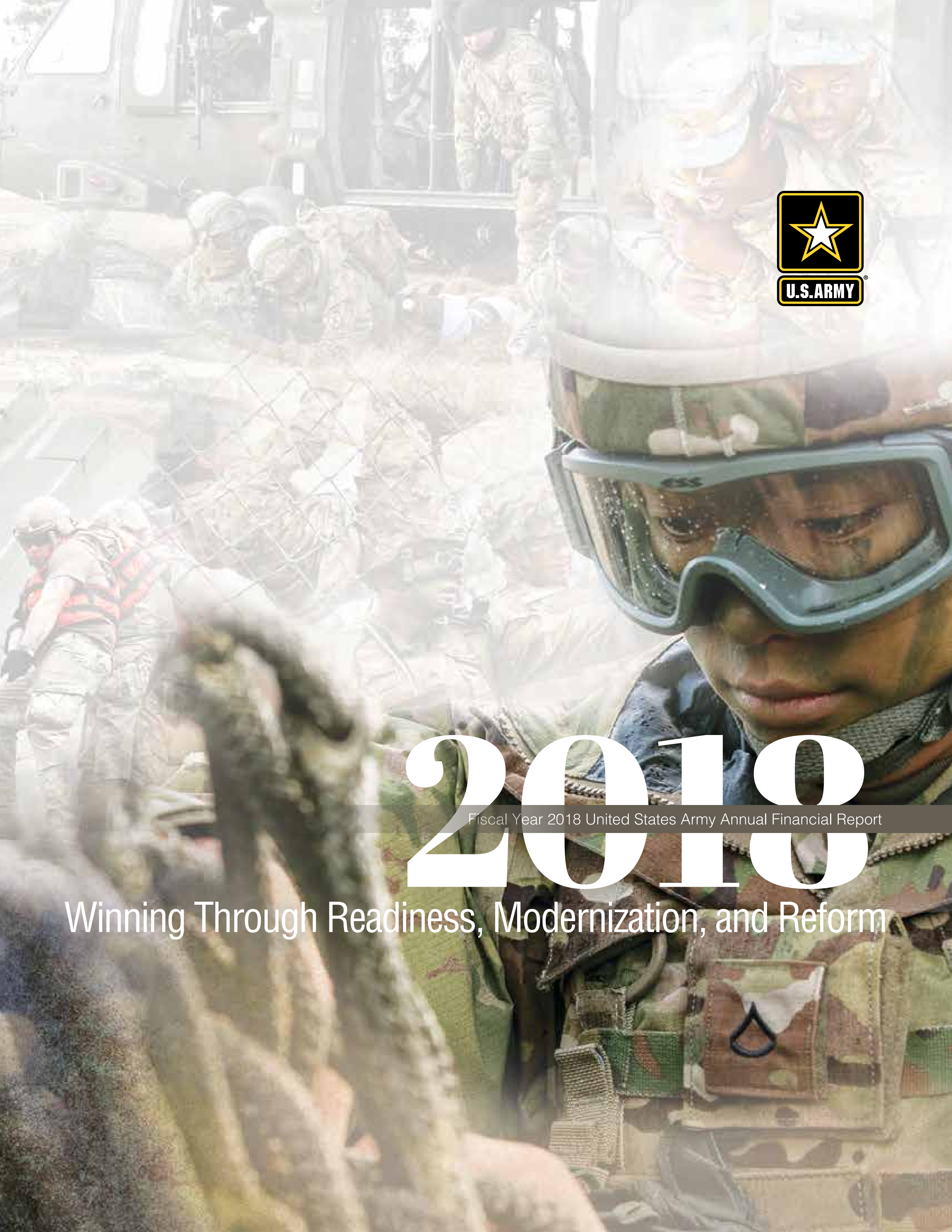


U.S.ARMY

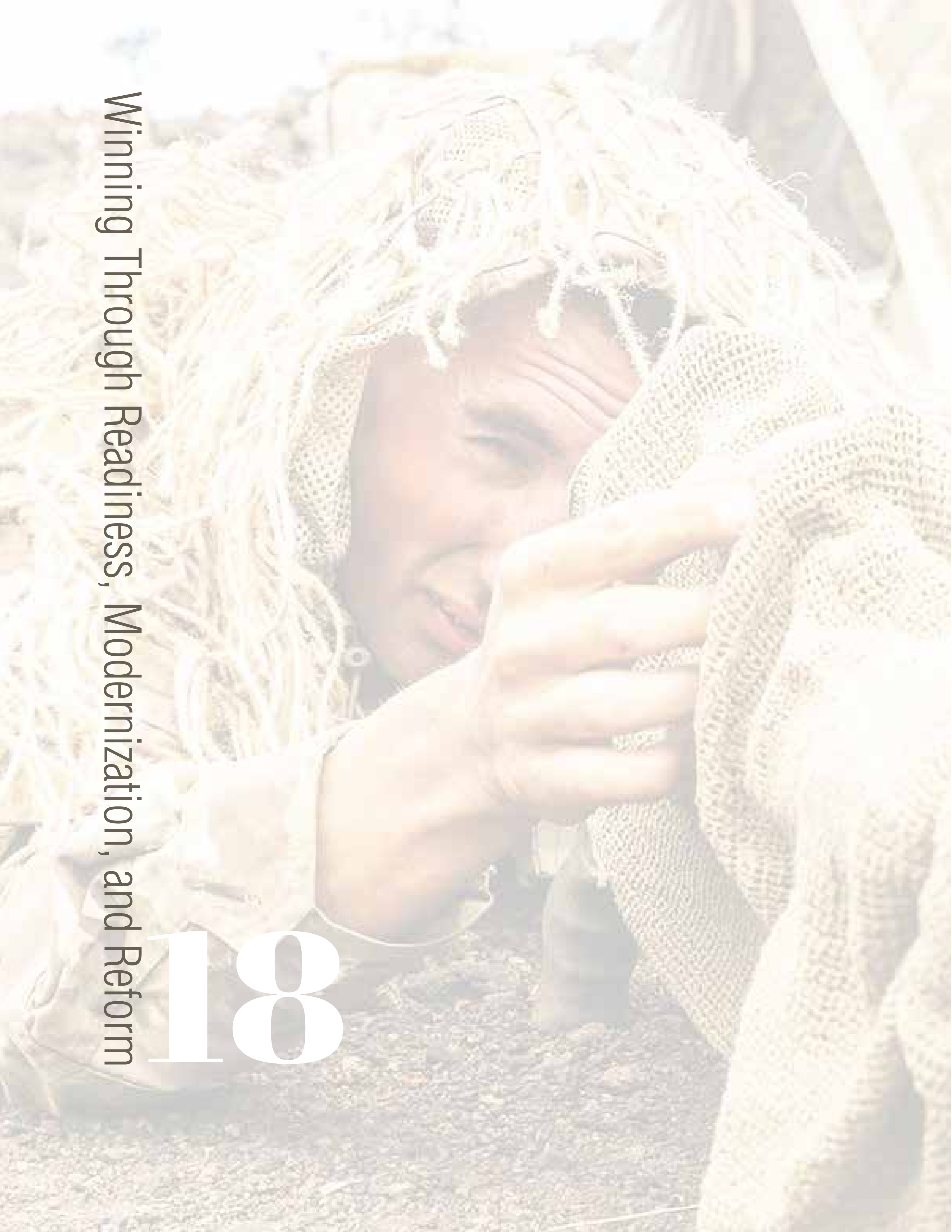
2018

Fiscal Year 2018 United States Army Annual Financial Report

Winning Through Readiness, Modernization, and Reform

18

Winning Through Readiness, Modernization, and Reform



FY 2018 CONTENTS

2018

Fiscal Year 2018 United States Army Annual Financial Report

Winning Through Readiness, Modernization, and Reform

Today, our Army stands ready to deter, and if necessary, defeat any adversary that threatens our Nation's security or vital national interests.

The United States Army is the most lethal and capable ground combat force in history, defending the Nation and serving the American people for over 243 years. Today, our Army stands ready to deter, and if necessary, defeat any adversary that threatens our Nation's security or vital national interests. We are thankful to Congress for providing us the resources required to build this current state of readiness.

The Army's 2018 Annual Financial Report (AFR) reflects the outcome of the Army's inaugural comprehensive audit. For the first time in Army history, a full audit by an independent public accountant was conducted, which reflects our enduring commitment to fiscal responsibility and accountability.

Over the past seventeen years, the Army provided the majority of forces fighting in Iraq and Afghanistan. Over that time, strategic competitors modernized their armies in an attempt to reduce the overmatch of the U.S. military. Rapid rates of technological change and the proliferation of advanced technologies have added further complexity to the security environment. In response to these changing conditions, the 2018 National Defense Strategy (NDS) issued a mandate to build a more lethal force.

In support of the NDS, the Army published the Army Vision in June of 2018, which articulates the future end state needed to ensure our overmatch against all potential adversaries. As described in the Army Vision: "The Army of 2028 will be ready to deploy, fight and win decisively against any adversary, anytime and anywhere, in a joint, multi-domain, high-intensity conflict, while simultaneously deterring others and maintaining our ability to conduct irregular warfare." In pursuit of this Vision, Army resources are focused around three priorities: *Readiness, Modernization*, and *Reform.*

Readiness ensures the Army's ability to deploy, fight, and win our Nation's wars. The Army made great gains in readiness this year, increasing the number of fully-ready Brigade Combat Teams by over 30 percent. We also improved equipment readiness across the Army, increased munitions supplies, and expanded our pre-positioned stocks.

In addition to building readiness, we are taking needed measures to modernize the Army. The establishment of Army Futures Command (AFC) allows us to unify our entire modernization enterprise under one command. AFC will allow us to better partner with academia and the private sector in order to find innovative solutions to fulfill our six modernization priorities.

To enable continued advancements in readiness and modernization, the Army is implementing a series of reforms. Army reform efforts will free up time, money, and manpower to ensure they are going into the highest priority activities that produce the greatest benefit to the force. We will continue to reallocate resources towards our priorities to ensure that our budget remains aligned with the NDS and the Army Vision.

As has been the case throughout history, the U.S. Army stands prepared to answer the Nation's call. All throughout the Total Army – Regular Army, National Guard, and Reserve – our Soldiers and civilian professionals remain committed to stewarding the efficient use of our resources. With sustained, adequate, and timely budgetary support from Congress, we will continue to maintain the ready and lethal Army that America needs.

Mark T. Esper

DR. MARK T. ESPER

Secretary of the Army

2018

Fiscal Year 2018 United States Army Annual Financial Report

Winning Through Readiness, Modernization, and Reform

Army leaders and financial managers are committed to ensuring compliance with Congressionally mandated auditability requirements to support achievement of Army priorities in readiness, modernization, and reform.

The Army began its first full financial statement audit in fiscal year (FY) 2018. Building on the momentum generated by partial audits in FY 2017 and earlier years, the Army was ready to take this major step forward in fiscal responsibility and accountability. As expected, the result of the FY 2018 audit was a disclaimer of opinion but the findings of our auditor have produced a clear benchmark to begin measuring our progress to a clean opinion. This Army Annual Financial Report (AFR) reflects our enduring commitment to achieving audit success in order to fully support the Army's missions through better management of our financial resources with timely, accurate, and reliable information.

To continue the Army's progress, we are aggressively developing and maintaining a culture that expects auditable records at every Army level. The Secretary of the Army has directed all Commanders, Directors, Leaders, Soldiers, and Civilians across the force to take an active role in improving transparency and accountability. We are investing in our people and continuing to improve processes, technology, and policies to sustain accountability and to achieve a clean audit opinion on the Army's financial statements.

To operationalize this vision across the Army, we have assigned functional managers responsibility for audit success in their respective areas with support from the financial management community. These include, for example, Army leaders in logistics, acquisitions, information technology, and facilities. To coordinate and support these leaders, the Army implemented the Business Mission Area Champion (BMAC) framework. In FY 2018, the Army focused on creating a Universe of Transactions to enhance the monitoring and reconciling of Fund Balance with Treasury, journal vouchers, and budget execution, as well as ensuring system posting logic and data categorization compliance with the United States Treasury Financial Manual.

Another important element of audit success is the continual improvement of our financial accounting systems. The General Fund Enterprise Business System (GFEBS), Logistics Modernization Program (LMP), and Global Combat Support System (GCSS)–Army are our primary systems of record providing financial visibility to achieve Army's operating goals at all levels. The LMP Program Office achieved a significant milestone in FY 2018 by remediating the LMP information technology general controls findings. This is the first Army system to achieve this milestone and provides an example of how to achieve measurable progress for other systems.

