter;

For medical benefits:
2.496% in Year 1
2.496% 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) 2015 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
2015	N/A	N/A
2016	1.64%	2.94%
2017	1.47%	2.98%
2018	1.33%	3.09%
2019	1.43%	3.39%
2020	1.65%	3.69%

[and thereafter]

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 2015 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 2015 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		2015		2014
(Amounts in thousands)				
Operations, Readiness & Support				
1. Gross Cost				
A. Intragovernmental Cost	$	1,309,371	$	1,480,302
B. Nonfederal Cost		20,455,144		18,599,962
C. Total Cost	$	21,764,515	$	20,080,264
2. Earned Revenue				
A. Intragovernmental Revenue	$	(8,008,236)	$	(8,268,897)
B. Nonfederal Revenue		(12,376,626)		(13,926,201)
C. Total Revenue	$	(20,384,862)	$	(22,195,098)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Total Net Cost	$	1,379,653	$	(2,114,834)
Consolidated				
1. Gross Cost				
A. Intragovernmental Cost	$	1,309,371	$	1,480,302
B. Nonfederal Cost		20,455,144		18,599,962
C. Total Cost	$	21,764,515	$	20,080,264
2. Earned Revenue				
A. Intragovernmental Revenue	$	(8,008,236)	$	(8,268,897)
B. Nonfederal Revenue		(12,376,626)		(13,926,201)
C. Total Revenue	$	(20,384,862)	$	(22,195,098)
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	$	1,379,653	$	(2,114,834)

Abnormal balances are found on the trial balance for the 6100 accounts (Operating Expenses) at the object class level. These accounts are normal at the summary level by USSGL account. In 4th Quarter FY 2013, Defense Departmental Reporting System - Audited Financial Statements (DDRS-AFS) began capturing amounts by object class detail at the USSGL account level. Historical detail was not captured at this level in the source accounting system (LMP) resulting in amounts not properly flowing to the correct object class.

The 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 SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS No. 30, *Inter-entity Cost Implementation*.

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

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

Nonfederal Costs and Revenues include Nonfederal gains and losses which are driven by inventory transactions within LMP. All inventory in LMP is considered nonfederal.

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

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

The USSGL account 5310 (Interest Revenue – Other) abnormal balance of $537.0 thousand is an offset to USSGL account 1340 (Interest Receivable). The balance in Interest Revenue is not transaction based but is an accrual to adjust the end of month balance of accrued Interest, Penalty and Administrative Fees (IPA) Receivable. These accounts are used to record the monthly accrual of interest receivable due to the Treasury on Contractor Debt System (CDS) and Mechanization Of Contract Administration Services (MOCAS) receivables collected by the Debt Management Office. This receivable is a non-entity asset and the revenue, which is non-exchange revenue, is itself offset by contra-revenue USSGL account 5994 (Offset to Non-Entity Accrued Collections-Statement of Changes in Net Position). The current year to date abnormal balance is because the interest receivable amount at September 30, 2014 of $592.8 thousand was higher than the current period interest receivable amount of $55.8 thousand.

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

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2015	2014
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,333,491	$ 6,370,232
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 (Undelivered Orders – Obligations Paid/Unpaid) and 49XX (Delivered Orders – Obligations Paid/Unpaid) series accounts at the object class level. These accounts are normal at the summary level by USSGL account. In 4th Quarter FY 2013, DDRS-AFS began capturing amounts by object class detail at the USSGL account level. Historical detail was not captured at this level in the source accounting system (LMP) resulting in amounts not properly flowing to the correct object class.

The Army WCF obligations represent reimbursable obligations of $10.6 billion and direct obligations of $251.5 million in apportionment category B, apportioned by project or activity.