Improving and standardizing processes is another key step for audit success. One example where this is particularly important is in maintaining proper controls and accountability over ammunition. The Army is the Single Manager for Conventional Ammunition (SMCA), which means that the Army procures and maintains conventional ammunition for all of the Department of Defense. In FY 2017, the Army underwent its first audit of ammunition and its role as SMCA. The biggest challenges included that the Army did not have its controls over access to the ammunition fully documented and that business processes across Army locations were not standardized. Based on these findings, the Army implemented systematic Corrective Action Plans addressing key problems, including documenting control procedures and standardizing business processes. For example, the Army Joint Munitions Command implemented an automated task order system that limits individuals from signing out keys that are not required to complete a task. This reduced the issuance time from 90 minutes to 15 minutes, significantly reduced the risk of loss of ammunition, and allowed leaders to better plan their operations with the resources available. As a result of the actions the Army took, we closed out 30 of the 53 FY 2017 Notice of Findings and Recommendations (NFR).

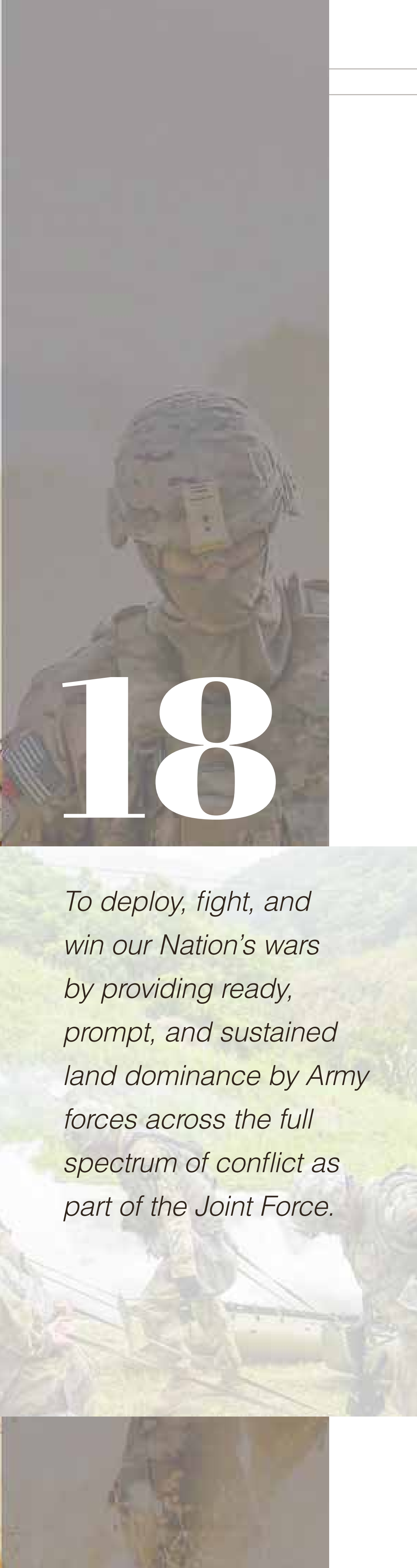
Army leaders and financial managers are committed to ensuring compliance with Congressionally mandated auditability requirements to support achievement of Army priorities in readiness, modernization, and reform. The first full audit of the Army's financial statements is a major milestone for the Army and we are now firmly on our way to ultimately achieving a clean audit opinion.

John Whitley

JOHN E. WHITLEY

Assistant Secretary of the Army, Financial Management and Comptroller

Guiding a vehicle during a live-fire exercise. (U.S. Army National Guard photo by Sgt. Jamar Marcel Pugh)



Management's Discussion and Analysis

GENERAL FUND OVERVIEW

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

The many demands on the Nation's resources will put downward pressure on defense budgets in the future, forcing a continuous assessment by the Army on how it spends its dollars to meet national objectives. To continue to improve readiness, modernize the force, implement effective reforms, and protect our people, the Army requires predictable resources. With consistent, strategy-based funding over time, the Army can increase capacity, train contingency forces, close critical modernization gaps, and rebuild installation and training infrastructure – all while maintaining excellence in the execution of current operations. The Army aims to achieve the objectives in the defense planning guidance, which is critical to the Army accomplishing assigned missions to a standard expected by the American people.

The Army is a performance-based organization and as such is committed to working towards specific measurable goals derived from a defined mission to continually improve operations. The following discussion provides evaluation of the fiscal year (FY) 2018 Army General Fund performance aligned with the Army's four principal strategic goals: readiness, modernization, reform, and people.

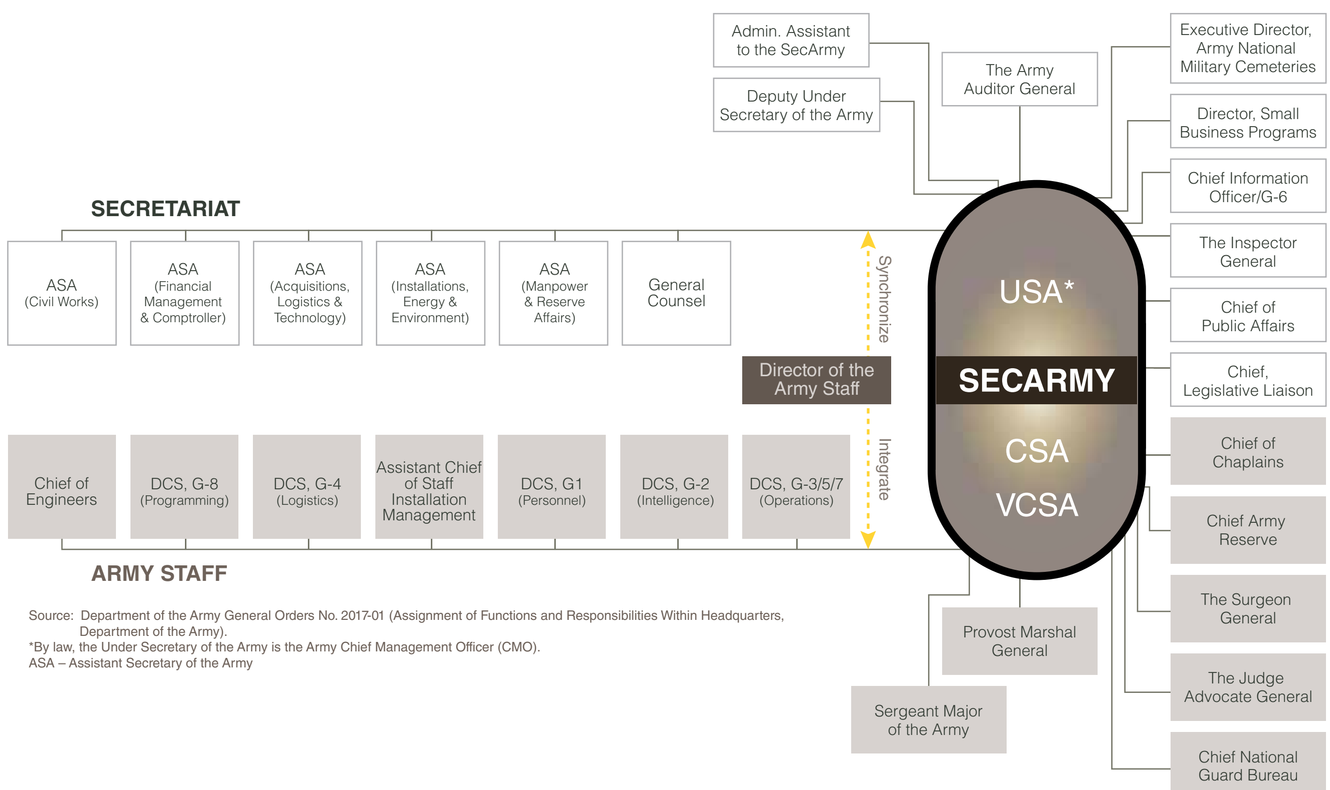
MISSION AND ORGANIZATION OF THE ARMY

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

The Army's organization supports and sustains the mobilization, training, and deployment of its Soldiers anywhere in the world. Headquarters, Department of the Army (HQDA) (Figure 1), under the direction of the Secretary of the Army (SECARMY), leads and manages the entire Army. The HQDA Staff is composed of the Secretariat and the Army Staff (ARSTAF). The HQDA Staff:

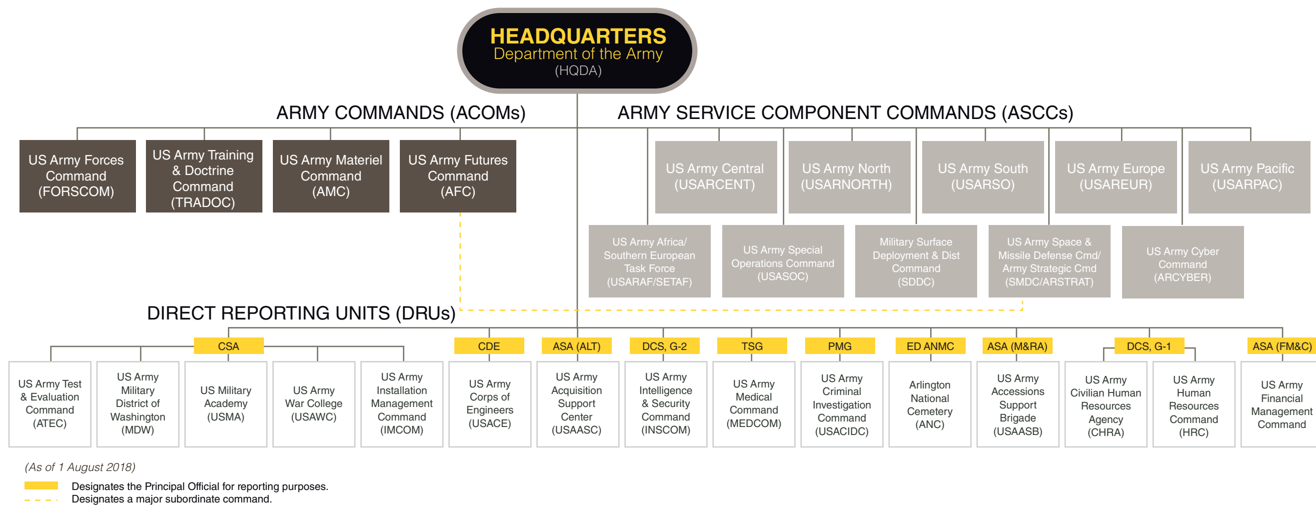
- Develops policies, plans, and programs.
- Establishes and prioritizes requirements.
- Provides resources to organize, man, train, and equip Soldiers to meet the combatant commands' current and future operational requirements and other needs as defined by the President and the Secretary of Defense.

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



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

FIGURE 2. Army Command Structure



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

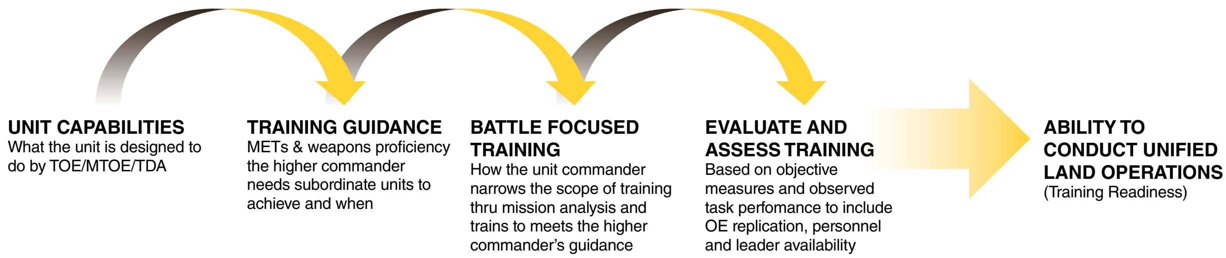
Maintaining credible strategic land-power requires the Army to continually assess and refine its readiness, modernization, reformation, and people; how it operates, manages its human capital, and increases its capabilities. The Army continuously builds globally responsive and regionally engaged strategic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

Readiness

STRATEGIC GOAL 1: Provide ready and trained forces ensuring the Army is ready to engage all enemies, foreign and domestic.

Readiness is the number one priority, as the Army cannot afford to be unprepared to respond to new threats or major contingencies with less than ready and available units. Generating ready forces requires the Army's leaders to optimize resources and synchronize training activities to maximize readiness for operational demand including known and emergent demand for forces, as well as contingency war plan requirements. Training operationalizes the Army so that we can fulfill our mission. The Army conducts training to sustain proficiency at unified land operations, the Army's basic warfighting doctrine. Figure 3 is a brief illustration of how the Army manages readiness, by first looking at unit capabilities, finding the appropriate training, and continually assessing and evaluating training.

FIGURE 3. Managing Army Readiness



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

The Army's means of achieving sustainable combat readiness involve a myriad of resources to include: policy, models, facilities, synthetic training environment, equipment, instructors, systems, and time. The ways the Army trains to build and sustain combat readiness include: institutional training, home station training, Combat Training Center Program, as well as Joint and Army Exercise Programs. Other ongoing efforts within this objective include the Ready and Resilient (R2) campaign, which is a comprehensive plan to address the immediate and enduring needs of the Total Army, ensuring personnel readiness and individual deploy-ability. Readiness requires robust combined arms formations and tactics and centers on exceptional leaders and Soldiers of unmatched lethality. One of the ways Army assesses its readiness is through its training goals, which are aligned to readiness requirements in the defense planning guidance.

Soldiers wade through a river during a ruck march at Fort Bragg, N.C. (U.S. Army photo by Maj. Thomas Cieslak)

OBJECTIVE 1.1: *Training Soldiers*

The Army's institutional training and education system for Soldiers includes Initial Military Training (IMT), professional military education, and special skills / functional training. Throughout their career, Soldiers acquire knowledge and skills through resident courses, mobile training teams, and distributed learning. The goal of institutional training is to generate the required quantity of highly proficient Soldiers able to meet the Army's readiness objectives and execute Army missions consistent with their Military Occupational Specialty (MOS).

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

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

- Measure 1.1.b: Percent graduation rate. The graduation rate measures the number of Soldiers who graduated from their assigned training as a percentage of input.

Table 1 displays data from FY 2015 – 2017 for 10 categories of institutional training, including IMT. The objective of IMT is to achieve a quota fill rate of at least 95 percent and a graduation rate of at least 90 percent. In the 10 categories of training displayed, Army was able to achieve its fill and graduation rate the majority of the time. The Army will continue to work toward meeting training quotas to assure its Soldiers are always ready.

TABLE 1. Individual Training

	FY 2015					FY 2016					FY 2017				
Training Category	QUOTA	INPUT	GRAD	FILL % (QTA)	GRAD %	QUOTA	INPUT	GRAD	FILL % (QTA)	GRAD %	QUOTA	INPUT	GRAD	FILL % (QTA)	GRAD %
AIT	97,389	84,024	82,287	86%	98%	98,424	86,064	84,670	87%	98%	97,464	82,634	79,560	85%	96%
BCT	81,211	71,807	65,971	88%	92%	87,697	72,491	66,089	83%	91%	91,256	73,501	67,681	81%	92%
BOLC	14,944	12,062	11,818	81%	98%	15,799	13,021	12,772	82%	98%	14,761	12,536	12,132	85%	97%
IERW	803	858	837	107%	98%	879	769	743	87%	97%	985	1,045	1,033	106%	99%
IERW-CC	822	928	911	113%	98%	876	866	859	99%	99%	990	918	897	93%	98%
INITIAL LANG	883	851	635	96%	75%	796	715	446	90%	62%	675	641	136	95%	21%
OCS	5,868	3,336	2,891	57%	87%	4,964	3,281	2,748	66%	84%	4,282	3,126	2,329	73%	75%
OSUT	32,526	29,473	26,015	91%	88%	33,698	30,978	27,028	92%	87%	37,427	31,416	28,200	84%	90%
WOBC	2,747	2,181	2,166	79%	99%	3,176	2,668	2,651	84%	99%	3,313	2,965	2,948	89%	99%
WOCS	2,755	2,078	1,940	75%	93%	2,701	2,270	2,140	84%	94%	2,831	2,441	2,317	86%	95%
TOTAL	239,948	207,598	195,471	87%	94%	249,010	213,123	200,146	86%	94%	253,984	211,223	197,233	83%	93%

Training Categories

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

Quota Fill and Grad Rates:
>= 95%
95% – 89%
88% – 79%
<= 79%

Data reflects Army students only, all Components.
Data includes multiphase courses.
Data based on Army Training Requirements and Resources System (ATRRS) report as of September 24, 2018.
FY 2018 data was not available at the time of AFR publication.

OBJECTIVE 1.2: *Training Units*

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

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

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

Performance Results: 100 percent of brigades scheduled to participate in a CTC rotation during FY 2018 completed training.

TABLE 2. Brigade Training

	FY 2018	
	Target	Actual
Percent of scheduled brigades completing CTC rotations	100%	100%

TABLE 3. CTC Rotations Completed

Type of CTC Rotation Completed	Assigned Brigade Combat Team (BCT)	Rotations Completed
Maneuver: Decisive Action/Unified Land Operations (DA/ULO)	Active BCT	15
	Army National Guard (ARNG) BCTs	4
Command Post Exercises	Army Service Component Commands	4
	Army Corps	2
	Army Divisions	9
	Army BCTs	6
	Army Sustainment Brigades	11
	Functional/ Multifunctional Brigades	24
	Army Special Forces	4

A soldier rappels during a 10-day air assault training exercise at Fort Pickett, VA. (U.S. National Guard photo by Sgt. 1st Class Terra C. Gatti)

OBJECTIVE 1.3: *Developing Adaptive Army Leaders*

Unit training and leader development are the Army's life-blood. Competent, ethical leaders with a warrior mentality are the Army's competitive advantage that cannot be replaced by technology, or substituted with advanced weaponry and platforms. The Army leader development strategy is the key to preparing the Army for large scale combat operations. The increasingly uncertain, complex, and interconnected global environment demands that the Army invest in leader development, which is the life-long synthesis of training, education, and experience acquired through opportunities in the operational, institutional, and self-development domains. These efforts will allow us to be ready to deploy, fight, and win decisively against any adversary.

Receiving world-class training on working with partner forces through the planning and execution of global operations. (Photo courtesy of the U.S. Army)

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

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

Performance Results: Table 4 displays results of professional development courses within the Noncommissioned Officer Education System (NCOES) and Officer Education System (OES). The table provides the number of trained Soldiers needed to meet readiness (quota) and the number of Soldiers graduating from training (grad). In FY 2017, the quota for three of the 10 courses displayed was met. The Army will continue to strive to meet the quotas for professional development courses.

TABLE 4. Professional Development

		Professional Development									
		Noncomissioned Officer Education System (NCOES)					Officer Education System (OES)				
Number of Leaders Trained		Basic Leader Course	Advanced Leader Course	Senior Leader Course	Master Leader Course	Sergeant Major Course Resident/ Ph2 Non-resident	Warrant Officer Advance Course Resident	Warrant Officer Staff Course Resident/ Non-resident	Warrant Officer Senior Staff Course Resident/ Non-resident	Intermediate Level Education Resident/ Common Core	Senior Service College Resident/ Distance Learning
FY 2014	Quota	45,819	65,591	18,092	-	1,078	2,881	1,911	711	16,608	1,827
	Grads	33,408	53,032	15,313	-	968	2,691	1,899	773	10,941	1,591
FY 2015	Quota	44,846	29,762	14,898	-	1,135	3,426	2,351	701	12,718	1,851
	Grads	32,345	21,552	11,972	-	920	2,992	2,271	723	9,085	1,553
FY 2016	Quota	39,241	32,344	17,665	-	1,206	3,231	2,482	812	12,495	1,861
	Grads	32,598	28,851	16,600	141	966	2,964	2,174	804	7,780	1,565
FY 2017	Quota	38,216	29,615	18,966	276	1,369	3,355	2,272	860	11,363	1,827
	Grads	35,194	29,595	19,348	306	1,273	2,808	1,936	882	6,338	1,567

Note 1: All data is based on start date, i.e., if a class starts in FY 2015 and graduates in FY 2016, it is counted as FY 2015 data.
Note 2: FY 2018 data was not available at the time of AFR publication.

An observer coach shows a military policeman how to properly set up the system to operate the RQ-11 Raven, a small unmanned aerial system. (U.S. Army photo by Spc. Dustin D. Biven)

Modernization

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

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

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

- Long-Range Precision Fires (LRPF): Develop platforms, capabilities, munitions, and formations that restore U.S. Army dominance in range, lethality, mobility, precision and target acquisition.
- Next Generation Combat Vehicles (NGCV): Develop combat vehicles that integrate other close combat capabilities in manned, unmanned, and optionally-manned teaming that leverages semi-autonomous and autonomous platforms in conjunction with the most modern firepower, protection, mobility, and power generation capabilities.
- Future Vertical Lift (FVL): A set of manned, unmanned, and optionally-manned platforms that can execute attack, lift, and reconnaissance missions on the modern and future battlefield at greater range, altitude, lethality, and payload.
- Army Network: An integrated system of hardware, software, and infrastructure that is sufficiently mobile, reliable, user-friendly, discreet in signature, expeditionary and which the Army uses to fight

effectively in any environment in which the electromagnetic spectrum is denied or degraded.

- Air and Missile Defense (AMD): A series of mobile integrated platforms, capabilities, munitions, and formations that ensure our future combat formations are lethal while remaining protected from modern advanced air and missile delivered fires, to include drones.
- Soldier Lethality: A holistic series of capabilities, equipment, training, and enhancements that span all fundamentals of combat: shooting, moving, communicating, protecting, and sustaining to ensure our Soldiers are more lethal and less vulnerable on the modern battlefield.

To provide a comprehensive plan for modernization going forward, the Army aligned the six modernization priorities with objectives across three successive future year defense programs (FYDP): Near (present to FY 2023) to close critical capability and capacity gaps, Mid (FY 2024 to FY 2028) to achieve overmatch and begin fielding next generation capabilities for Multi-Domain Operations (MDO); and Far (FY 2029 to FY 2034) to strengthen overmatch and fully field next generation capabilities for MDO. One of the major programs within FYDP includes the Science and Technology (S&T) Program which will identify, develop, and demonstrate technology options that inform and enable effective and affordable capabilities for the Soldier. These programs will set a basis for the modernization of the future Army. The objectives below were established based on the six modernization priorities and highlight some of the goals achieved during FY 2018.

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

Overseas contingency operations remain a priority for Army so that we can be ready to defeat our adversaries. Modernization plays a role in this effort as well, as we must be well equipped. Operation reset restores units to the desired level of combat required for future missions. This objective aligns to all of the modernization priorities, specifically procuring the items needed to achieve them.

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

- Measure 2.1.a: Percentage obligated of FY 2018 equipment reset operational and sustainment funding.
- Measure 2.1.b: Number of items repaired by Army Materiel Command (AMC), including completed aircraft and vehicles.
- Measure 2.1.c: Percentage obligation of procurement funding for FY 2016, FY 2017, and FY 2018.

Performance Results: As of September 30, 2018, the Army had obligated 99.95 percent of the $865 million equipment reset operational and maintenance funding. The goal was 100 percent obligated by the end of FY 2018.

As of September 30, 2018, the AMC had repaired 17,367 items in sustainment level reset with a FY 2018 requirement of 23,013 items. The AMC reported the completion of 53 aircraft with a FY 2018 requirement of 142. Items not completed in FY 2018 will be carried over to FY 2019. Eight brigades have completed field level reset.

As of September 30, 2018, the Army executed 99 percent of the $1,208 million available from FY 2016 procurement funding, 89 percent of the $879 million available from FY 2017 procurement funding, and 54 percent of the $249 million available from FY 2018 procurement funding. The goal for procurement is 100 percent obligation of FY 2016, 90 percent of FY 2017 and 80 percent of FY 2018 funding. This funding directly supports the procurement of new equipment or the recapitalization of equipment used in a named operation. Army will continue to execute funding to achieve its modernization priorities.

OBJECTIVE 2.2: *Department of Defense Information Network – Army (DODIN-A) Operational Capabilities and Focus. Establish BCTs with new tactical network capabilities, highly expeditionary communications capability, and standardized mission command (MC) software applications. Standardize MC software applications in mounted and dismounted tactical environments.*

DODIN-A is the Army's contribution to the Department of Defense Information Network (DODIN), which collects, processes, stores, disseminates, and manages information on-demand to warfighters, policy makers, and support personnel. It includes all Army and Joint communications computing systems and services, software, data security services, and other associated services. This objective is in line with the Army modernization goals, specifically Army network.

In FY 2018, the Army presented a report to Congress in response to the *National Defense Authorization Act* for FY 2018 (Public Law 115-91), Section 112, which directs the Secretary of the Army, in consultation with the Chief of Staff of the Army, to submit a report to the congressional defense committees on the Army's strategy for modernizing air-land, ad hoc, mobile, tactical communications and data networks. The Army is pivoting to a new network modernization approach that is simple, intuitive, resilient, mobile, survivable and capable of operating in a contested environment against peer adversaries.

The Army's four network modernization lines of effort are: (1) unified network: merging of networks that operate worldwide in any environment; (2) common operating environment: computing environments that enable both joint and coalition operations; (3) interoperability: a network that enables collaboration with all unified action partners; and (4) command posts: capabilities that enable the Army to employ command posts across all operations. The Army's four network modernization lines of effort will develop a pilot future state of DODIN-A by FY 2020, and a refined future state of DODIN-A by FY 2025.