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

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

The Army WCF received appropriations in FY 2015 in the amount of $13.7 million to fund War Reserve materiel and $225.0 million for Arsenal Sustainment Initiative.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30		2015		2014
(Amounts in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
1. Obligations incurred	$	10,862,807	$	9,875,363
2. Less: Spending authority from offsetting collections and recoveries (-)		(10,940,323)		(10,319,604)
3. Obligations net of offsetting collections and recoveries	$	(77,516)	$	(444,241)
4. Less: Offsetting receipts (-)		0		0
5. Net obligations	$	(77,516)	$	(444,241)
Other Resources:				
6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		(7,981)		(115,116)
8. Imputed financing from costs absorbed by others		127,635		149,529
9. Other (+/-)		127,838		(18,406)
10. Net other resources used to finance activities	$	247,492	$	16,007
11. Total resources used to finance activities	$	169,976	$	(428,234)
Resources Used to Finance Items not Part of the Net Cost of Operations:				
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
12a. Undelivered Orders (-)	$	(1,963,259)	$	(883,602)
12b. Unfilled Customer Orders		1,616,469		773,326
13. Resources that fund expenses recognized in prior Periods (-)		0		(74,931)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		0		0
15. Resources that finance the acquisition of assets (-)		(2,808,160)		(2,852,883)
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 (+/-)		(119,856)		133,522
17. Total resources used to finance items not part of the Net Cost of Operations	$	(3,274,806)	$	(2,904,568)
18. Total resources used to finance the Net Cost of Operations	$	(3,104,830)	$	(3,332,802)

As of September 30	2015	2014
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 0	$ 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 (-)	(3,448)	(363)
23. Other (+/-)	30,186	43,108
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 26,738	$ 42,745
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 294,231	$ 218,212
26. Revaluation of assets or liabilities (+/-)	(859,988)	(3,148,158)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	5,952,394	4,183,555
27c. Operating Materiel and Supplies Used	0	0
27d. Other	(928,892)	(78,386)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 4,457,745	$ 1,175,223
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 4,484,483	$ 1,217,968
30. Net Cost of Operations	$ 1,379,653	$ (2,114,834)

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

Gains/Losses were adjusted by $1.2 billion to bring the note schedule into agreement with the SNC.

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

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

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

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

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

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

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

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

November 16, 2015

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

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund FY 2015 and FY 2014 Basic Financial Statements (Report No. DODIG-2016-013)

Report on the Basic Financial Statements

Public Law 101-576, "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, 2015, and 2014, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements," August 4, 2015. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by 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 2015 and FY 2014 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, 2015. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic 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 appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Army Working Capital Fund FY 2015 and FY 2014 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Army management presented the Management's Discussion and Analysis, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements.

These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we found material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 4, 2015, and DoD Regulation 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 guidance requirements.

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

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have direct and material effect on the basic statements, and compliances with OMB regulations and audit requirements for financial reporting because 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 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 Acting Deputy Assistant Secretary of the Army (Financial Operations), who provided technical comments that we have incorporated as appropriate. The Acting Deputy expressed the Army's continuing commitment to address the problems this report outlines. See Attachment 2 for the full text of the management comments.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; Army management; and the DoD Office of the Inspector General. It is not intended to be used and should not be used by anyone else.

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

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 audit, we considered the Army Working Capital Fund 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 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 Army Working Capital Fund financial operations.

Previously Identified Material Weaknesses

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

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

The Army derives reported values and information for major asset and liability categories from the Logistics Modernization Program system. However, the Logistics Modernization Program contains certain system and posting deficiencies as well as erroneous and incomplete account balances. In addition, the Army Working Capital Fund financial statements and the Logistics Modernization Program system continue to rely on data from off-line systems and processes from nonfinancial feeder systems.

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 test and evaluation phase and the implementation of this increment will continue through at least FY 2016, when the Logistics Modernization Program system will also transfer from a contractor-owned to a Government-owned system.

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 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 FY 2017, the statutory deadline for this goal. Increment 2 is intended to address these shortcomings and is planned to be completed by the end of FY 2016.

Attachment 1
Page **2** of **10**

DoD Inspector General Report No. DODIG-2014-066, "Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources," May 5, 2014, determined that Army financial managers did not assess the DoD transaction codes to determine applicability to the Army Working Capital Fund business areas or to incorporate existing manual workarounds. Changes made within the Logistics Modernization Program system, based upon the recommendations from this report, were to be completed at the end of FY 2015.