Performance Indicators: Tables 5-8 below displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 2.2.a: *Total number of BCTs equipped with Warfighter Information Network – Tactical (WIN-T) Increment 1 (Inc1)*, tactical networking capability.
- Measure 2.2.b: *Total number of BCTs equipped with WIN-T Increment 2 (Inc2*, tactical networking capability.
- Measure 2.2.c: *Total number of BCTs equipped with highly expeditionary communications*. This measure tracks the effort to establish a baseline of BCTs equipped with Transportable Tactical Command Communications (T2C2) systems.
- Measure 2.2.d: *Total number of BCTs equipped with Software Block 11/12 (SWB 11/12) Capability Set (CS) baseline*. The SWB 11/12 CS baseline implements

common versions of Mission Command (MC) software applications.

- Measure 2.2.e: *Total number of BCTs upgraded with the Command Post Computing Environment (CPCE).* The CPCE will establish a Common Operating Environment by combining 15 MC software applications from SWB 11/12 CS into one.

- Measure 2.2.f: *Total number of BCTs upgraded with Mobile/Handheld (M/HH) Computing Environment (CE).*

- Measure 2.2.g: *Total number of BCTs upgraded with the Mounted Computing Environment (MCE).*

Performance Results

TABLE 5: BCTs Equipped with Tactical Network Capability

	FY 2019	FY 2020	FY 2021	FY 2018 Target	FY 2018 Actual
Total Number of BCTs w/ WIN-T Inc1	41	39	38	38	43
Total Number of BCTs w/ WIN-T Inc2	17	19	20	20	15

TABLE 6: BCTs Equipped with Highly Deployable Expeditionary Tactical Communications

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2018 Target	FY 2018 Actual
Total Number of BCTs with highly deployable expeditionary communications	10	18	26	34	42	58	6

TABLE 7: BCTs Equipped with Standardized MC Software Applications

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2018 Target	FY 2018 Actual
Total Number of BCTs with SWB 11/12	58	44	30	16	-	-	58
Total Number of BCTs with CPCE	-	14	28	42	58	58	-

TABLE 8: BCTs Equipped with Standardized MC Software Applications

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2018 Target	FY 2018 Actual
Total Number of BCTs with M/HH CE	12	13	14	15	16	58	11
Total Number of BCTs with MCE	22	30	38	46	54	58	14

Modernization of the Army is critical to achieving the Army's mission.

A National Guard soldier uses a circular saw to open a car door during a training exercise. (U.S. Army photo by Pfc. Sean Park)

Soldiers load an M777 howitzer during live-fire training. (U.S. Army photo by Markus Rauchenberger)

Reform

STRATEGIC GOAL 3: To maximize the value of every dollar, operate transparently, and use resources wisely

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

OBJECTIVE 3.1: *Reorganizing Brigade Combat Teams (BCT) to Armored Brigade Combat Teams (ABCT) while assuring Soldiers and equipment are readily available.*

One of the projects during FY 2018 was to adjust and improve BCT capabilities, refocusing on large scale ground combat operations. In order to do this, Army had a goal to increase power lethality by increasing ABCT capacity within the Army by one. To cut cost and gain efficiencies, the Army uses pre-established BCTs to transition to ABCTs.

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

- Measure 3.1.a: Increase the number of ABCTs by one in FY 2018.
- Measure 3.1.b: Percent of availability of authorized Soldiers.
- Measure 3.1.c: Percent of on hand pacing items.

Performance Results: In October 2017, the Army began the conversion of the 2d Brigade, 3d Infantry Division (ID) at Fort Stewart, Georgia from an Infantry Brigade Combat Team (IBCT) to an ABCT. This is an increase of seven percent in ABCTs, increasing the Total Army quantity of ABCTs from 14 to 15, with 10 in the regular Army and five in the ARNG. The overall number of BCTs remains at 58 with 31 in the regular Army and 27 in the ARNG.

As of September 2018, 2d Brigade, 3d ID at Fort Stewart, Georgia has 101 percent of its authorized Soldiers with 91 percent available for deployment.

The Army also monitors the quantity of on hand pacing items to include tanks, artillery systems. Currently, 95 percent of these items are on hand at Fort Stewart, Georgia. The brigade has 98 percent of authorized pacing items on hand. Achieving high percentages of available Soldiers and on hand equipment is critical to a successful brigade-level training exercise in FY 2019.

The conversion of 2d Brigade, 3d ID at Fort Stewart, Georgia continues through FY 2018 into FY 2019. This brigade will execute a training rotation at the National Training Center in the summer of 2019 as part of its final certification before any planned deployments.

OBJECTIVE 3.2: *Re-stationing Forces*

On January 25, 2013, the Secretary of Defense directed a European Infrastructure Consolidation (EIC) analysis with a focus on reducing long-term expenses through footprint consolidation and eliminating excess capacity, while ensuring that our operational requirements are still supported. The Army, other services, and four joint-services working groups, identified and analyzed opportunities for consolidation of common support functions such as logistics, training, medical, command, control, communications, computers, and information technology. On November 13, 2014, the Secretary of Defense approved 26 EIC actions, of which the OSD assigned 20 to the Army for implementation. In May 2014, the Secretary of Defense approved an additional 13 EIC actions deemed as easy to achieve, bringing the total EIC actions to 33. The EIC actions completed in FY 2018 are listed below.

Performance Indicators: Table 9 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 3.2.a: Percent of EIC actions completed.

Performance Results: The Army received approximately $177 million across FY 2016 and FY 2017 from OSD for EIC implementation. In FY 2018 the Army spent approximately $86 million to implement EIC actions. The Army completed two additional EIC actions in FY 2018, bringing the total completed to 16 of 33 actions. Collectively, the 33 EIC actions require one-time costs across FY 2016-2024 of $326 million and will yield $165 million in annual savings beginning in FY 2024. The annual savings the EIC effort produces will provide beneficial outcomes for the Army and the Joint Force. The net effect is to reduce costs significantly; eliminate excess infrastructure; and validate the remaining European infrastructure without degrading strategic or operational capabilities.

TABLE 9. EIC Performance Results

EIC Performance Results	FY 2016	FY 2017	FY 2018
Number of EIC Actions scheduled to complete	2	1	3
Number of EIC Actions completed	3	1	2
Percentage	150%	100%	67%

OBJECTIVE 3.3: *Business Transformation Initiatives*

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

CPI efforts have improved logistics, program management, buying practices, headquarters restructuring, and other functions to enhance the effectiveness and efficiency of Army operations. The desired end state is an Army that: (1) strives to eliminate all process activity that does not directly lead to enabling operational capability and adaptability, (2) possesses a multi-disciplinary capability and institutionalizes various levels of this capability in Army training and schools, (3) employs technology to streamline the Army force generation processes, and (4) continues to improve the adaptability of generating processes through organizational redesign, innovation, and integration. The Army sustains its CPI strategy and approach to ensure that it applies the best methods and tools to the complex challenges that face the Army. CPI efforts result in direct cost savings or cost avoidance achieved from FY 2015 baseline, with a target of five percent increase annually.

In FY 2017, the Army established the BPR Center of Excellence (CoE) to institutionalize and improve the Army's approach to BPR. The initial planned capabilities were the establishment of the center of excellence, development of BPR curriculum, and the development of a cadre of trained BPR specialists to support Army business process owners with a target for delivery by the end of FY 2018. The BPR CoE currently supports training of a cadre of professionals to support the optimization of Army end-to-end business processes, provides evaluations of BPR efforts in support of the Business Capability Acquisition Cycle (BCAC), and continues to evolve the modernized BPR approaches to support the force.

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

- Measure 3.3.a: FY 2018 financial benefits conferred from CPI initiatives.
- Measure 3.3.b: Number of students trained in BPR Foundation course.
- Measure 3.3.c: Number of students trained in BPR Intermediate course.

Performance Results: Army leaders continue their efforts to streamline and improve Army processes, infrastructure and organization design. Since the Secretary of the Army and Chief of Staff of the Army initiated the CPI effort in FY 2006, the program has delivered an average annual financial benefit (savings and cost avoidance) of $1 billion. In FY 2018, the Army's CPI efforts resulted in a financial benefit (savings and cost avoidance) of $3.75 billion. This is an increase of nine percent over the FY 2017 amount.

In FY 2018, the BPR CoE reached full operational capability and began providing full service support. This followed the successful execution of preliminary training materials and a piloted BPR effort focused on enterprise identity management. The CoE has established a three-tiered training curriculum which culminates in an Army BPR Professional Certification. In FY 2018, 183 students completed the Tier One Foundation course and 35 students completed the Tier Two Intermediate course, with two preparing to enter Tier Three. The knowledge learned from these courses will support leaders as they continue to press the Army's strategic goal of reform.

OBJECTIVE 3.4: *Establish the Army Business Mission Area (BMA) business system information technology model (Figure 4) with major emphasis on the unification quadrant.*

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

FIGURE 4. BMA Business System Information

HIGH — PROCESS INTEGRATION — LOW

COORDINATION Unique businesses with a need to know Key platform capability: easy access to shared data for customer service, decision making, and integration	**UNIFICATION** ■ Single business with global process standards and shared global data ■ Key platform capability: standard business processes and global data access
DIVERSIFICATION ■ Independent businesses with different customers and expertise ■ Key platform capability: provide economies of scale through shared services without limiting independence	**REPLICATION** ■ Independent but similar business units ■ Key platform capability: standard business processes and systems for global efficiencies

LOW — PROCESS STANDARDIZATION — HIGH

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

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

Performance Results: In FY 2015, the Army developed a plan to reduce the number of defense business systems (DBS) in the Army portfolio by more than one-third. The target number of DBS for sunset during FY 2018 was 79 systems. The Army retired 123 legacy DBS investments during FY 2018. The Army exceeded the planned number by 44 systems and surpassed the 95 percent target established in the Army Business Strategy.

An Army Specialist cleans the windows of a UH-60L Black Hawk helicopter. (New Jersey National Guard photo by Mark C. Olsen)

Soldiers prepare to mobilize for training and will deploy to Afghanistan this spring in support of Operation Freedom's Sentinel. (U.S. Army photo by 1st Lt. Robert Barney)

People (Soldiers, Families, Army Civilians)

STRATEGIC GOAL 4: The Army must maintain the quality and viability of the all-volunteer force, as well as the many capabilities it provides the Nation, to sustain Soldiers, their Families and Army Civilians in an era of persistent conflict. Sustainment ensures that Soldiers and their Families have the quality of life they deserve which leads to improved retention rates.

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

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

To achieve the Army Vision of 2028, the Army must grow the Regular Army above 500,000 Soldiers, with associated growth in the National Guard and Army Reserve, by recruiting and retaining high quality, physically fit, mentally tough Soldiers who can deploy, fight, and win decisively on any future battlefield. Performance Indicators: Tables 10-14 display measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.1.a: Quality Percent Tier 1 Educational Credential Holders (Active Component).
- Measure 4.1.b: Total Enlisted Recruiting.
- Measure 4.1.c: Active Component End Strength. The number of Soldiers on active duty at the end of the FY; data as of June 30, 2018; includes Soldiers on Active Duty for Operational Support (over 1,095 days). Under presidential-declared states of national emergency, end-strength limits

may be waived. Goals and minimums of appropriate FY's identified within the *National Defense Authorization Act* (NDAA).

- Measure 4.1.d: Reserve (ARNG and USAR) End Strength. The number of Soldiers in ARNG and USAR; data as of June 30, 2018.
- Measure 4.1.e: Number of Soldiers reenlisted during a given FY against published goals.

Performance Results: While the recruiting environment is challenging, the Army remains committed to bringing only the very best into its ranks. The Army's goal is to achieve at least a 90 percent rate of new recruits with Tier 1 educational credentials, i.e., high school diploma or above. The Army has achieved approximately 95 percent Tier 1 recruits as of 4th Quarter FY 2018. 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.

The Army met all recruiting requirements in the Active Component, United States Army Reserve (USAR) and Army National Guard (ARNG) year-to-date end of September FY 2018.

The retention program continued to support the Army readiness by retaining Soldiers serving in high demand special skills areas. In FY 2018, the Army offered a selective retention bonus to attract and retain personnel in specific skill areas, including Special Forces, cyber, and language proficiencies. Additionally, the Army offered retention bonuses based on retention terms ($3,000 for five year/$6,000 for six year reenlistments). These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army to exceed its FY 2018 retention goal. The Army will continue to develop and implement programs to address Soldier retention.

TABLE 10. Quality Percent Tier 1 Educational Credential Holders (Active Component)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Tier 1 Goal	90%	90%	90%	90%	90%
Tier 1 Actual*	95%	98%	96%	96%	95%

*Actual data as of end of month September FY 2018.

TABLE 11. Enlisted Recruiting

	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Goal	FY 2018 Actual*	Percent Delta
Active Component	57,101	59,177	62,681	68,862	76,500	69,972	-8.5%
ARNG	43,280	38,430	33,135	34,298	44,342	34,629	-21.9%
USAR	14,595	14,971	15,865	13,272	15,600	11,327	-27.4%

*Actual data as of September 30, 2018. The Percent Delta does not have an adverse impact on Army Operational Readiness.