U.S. Army Audit Agency Report A-2014-0096-FMR, "Examination of Federal Financial Management Improvement Act Compliance Validation," August 29, 2014, found that of the 288 requirements reviewed, 71 requirements were successfully documented. Of the remaining requirements, 169 were partially documented, and 48 requirements did not meet the intent of each requirement. This report stated that these FFMIA issues occurred because the requirements were not identified until after system functionality was designed and developed. Army Audit Agency stated that corrective actions have not taken place as of October 23, 2015.

Fund Balance With Treasury (Budget-to-Report). According to Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," Fund Balance with Treasury is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DoD Inspector General Report No. DODIG-2014-066 reported that Army financial managers did not accomplish the reengineering needed to integrate the Treasury reconciliation function into the Logistics Modernization Program system or provide the capability to receive cash management files directly from Treasury to reconcile them. This requires the Army Working Capital Fund to review and, if necessary, adjust its balances to agree with the U.S. Treasury amounts each month.

Inventory (Plan-to-Stock). The Army reported its entire resale inventory in the Logistics Modernization Program system, which is capable of recording inventory using moving average cost. However, the Army reported within its Annual Statement of Assurance for FY 2015 that current inventory balances in the financial statements are not reliable. Inventory control procedures do not effectively provide assurance that inventory recorded in the financial statements exists and is complete. In addition, the moving average cost used for reporting inventory does not accurately reflect the historical cost of the inventory or 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 reported that it did not properly baseline the transitioning of on-hand balances into the Logistics Modernization Program system using moving average cost.

DoD Inspector General Report No. DODIG-2015-125, "Army Needs to Improve Processes Over Government-Furnished Material Inventory Actions," May 21, 2015, reported that the Army Working Capital Fund activities expensed Government-Furnished Material upon shipment to contractors which understated the inventory assets on the balance sheet. The Army did not integrate accountability reporting into the Logistics Modernization Program system. Consequently, the system could not be used to identify what Government-Furnished Material contractors had on hand and when Government-Furnished Material was consumed by contractors or otherwise returned to the Army. Additionally, the Army did not have a reporting mechanism to track receipt and consumption of Government-Furnished Material required for quarterly reports to contract administration offices. Without this information, DoD contract administration office personnel relied on contractor records to perform their inventory reviews. The Army's planned corrective actions for the recommendations from this report are scheduled to be completed at the end of FY 2016.

General Property, Plant, and Equipment (Acquire-to-Retire). The reported value of the 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 because of system limitations.

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 the 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 a reduction of Accounts Payable With the Public by $58.0 million for undistributed disbursements. Additionally, DoD Inspector General Report No. DODIG-2012-087, "Logistics Modernization Program System Procure-to-Pay Process Did not Correct Material Weaknesses," May 29, 2012, confirmed 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 reported within its Annual Statement of Assurance for FY 2015 that the Logistics Modernization Program system still cannot generate an accounts payable upon acceptance of goods until they actually arrive at their final destination.

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 continue to enter a significant number of adjustments into the Defense Departmental Reporting System–Budgetary module to reconcile the trial balance data.

Additionally, DoD Inspector General Report No. DODIG-2014-066 reported that the Logistics Modernization Program system did not contain the Budget-to-Report business process functionality to report the data needed to prepare the Army Working Capital Fund statement of budgetary resources.

The system omitted this functionality because Army financial managers did not provide the Logistics Modernization Program Product Office the correct system configuration.

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 the Army Working Capital Fund financial management systems did not accurately account for intragovernmental transactions or capture actual costs. Some information in the Army Working Capital Fund's statement of net cost was based on nonfinancial feeder systems. Additionally, a significant portion of the costs and revenues reported within this statement are recorded within general ledger accounts for gains and losses which further complicates aligning the costs and revenues by major goals and outputs.

Intragovernmental Eliminations (Budget-to-Report). The Army Working Capital Fund was unable to collect, exchange, or 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 more than $1.0 billion in adjustments to the Army Working Capital Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners.