TABLE 12. Active Component End Strength

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Goal	520,000	490,000	475,000	476,000	483,500
Actual*	508,324	491,439	475,487	476,245	468,331
Percent Delta	-2.3%	+0.3%	+0.1%	+0.05%	-3.1%

*Actual data as of end of month June FY 2018.

TABLE 13. Reserve (ARNG and USAR) End Strength

	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Goal	FY 2018 Actual*	Percent Delta
ARNG	354,072	350,023	341,590	343,603	343,500	334,459	-2.60%
USAR	195,438	198,552	198,395	194,318	199,500	189,387	-5.10%

*Actual data as of end of month June FY 2018.

TABLE 14. Active, National Guard and Reserve Component Retention

	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Goal	FY 2018 Actual	Percent Delta
Active Component	51,628	50,083	55,181	58,373	50,050	49,717*	-0.70%
ARNG	43,817	35,713	31,319	31,530	36,060	26,247**	-27.20%
USAR	15,230	16,102	15,886	16,737	14,439	15,570***	7.80%

* AC retention data as of August 7, 2018.
** NGB retention data as of end of month June FY 2018.
*** RC retention data as of end of month July FY 2018.

OBJECTIVE 4.2: *Providing Warrior Care and Transition*

Provide centralized oversight, guidance, and advocacy empowering wounded, ill, and injured Soldiers, Veterans, and families through a comprehensive transition plan for successful reintegration back into the force or into the community with dignity, respect, and self-determination.

The U.S. Army Medical Command (MEDCOM) Deputy Chief of Staff, Warrior Care and Transition (DCS-WCT) serves as the Army proponent to oversee, integrate, and synchronize policy, advocacy, and execution for warrior care initiatives and the Army Wounded Warrior Program (AW2) as an integral enabler of Army readiness. The priority remains the more than 2,100 wounded, ill, and injured (WII) Soldiers currently enrolled in the Army's Warrior Care and Transition Program (WCTP). In conjunction with the WCT staff, an interdisciplinary team of 1,536 dedicated personnel work in concert providing support to WII Soldiers in 14 warrior transition units (WTUs) and community care units (CCUs) across the Army. The DCS-WCTs congressionally mandated mission remains providing the Army's wounded, ill, and injured Soldiers, Veterans, and their Families with the care, medical management, and transition support they need and deserve. As the cornerstone of the program, the Comprehensive Transition Plan (CTP) guides Soldiers through the Army's most difficult transition. The CTP, combined with a Soldier focused support system, ensure the enduring success of the WCTP.

The AW2 is a vital part of the WCTP, and provides personalized support to more than 16,000[1] Soldiers, Veterans, families, and their caregivers through recovery care coordinators (RCCs). Dedicated RCCs and the interdisciplinary team of the WCTP ensure access to benefits, resources, and enhanced care throughout the recovery and transition process.

Performance Indicators: Tables 15-19 display measures that are performance indicators in meeting the above objective.

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

- Measure 4.2.c: Percent of inspection compliance rates.
- Measure 4.2.d: Percent of Soldiers participating in a Career and Education Readiness (CER) worksite.
- Measure 4.2.e: Percent of eligible transitioning Soldiers to the Veterans Administration.

Celebrating Army's gold medal in wheelchair basketball, the final event of the 2018 DOD Warrior Games. (DOD Photo by Roger L. Wollenberg)

Performance Results: The focused access to care, training, and management of our Soldiers in transition directly increases total force readiness. To date, more than eight BCTs[5] worth of combat power, that entered the program, have returned to the force. Of the more than 76,000 that have completed the program, almost half have returned to duty, a rate maintained through the last three consecutive years. A dynamic policy and oversight team inspect each WTU no less than once each 18 months, ensuring the adherence to changing policies, procedures, and the spread of best practices, with an overall compliance rate of nearly 90 percent. Oversight and a continuing effort to improve the program have driven an increased participation in continuing education efforts, and rising liaison efforts between Soldiers transitioning, and the Veterans Administration. A program focused on efficient transition of the Soldier either to Veteran status or back to the force has continued to reduce Soldier time in the program by an average of almost 70 days over the past three years.

TABLE 15. End of Year Soldier Average Time in Program[2]

	FY 2016 End of FY Average (days)	FY 2017 End of FY Average (days)	FY 2018 Goal	FY 2018 End of FY Average (days)
Active Component	259	235	<235	208
ARNG	310	285	<285	234
USAR	359	336	<336	276
Average	292	266	<266	227

TABLE 16. Return to Force

	FY 2016	FY 2017	FY 2018
Active Component	31.63%	31.26%	30.64%
ARNG	58.06%	58.00%	57.94%
USAR	54.73%	54.37%	54.20%
Total Completed Program to Date	72,025	74,130	76,717
Total Returned to Force to Date	30,969	31,611	32,366
Average	43%	42.64%	42.19%

TABLE 17. Organizational Inspection Program (OIP) Averages

FY 2017 Inspection Compliance Rates	FY 2018 Goal	FY 2018 Inspection Compliance Rates (7 of 14 WTUs)
83.45%	85%	87.11%

TABLE 18. Soldiers CER Participation[3]

	FY 2016	FY 2017	FY 2018
Eligible (Average of each end of month total)	1,166	927	826
Participation (Average of each end of month total)	738	712	722
Percent Goal	90%	90%	90%
Percent Participation	63%	77%	87%

TABLE 19. Veterans Administration (VA) Warm Handoff[3, 4]

	CY 2015	CY 2016	CY 2017	CY 2018
Soldiers Eligible for Referral	2,761	2,477	1,883	1,885
Soldiers Referred	2,318	2,105	1,698	1,707
Percent Goal	90%	90%	90%	90%
Percent Referred	84%	85%	90.2%	90.6%

NOTES:

1. Population includes the 2,100+ Soldiers in transition in the WCTP.
2. "Time in Program" calculated by average days in the program at the time information was analyzed (last week of each FY).
3. Analysis includes all Army Components.
4. A successful "VA Warm Handoff" is defined as a completed VA Form 10-0454 (Military Treatment Facility Referral Form to VA Liaison) being sent electronically by a Soldier's Nurse Case Manager to the nearest Veterans Administration (VA) and the Soldier subsequently meeting with the VA Veterans Health Administration counselor to complete the form. At this point, the data is entered into the VA's Federal Case Management Tool and the Soldier is considered as having been referred.
5. By returning a SFC to active duty instead of separation, the Army saves $988,000.

Friends, family, leaders and fellow Soldiers come to Fort Drum to welcome home Soldiers who went to support the Army's response to Hurricane Florence. (U.S. Army photo by Sgt. Keegan Costello)

People are the Army's most valuable assets and are critical to achieving all aspects of the Army mission. Taking care of Army Service members, their families, and civilian staff, is a commitment that the Army continues to honor.

OBJECTIVE 4.3: *Improving Soldier and Family Housing*

The Army has pledged to provide for Soldiers and their Families a quality of life commensurate with their service. The Army continues to receive Congressional support for housing programs in order to improve both family housing (FH) and unaccompanied housing (UH) to enable the Army to fulfill its pledge. The Army continues to eliminate inadequate family housing at enduring locations through replacement and improvement projects, and divestiture of excess or substandard inventory.

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

The Army supports securing adequate and affordable housing on the local economy for the approximately 70 percent of Soldiers with Families through the Housing Services Offices at the Army garrisons worldwide. The Army maintains about 10,500 Army-owned family housing units and seeks to improve or replace inadequate family residences to achieve an inventory that consists of 90 percent being quality-rated Q1 or Q2. If necessary, the Army programs for FH construction projects to build inventory where there are quality and/or quantity deficits.

The Army has also utilized FH and UH privatization options to deliver adequate housing.
The Army's Privatized Family Housing - Residential Communities Initiative (RCI) privatized family housing exists at 44 installations in the United States, Alaska and Hawaii for an end-state inventory of 85,288 family homes. The Army RCI program also has five UH privatization projects at Forts Irwin, Drum, Bragg, Stewart, and Meade. The Army's plans to eliminate inventory of inadequate lodging at locations in the United States, Alaska, Hawaii and Puerto Rico through the Privatized Army Lodging (PAL) program. The PAL program operates at 40 installations.

As of the end of FY 2018, the UH, also known as barracks, portfolio is vast. The Office of the Assistant Chief of Staff for Installation Management is responsible for over 6,851 UH buildings that encompass over 310,000 spaces. The types of UH include permanent party, training, and transient;

Changing of the Guard at the Tomb of the Unknown Soldier at Arlington National Cemetery. (U.S. Army photo by Elizabeth Fraser)

the Army tracks from construction, to occupancy or vacancy, and until demolition or conversion to other uses.

The Army has deliberately focused on improving the quality of the permanent party (PP) and training (T) UH and have established plans to raise the quality ratings to meet and exceed the OSD goal and is tracking that progress. Recently the Army conducted a Program Objective Memorandum Planning Tasker for transient training (TT) UH in order to bring more focus on the improvement. The analysis identified Q3/Q4 housing, and specific repairs necessary for each TT UH to bring it to Q1. Senior Leadership approved additional resourcing to improve the quality of TT UH. Goals and measures for improvement of TT UH have been established to meet the goal of Q1/Q2 by FY 2025.

OBJECTIVE 4.3.1: *Family Housing*

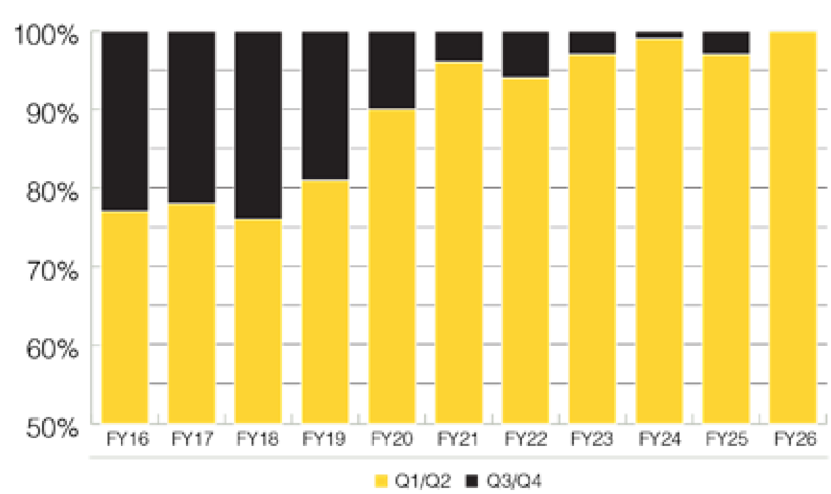
Office of the Assistant Chief of Staff for Installation management (OACSIM) will achieve the OSD 90 percent goal of Army FH inventory rated Q1 and Q2 by the end of FY 2020. No Soldier in housing rated Q4 by 2021.

Performance Indicators: Figure 5 displays measures that are performance indicators in determining progress in meeting this objective.

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

Performance Results:

FIGURE 5. Family Housing with Quality Rating 1-4



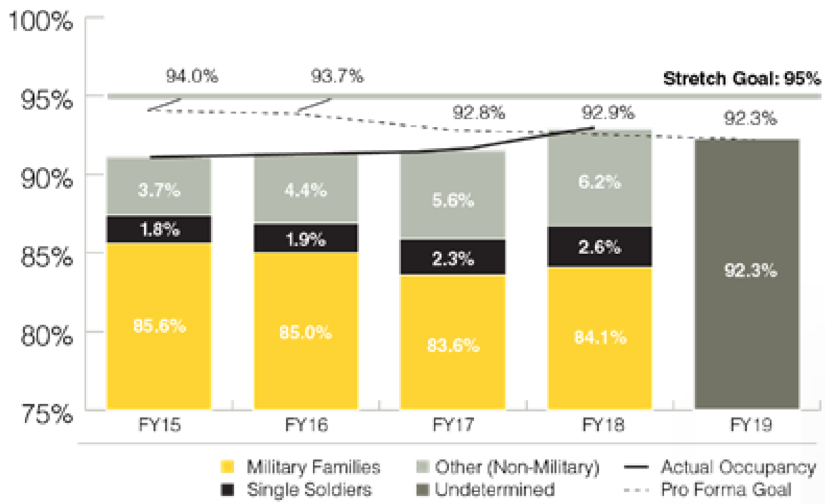
OBJECTIVE 4.3.2: *Maintain occupancy program occupancy rate at or above business plan.*

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

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

Performance Results:

FIGURE 6. Occupied Military Housing



*Data as of July FY 2018

OBJECTIVE 4.3.3: *Soldier Housing*

Army Barracks- OACSIM will achieve the OSD 90 percent goal of Q1/Q2 inventory for PP UH in FY 21, T UH in FY 2018 and TT UH in FY 2025. No Soldiers in barracks rated Q4.

Performance Indicators: Figures 7 – 9 display measures that are performance indicators in determining progress in meeting this objective.

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

Performance Results: Overall, Army achieved the OSD goal of 90 percent Q1/Q2 for Training Barracks in FY 2018. Although there are still Soldiers in Q3/Q4 housing, Army is on track to achieve the OSD goal for Permanent Party by end of FY 2021 and Transient by end of FY 2025.

For permanent party barracks, the Army had 197,472 spaces in FY 2016; 84 percent were rated Q1/Q2. The Army had 185,839 spaces at the end of 2nd Quarter FY 2018; 87 percent at Q1/Q2.

For training barracks, the Army had 95,625 spaces in 2016; 87 percent were rated Q1/Q2. The Army had 95,788 spaces at the end of 2nd Quarter FY 2018; 92 percent at Q1/Q2.

For transient barracks, the Army had 58,731 spaces in FY 2016; 61 percent were rated Q1/Q2. The Army had 65,950 spaces at the end of 2nd Quarter FY 2018; 64 percent at Q1/Q2.

FIGURE 7. Permanent Party (PP) UH

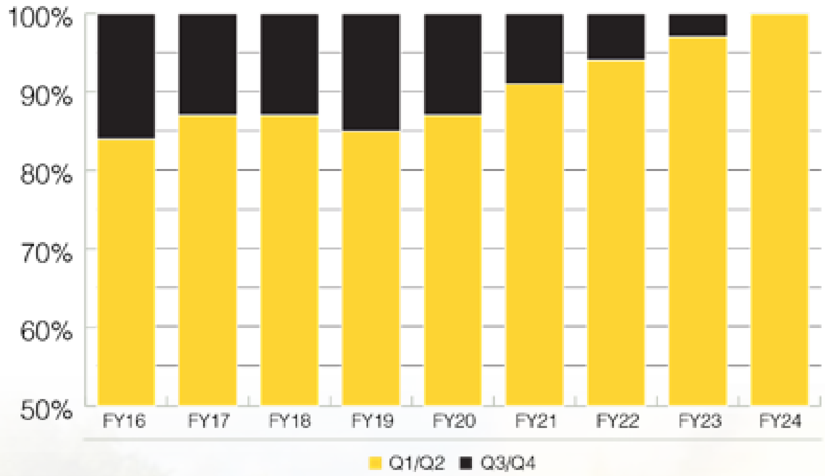


FIGURE 8. Training (T) UH

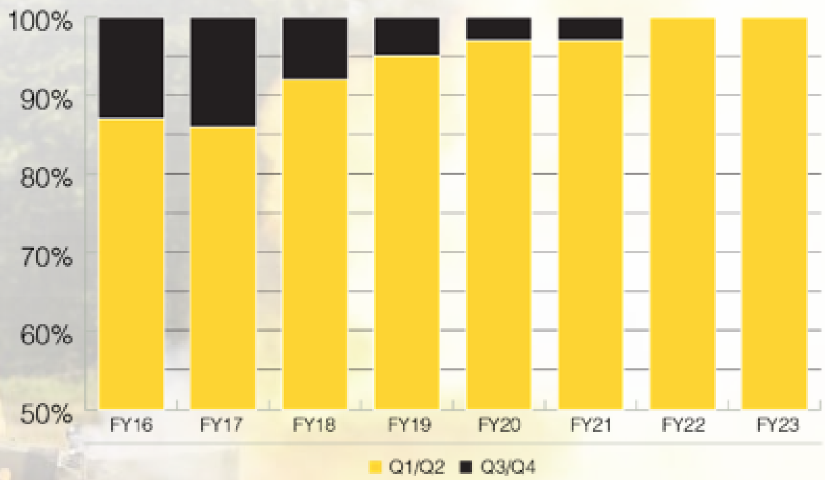
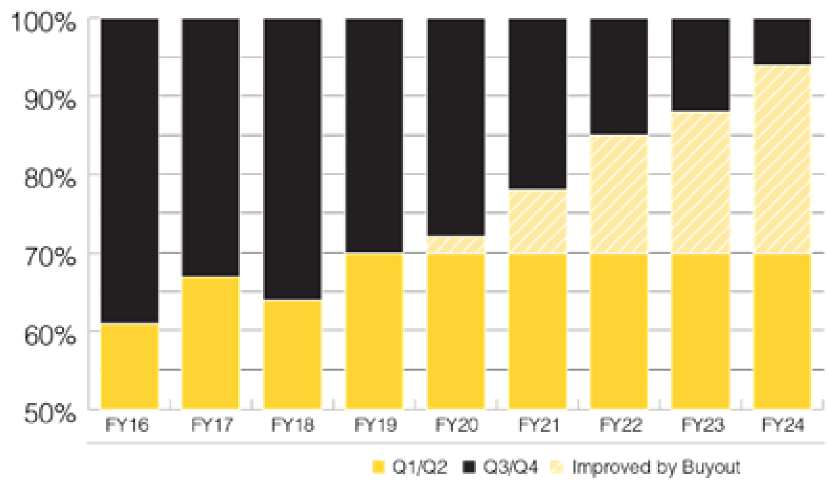


FIGURE 9. Transient Training (TT) UH




Paratroopers cross a river at Fort Bragg, NC. (U.S. Army photo by Maj. Thomas Cieslak)

OBJECTIVE 4.4: *Enhancing the Civilian Workforce*

Enhancing the civilian workforce includes filling vacant civilian positions as timely as possible to meet mission requirements while still executing within budget. The Army civilian workforce includes over 295,000 employees working in nearly 500 unique job series – comprising about 22 percent of the Total Army Force. Civilians work as Appropriated Fund (AF) employees, including dual-status military technicians working for the Army National Guard; Non-appropriated Fund (NAF) employees in support of Morale, Welfare, and Recreation (MWR); and Civil Works funded employees. NAF and Civil Works are not reported in the Army statements. The Army also employs foreign nationals (FNs) in both a direct hire and indirect hire status. As of the 3rd Quarter FY 2018, civilian strength by category was as follows:

TOTAL: 295,500	
Appropriated Fund:	**243,793**
US Direct Hire:	224,002
(includes 27,096 Army National Guard Techs)	
FN Direct Hire:	6,794
FN Indirect Hire:	12,997
NAF:	**27,139**
Civil Works:	**24,568**

Key Initiatives and Activities:

- *Department of the Army Reform Initiatives:* On April 16, 2018 the Secretary of the Army released a memo, the purpose of which is to, "Push authorities and responsibilities down to the lowest level capable and competent of exercising them". The goal of the reform initiative is to free up time, money, and manpower that can be redirected to other priorities. This initiative is expected to result in several efforts, which could reshape HQDA, Commands, FOAs, and DRUs, and would potentially impact the size, composition, and distribution of the civilian workforce. Additionally, one of the Secretary's priorities is to improve civilian hiring with a focus on the time it takes to complete the end-to-end hiring processes and onboard employees.

- *Program, Analysis, and Evaluation (PA&E) Reductions Memo:* On May 11, 2018 the Director of PA&E released a memo directing the reduction of the funding associated with management headquarters, civilian manpower, and military technicians. The Secretary of the Army reform initiative and PA&E reductions provide an opportunity for the Army to rebalance its workforce.
- *Mission Critical Occupations (MCOs)*: During 2nd and 3rd Quarter FY 2018, the Army conducted an OSD-directed review of the Army's MCOs. The Army developed a decision support tool and utilized criteria outlined by OPM to determine an updated list of occupational series for inclusion as MCOs. Fifty-one occupational series were selected; a decrease from the previous 80 occupational series. This updated list was incorporated into this submission. The Army will continue to refine the MCO decision support tool for future iterations.

Actions taken in FY 2018 includes (1) Establishing direct hire authorities for cyber, financial management, recent graduates/post-secondary students, depots, ranges, and test facilities; (2) Improving human resources (HR) and management awareness and understanding of hiring authorities and flexibilities; (3) Starting a pilot to provisionally hire after Federal Bureau of Investigation fingerprinting to reduce onboarding time; (4) Onboarding regardless of pay period start date; and (5) Establishing a Civilian hiring governance board (partially implemented).

The Army plans to implement a variety of things in FY 2019 and beyond to improve time to hire. This includes: (1) Reduce time for security screening by streamlining process; (2) Revise verification requirements for pre-employment/occupational health physicals; (3) Invest in HR training and resourcing; (4) Improve automation and HR systems; (5) Priority placement program (PPP) revision; (6) FY 2020 NDAA - Further expand Civilian personnel flexibilities and reduce restrictions for Veterans Preference; and (7) Civilian personnel management (CPM) reform initiative.

OBJECTIVE 4.4.1: ***Execute Army Civilians (Full-Time Equivalents) within two percent (98-102 percent) of the President's budget (authorizations).***

Performance Indicators: Table 20 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.4.1.a: Percentage execution of Civilians onboard versus authorizations in the *President's Budget*).

Performance Results: Currently, the Army is executing at 101.2 percent of its FY 2018 Presidential Budget authorizations and is currently projected to execute slightly above 100 percent in FY 2019. Over-execution directly impacts Army Civilian readiness as civilian pay is a "must pay" account and over-executing by too much may require fiscal tradeoffs. Natural attrition and adjusted hiring practices aid the Army in avoiding over-execution of civilian pay.

The Army is currently meeting and has been meeting the goal for this objective. At the end of

FY 2017 the Army was executing at 99.4 percent of its FY 2017 Presidential Budget authorizations. Civilian execution has increased slightly in FY 2018, but is still within manageable levels. This is expected as we get closer to the drawdown goals for FY 2019. Given upcoming reductions in FY 2020, we can expect the Army to have challenges in meeting these targets, since attrition usually outpaces the budget reductions.

TABLE 20. Civilian Execution Percentage

Measure	Goal	Q1 FY18	Q2 FY18	Q3 FY18
Civilian Execution Percentage (On-Board vs. FY18 Auths PB18)	98%-102%	100.8%	100.9%	101.2%

Year End FY 2018 data was not available at the time of AFR publication.

OBJECTIVE 4.4.2: *Less than 20 percent (10 MCOs) of MCOs below 90 percent fill.*
Performance Indicators: Table 21 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.4.2.a: Number of MCOs below 90 percent fill (onboard versus Tables of Distribution and Analysis (TDAs) authorizations).

Performance Results: Army MCOs are presently executing at 109.2 percent of TDA authorizations. However, 12 percent of MCOs (6 out of 51 MCOs) are executing below 90 percent, with four of the six in the medical field. While execution rates in the aggregate are over 100 percent, several MCOs have historically experienced higher turnover rates. Expedited hiring authorities and workforce shaping plans help in reducing the number of MCOs executing below 90 percent of authorizations.

As of 3rd Quarter FY 2018, with 6 MCO's below the 90 percent fill, the Army was meeting the goal of below 10 MCO's for this objective. At the end of FY 2017, the number of MCOs below 90 percent fill were 18 which did not meet the goal. The year-over-year improvement was due in part to the drawdown of the Civilian workforce.

TABLE 21. Number of Army MCOs below 90 Percent Fill

Measure	Goal	Q1 FY18	Q2 FY18	Q3 FY18
Number of Army MCOs below 90% Fill	Less than 10	13	13	6

Year End FY 2018 data was not available at the time of AFR publication.

OBJECTIVE 4.4.3: *Average Civilian fill time below 80 days.*
Performance Indicators: Table 22 displays measures that are performance indicators in determining progress in meeting this objective.

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

Performance Results: As of 3rd Quarter FY 2018, the average hiring time is 94.6 days; 14.6 days above Army's goal of 80 days. The total number of hiring actions increased by 26 percent compared to the previous quarter. With ongoing efforts to streamline hiring and on-boarding processes, hiring times are projected to decline.

By the 3rd Quarter of FY 2018, the average fill time has improved by over six days from nearly 102 days at the end of FY 2017. It is forecasted to continue to improve into FY 2019 and beyond as we continue to work ongoing initiatives to improve time to hire.

TABLE 22. Average Civilian Fill Time

Measure	Goal	Q1 FY18	Q2 FY18	Q3 FY18
Average Civilian Fill Time	Less than 80 days	100.4	99.6	94.6

Year End FY 2018 data was not available at the time of AFR publication.

CONCLUSION

Given the threats and challenges ahead, it is imperative the Army has a clear and coherent vision of where we want to be in the coming years. We must retain our overmatch against all potential adversaries and remain capable of accomplishing our mission in the future. The Army must continue to increase readiness, improve modernization, and increase capacity through effective reform. Readiness remains unequivocally our number one priority—it underpins everything the Army does. We have an opportunity to improve readiness and prepare for the future. However, building a professional Army takes time. To build readiness, Soldiers require specialized and sufficient training; modern, properly maintained equipment; sufficient quantities of the proper munitions; and stability. These efforts ensure that our Soldiers are ready for the missions of today, as well as for the unforeseen conflicts of tomorrow.