Accounting Adjustments-Other Accounting Entries (Budget-to-Report). Defense Finance and Accounting Service personnel made unsupported accounting adjustments, valued at $2.5 billion, to reclassify amounts based on problems with the posting logic. The unsupported accounting adjustments represent a material uncertainty regarding the line-item balances on the Army Working Capital Fund FY 2015 Basic Financial Statements.

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 $1.2 billion in unsupported adjustments to gain and loss accounts to force costs to match obligation information. To resolve this material weakness, the Army plans to implement tie-point analysis capability within the Logistics Modernization Program system.

Abnormal Account Balances (Budget-to-Report). In FY 2015, the Army Working Capital Fund Industrial Operations and Supply Management activities (limit-level) reported 32 limits with abnormal account balances, with an absolute value of $1.0 billion, in the balance sheet. Army and Defense Finance and Accounting Service personnel used the abnormal balances to compute the amounts reported for such items as Fund Balance with Treasury; Accounts Receivable; Advance and Prepayments; General Property, Plant, and Equipment; Inventory; and Accounts Payable.

In addition, the posting accounts used to develop the proprietary and budgetary trial balances in the Logistics Modernization Program system contained at least 821 abnormal account balances with an absolute value of $168.4 billion. However, the roll-up of limit-level account balances to produce amounts on the financial statements hid abnormal account balances identified in the posting accounts.

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

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

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 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 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 and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517 (2004), the Army and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2015, the Army Working Capital Fund reported no ADA violations.

Compliance With FFMIA Requirements

FFMIA requires the Army to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 (Revised) requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. The DoD Financial Improvement and Audit Readiness Plan Status Report, May 2015, identifies actions the Army is taking to improve the Army Working Capital Fund systems. The Army is committed to achieving and sustaining audit readiness.

For FY 2015, the Army Working Capital Fund did not substantially comply with FFMIA. Army management acknowledged to us that the Army Working Capital Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2015. Therefore, based on the representation of the Army, we did not substantiate whether the Army Working Capital Fund complied with FFMIA and OMB implementation guidance.

Recommendations

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

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

SAFM-FO NOV 06 2015

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Management Response to the Fiscal Year 2015 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the efforts and professionalism your staff exhibited during the audit of the fiscal year 2015 Army Working Capital Fund Financial Statements. We also appreciate the opportunity to comment on the draft report provided to us on November 5, 2015.

2. We concur with the findings identified in the draft report on Internal Control. Our audit readiness corrective action plans will address the findings identified. We will continue working with our stakeholders to correct issues related to our general ledger, journal voucher adjustments, posting logic, and abnormal balances. Our audit readiness support contractor continued efforts to assess existence and completeness, rights and obligations, and valuation of mission critical assets (inventory, real property and equipment) as well as internal controls necessary to ensure accuracy of the financial statements. Our service provider, the Defense Finance and Accounting Service, is implementing corrective actions for the Fund Balance with Treasury reconciliation. During the upcoming fiscal year, the Army will undergo an audit of elements of selected line items performed by an Independent Public Accounting firm including inventory, real property, equipment, budget authority, obligations, outlays, net cost and revenue.

3. We continue Standard Financial Information Structure implementation, improved Army Enterprise Systems Integration Program governance, and Treasury's Invoice Processing Platform initiatives. With these initiatives we will improve trading partner reporting, enable reconciliation of intragovernmental transactions between Federal agencies, and aid elimination of intragovernmental transactions from the financial statements. The goal is for these actions to result in supportable quarterly reporting to Treasury and OMB, and ultimately correction of a long-standing material weakness.

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

Thomas C. Steffens
Deputy Assistant Secretary Army
(Financial Operations) (Acting)

2015

FISCAL YEAR 2015 UNITED STATES ARMY ANNUAL FINANCIAL REPORT

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

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

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

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

THE SOLDIER'S CREED

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

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

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

I am an expert and I am a professional.

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

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

I am an American Soldier.