Validating the 15-degree rule with a soldier during a combined arms live-fire exercise. (U.S. Army photo by 1st Lt. Ryan DeBooy)

General Fund

ANALYSIS OF FINANCIAL STATEMENTS

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

The Army Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army, pursuant to the requirements of the *Chief Financial Officers (CFO) Act of 1990* and the *Government Management Reform Act of 1994*. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2017 to FY 2018. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheet

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

Figure 10 shows the Army Assets Comparison as of September 30, 2018 and 2017. Total assets amounted to $302,459 million in FY 2018 and $291,717 million in FY 2017, a 3.7 percent increase. This increase is mainly attributed to an increase in the Fund Balance with Treasury balance to $121,988 million in FY 2018 from $108,095 million in FY 2017.

FIGURE 10. Assets Comparison

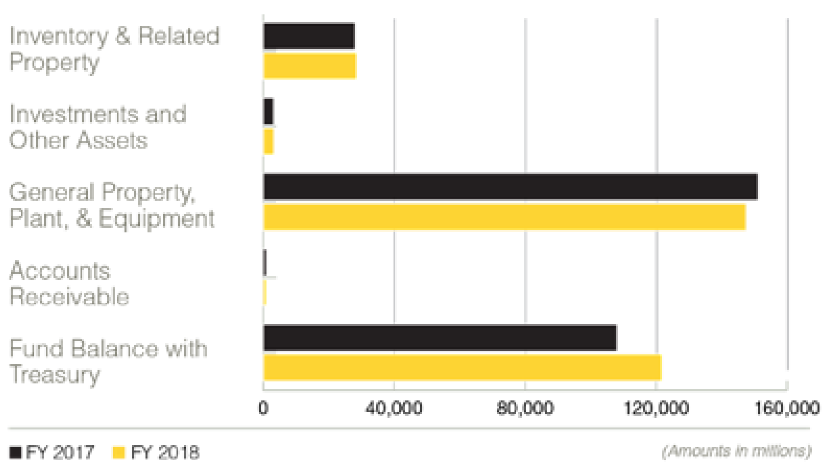
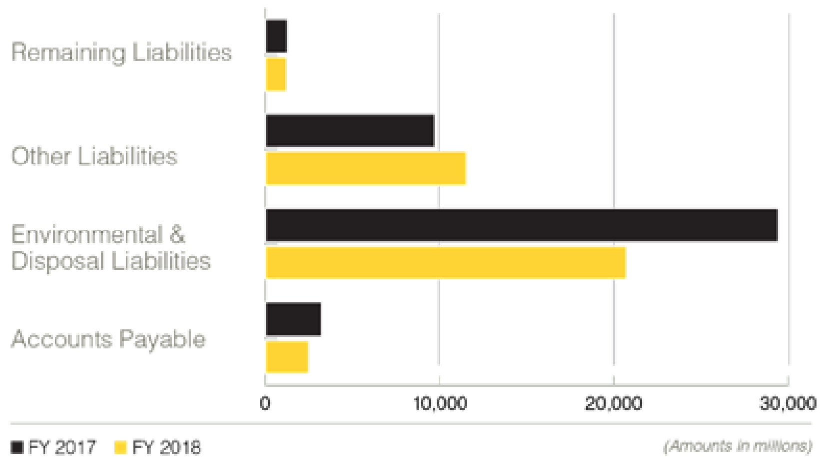


Figure 11 shows the Army Liabilities Comparison as of September 30, 2018 and 2017. Total liabilities amounted to $36,037 million in FY 2018 and $43,702 million in FY 2017, a 17.5 percent decrease. This decrease is primarily attributed to a decrease in Environmental & Disposal Liabilities from $29,446 million in FY 2017 to $20,719 million in FY 2018, specifically the transfer of Assembled Chemical Weapons Alternatives and Chemical Material Agency liabilities to Other Defense Organizations.

FIGURE 11. Liabilities Comparison



Consolidated Statements of Net Cost

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

The major elements of the Consolidated Statements of Net Cost include program costs totaling $160,042 million in FY 2018 and $142,418 million in FY 2017, and earned revenues amounting to $6,633 million in FY 2018 and $6,590 million in FY 2017. These amounts are comprised of both intragovernmental and public costs. Total net costs of operations increased by $17,580 million, or 13 percent, which is attributed to the two factors below.

Procurement costs increased by $13,407 million, or 1768 percent. Costs increased in FY 2018 due to a higher proportion of noncapitalizable costs incurred during FY 2018, particularly within the Other Procurement appropriation, relative to the prior year.

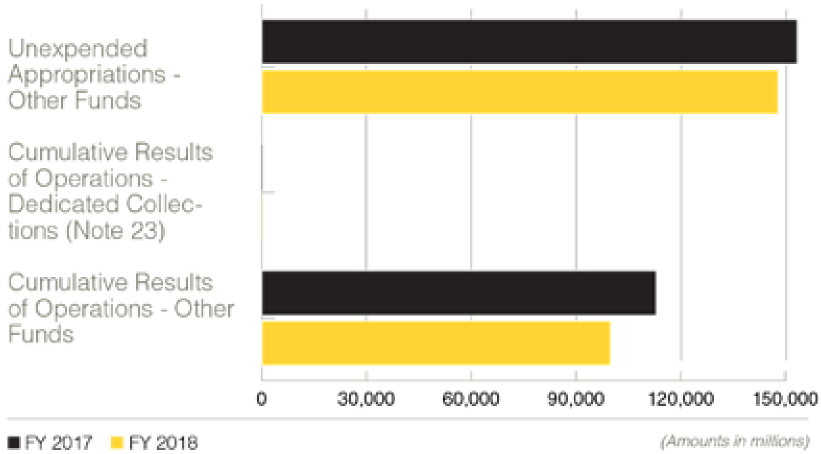
Earned revenue increased by $43.7 million or 0.7 percent. The Intragovernmental Earned Revenue increase is primarily attributable to higher revenues realized this fiscal year within the various Procurement and Research, Development, Test and Evaluation appropriations.

Consolidated Statements of Changes in Net Position

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

Figure 12 shows the three components of the Army net position for FY 2018 and FY 2017. Total net position amounted to $266,422 million in FY 2018 and $248,014 million in FY 2017, a 7.4 percent increase. The increase is attributed to an increase in “Unexpended Appropriations – Other Funds” from $100,009 million in FY 2017 to $112,956 million in FY 2018.

FIGURE 12. Net Position

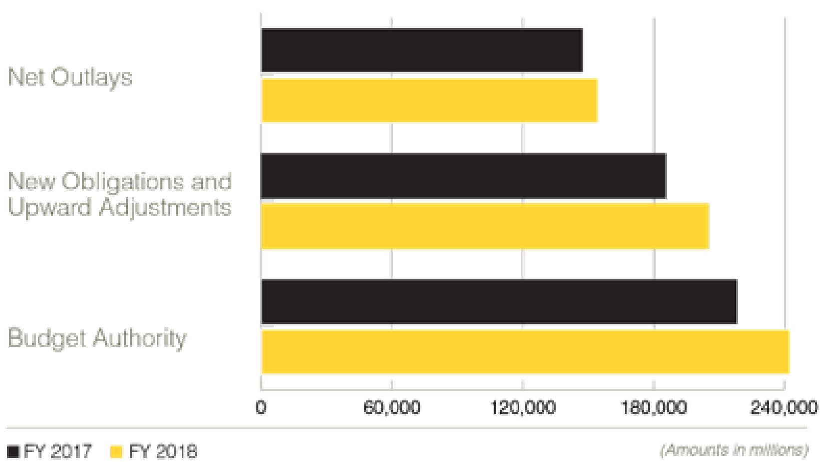


Combined Statement of Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Army as of September 30, 2018 and 2017, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments results from an order placed, contract awarded, or similar transaction, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by the Department of the Treasury for Army obligations.

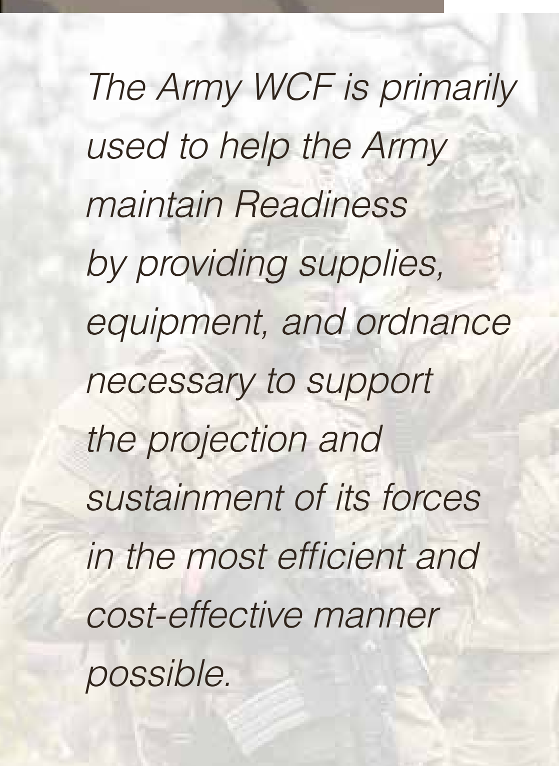
Figure 13 shows a comparison of budget authority, new obligations and upward adjustments and gross outlays in FY 2018 and FY 2017. The reported total Army budget authority was $242,522 million and $218,641 million as of September 30, 2018 and 2017, respectively. New obligations and upward adjustments amounted to $205,213 million as of September 30, 2018 and $185,753 million as of September 30, 2017. Net outlays amounted to $154,287 million as of September 30, 2018 and $147,796 million as of September 30, 2017. The increase in budget authority is due to increases in overall Army GF appropriations received and in spending authority from offsetting collections (reimbursable authority).

FIGURE 13. Budgetary Resources



Soldiers conduct safety checks and prepare a UH-60 Black Hawk for air assault training. (U.S. Army photo by Spc. Andrew McNeil)

18



The Army WCF is primarily used to help the Army maintain Readiness by providing supplies, equipment, and ordnance necessary to support the projection and sustainment of its forces in the most efficient and cost-effective manner possible.

Management's Discussion and Analysis

ARMY WORKING CAPITAL FUND OVERVIEW

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

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

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

Appropriated Funds

The Army WCF operates without significant direct appropriations, therefore, operations generally have no fiscal year limitation on obligating funds. Army requests appropriated funds from Congress in some circumstances for various reasons. The Army requests direct appropriations to maintain capacity and capability to meet mobilization and wartime surge requirements. This enables stable and competitive rates for its peacetime customers. For FY 2018, the Army WCF received $232.9 million in appropriated funds. The difference in what was received in FY 2017 is attributable to changing requirements for expenses supported by direct appropriations.

(Dollars in millions)	FY 2018	FY 2017
Appropriations Received	$232.9	$245.0

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

The Army WCF incurs expenses and generates revenue from the sale of goods and the provision of services for a fee. The Army WCF is a big business, with an FY 2018 gross revenue totaling about $18.8 billion. Most of the revenue comes from sales to Army customers. To compare Army WCF revenue to private sector firms, its revenue approximates the revenues of recognizable brands like Visa and Kohl's (*Fortune 500 list – 2018. Revenues in millions*):

118	Northrop Grumman	$	25,803
131	McDonald's	$	22,820
157	Kohl's	$	19,095
161	Visa	$	18,358
165	PNC	$	18,035

Accumulated Operating Result (AOR)

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

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

An Army pilot prepares his UH-60M Black Hawk helicopter for flight before conducting rappelling training. (U.S. Army photo by Spc. Rolyn Kropf)

Net Operating Result (NOR)

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

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

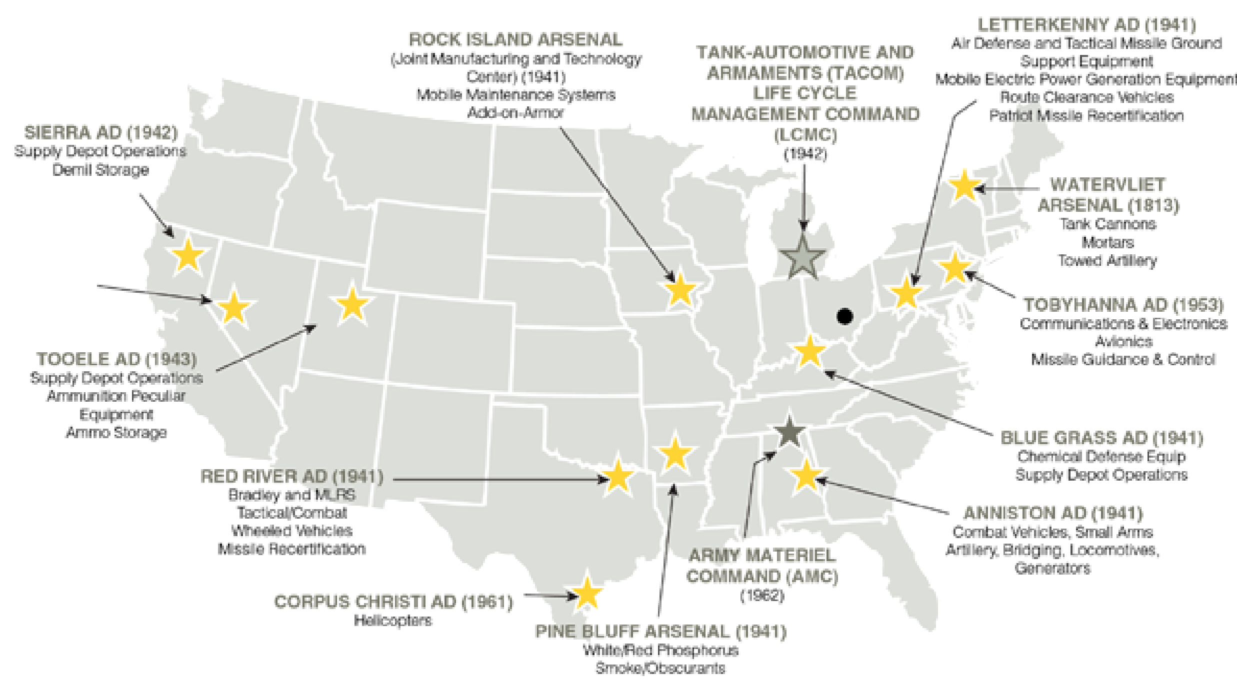
See the Performance Goals section for additional discussion on the AOR and NOR.

ARMY MATERIEL COMMAND

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

The following figure displays the Army WCF activities within AMC:

FIGURE 1. Army Materiel Command Army Working Capital Fund Activities



U.S. Soldiers fire a howitzer. (U.S. Army photo by 2nd Lt. Jamie Douglas)

BUSINESS APPROACH

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

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

Supply Management, Army (SMA)

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

- Aviation and missiles
- Communications-electronics

- Tank-automotive and armaments
- Non-Army managed items

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

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

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

The Performance Goals section discusses operational results.

Industrial Operations

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

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

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

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

The Performance Goals section discusses operational results.

Using the Javelin Basic Skills Trainer during a training event. (U.S. Army photo by Spc. Hubert D. Delany III)

PERFORMANCE GOALS, OBJECTIVES AND RESULTS

The AMC strategic plan builds upon the Army's Strategic Goals; focusing on three strategic priorities: Strategic Readiness, Future Force, Soldiers and People. These strategic objectives synchronize Army and AMC priorities and establish AMC's organizational strategy to operationalize the command as the Army's materiel integrator. Many of the AMC strategic activity results are reported as part of metrics for the overall Army's accomplishments. The Army WCF results fall mainly into the Strategic Readiness priority. The following two sections discuss Operational and Strategic Plan Measures and results as they relate to the Army's working capital funded activities' achievements.

Operational Measures and Results

Net Operating Results and Accumulated Operating Results

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

TABLE 1: Net and Accumulated Operating Results by Activity Group

(Amounts in millions)	FY 2016	FY 2017	FY 2018
Industrial Operations NOR	(315.7)	(87.8)	(167.7)
Supply Management NOR*	(667.3)	723.6	2,265.0
Combined NOR	(983.0)	635.8	2,097.3
Industrial Operations AOR*	(546.0)	(633.8)	(801.5)
Supply Management AOR*	15,081.9	15,805.5	18,070.5
Component Level Adjustments	(143.4)	(143.4)	(143.4)
Combined AOR	14,392.5	15,028.3	17,125.6

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

Strategic Plan Measures and Results

Strategic Priority I: *Strategic Readiness*
AMC operationalizes its essential functions at the tactical, operational and strategic levels to assure sustainable strategic readiness.

Strategic Priority 2: *Future Focus*
AMC is postured at echelon to synchronize and integrate Science & Technology and Research & Development to defeat any adversary.

Strategic Priority 3: *Soldiers and People*
AMC ensures Logistics Corps Soldiers and the civilian workforce are trained and ready to execute directed missions in support of Army priorities and missions.

Strategic Readiness

PERFORMANCE GOAL: **Operational Readiness**

Objective 1.1: *Reduce On Hand Excess Inventory*

Performance Indicator (metric): Reduce Excess on Hand (EOH) inventory to reach the OSD goal of no more than 8% excess of total on hand.

Excess, Obsolete, and Beyond Repair inventory consists of scrap materiel or items that cannot be economically repaired and are awaiting disposal. Excess inventory is inventory that exceeds the calculated horizon requirements to meet the Army WCF mission. Obsolete inventory is inventory that is no longer useful because of obsolescence. Beyond repair inventory is damaged inventory that is non-reparable or more economical to dispose of than repair. Army WCF values EOH inventory at its expected net realizable value using an allowance account. Items on hand considered as excess, obsolete, or beyond repair are financially reported as having no realizable value until final disposition is made either to scrap or sell.

On Hand Excess Inventory *(Dollars in Millions)*		Fiscal Year 2018	Fiscal Year 2017	Difference
EOH Inventory (Note 9. *Inventory and Related Property*)	Gross value (net value is zero)	$125.6	$102.0	$23.6

To achieve Army readiness goals, it is essential to proactively manage the demilitarization and proper disposal for excess inventory. Ensuring that excess stocks are remedied to disposition or offered up to other customers allows the time and space to store material needed for Army missions. In support of readiness the focus is industrial base allocation for repair and overhaul activities, versus management of stocks no longer needed. Excess, Obsolete and Beyond Repair inventory increased from FY 2017 to FY 2018 mainly due to stock that is beyond repair and was being held for disposition. Due to a lower volume in disposals processed during FY 2018, this resulted in an increase in inventory held at the end of FY 2018.

Objective 1.2 Repair and Reset: *Repair or reset equipment to ensure and enhance unit readiness for deployments.*

The Army's Organic Industrial Base and their efforts to partner with industry are critical to the entire manufacturing and re-manufacturing process. These repair programs must continue through the end of any conflicts and for several years afterward to completely reconstitute equipment. Reset refers to a set of actions to restore equipment to a desired level of combat capability commensurate with a unit's future mission. Reset includes repair, replacement, and recapitalization.

Although defense contractor firms partner with the Army to perform repair and reset work, most is completed by IO depot activities and installations. They fulfill orders for SMA customers. The financial records show this as internal work performed (IWP). Recording the internal work this way ensures the revenues, expense, and other costs are not recorded twice (by both IO and SMA) in the Army's financial statements. The accounting impact would be duplicative, creating an overstatement in the reports. The special accounts used to record the internal transactions facilitates "eliminating" the duplication in the financial statements, but leaves an audit trail in the operating accounts for project management and other managerial analysis. Business between SMA and IO was approximately $1 billion for both FY 2017 and FY 2018.


A row of Mine Resistant Ambush Protected All-Terrain Vehicles (MATV) wait for repair inside a maintenance facility. (U.S. Army photo by SFC Michael Zuk)

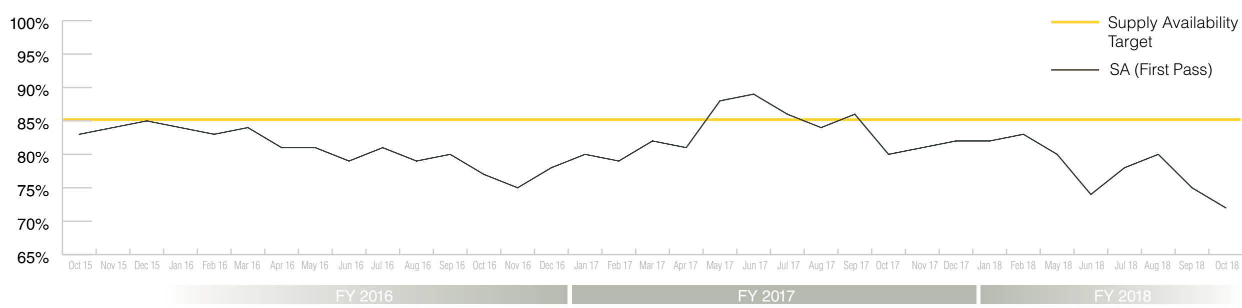
Due to the fact that we are in an era where there could be persistent conflict, the Army will continue to repair and reset equipment to ensure units are ready for deployments. Equipment reset efforts help reverse the effects of sustained combat operations, repairing or replacing equipment worn down or damaged to ensure the best capabilities are provided to Soldiers and combatant commanders for the next contingency or deployment.

Objective 1.3: Supply Availability: *Ensure Supplies/Stocks are available when needed*

Readiness is the number one priority for the Army. Supply Availability (SA) has long been the Army's standard for measuring supply chain effectiveness, right part at the right place in the right time to attain readiness requirements. Over the last 17 years, the supply chain for repair parts has been ready and resilient to support multiple theaters of contingency operations, training requirements, and humanitarian crises around the world. Every aspect and commodity of our supply chain have been extended, thus engaging all facets of the supply systems. After 15 years of focus on Counter Insurgency Operations (COIN), and shift to training for decisive action engagement, Army's supply chain continues to support multiple operations across all commodities. While the Army continues to refocus the priority to current missions, the supply chain becomes a critical readiness enabler.

There are multiple processes, transactions, and reviews that occur in the delivery of a part and the efficiency of all those activities are combined into one strategic measure. The Army's goal for SA is 85 percent, while the AMC strives to achieve supply chain responsiveness at 100 percent. In FY 2017 and FY 2018, AMC achieved an 82 percent availability factor.

FIGURE 2. Supply Availability (Percentage)



The Army has placed additional emphasis on all facets of the business and tactical elements of attaining supply availability goals, thus maintaining a supply chain that is flexible and responsive to the Warfighter needs. AMC has implemented several initiatives all focused on improving the overall supply chain, as well as the resulting metric of SA. Multiple teams across the enterprise are engaged in focus areas to identify rapid improvement opportunities through long term strategic investments in the supply chain. These improvement opportunities will be integrated into the Supply Chain Strategy to ensure Readiness and thus far have reduced non-mission capable supply time for Army stocks by 40 percent since FY 2016.

Objective 1.4: Operationalize Contracting: *Provide expeditionary, installation, and procurement contracting solutions to support operations worldwide and to develop future capabilities for the Army.*

Operationalizing contracting involves focusing on the capabilities and outputs being provided rather than the process and metrics like dollar obligated or numbers of actions awarded. The focus is on synchronizing and integrating contracting capabilities within the activity to achieve the desired outputs. Use of contractor support in the Army has been around since the American Revolutionary War. Besides the organic capability provided by government civilians and military, contractors have also provided services covering Soldiers' needs. An unofficial quotation heard in the Army Contracting Command (ACC) is "if they ride it, shoot it, eat it or wear it, contracting gets it". Integrating contracting support into operations improves processes, which should translate into enhanced Soldier readiness.

The ACC – a subordinate command of the AMC – has over 6,000 personnel at over 100 operating locations supporting Army priorities along three major lines of effort which includes weapons systems contracting supporting the development, production and sustainment of weapons systems.

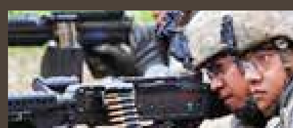
The six weapons systems contracting centers, primarily at Army Depots, accounted for about 88 percent of ACC's $69 billion in obligations during FY 2018. Their primary customers are the Army Futures Command, the Program Executive Officer/ Program Manager community as well as the AMC Life Cycle Management Commands.

FIGURE 3. Contracting Centers

ABERDEEN PROVING GROUND

Chemical/biological defense equipment, electronic sensors, night vision equipment, satellite communications, radars, radios

NEW JERSEY



Weapons, armaments, ammunition, information technology

ORLANDO

Simulation, instrumentation, training devices

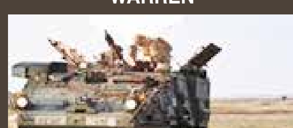
REDSTONE ARSENAL

Aviation, missiles

ROCK ISLAND

Ammunition, logistics, information technology, chemical demilitarization

WARREN



Combat and tactical vehicles, small arms and targetry, fire control systems, intelligence

Operationalizing contracting focusses on putting the contracting resources in or with the activity. As of FY 2018, the ACC had contracting representation in each major life cycle command, most depots and arsenals covering all commodity lines.

Operationalizing contracting involves taking the knowledge of source of operational support for activities and validating those mission-essential tasks. Knowing how to integrate the contracting support in the operations creates a positive return on investment. It also improves processes and controls that should translate into enhanced readiness for the Soldiers.

Audit Improvements

In addition to continuing progress in the AMC's Strategic priority areas, the Army accelerated its Audit Readiness timeline for the Army WCF. The Army WCF activities have spent the past year implementing corrective actions for deficiencies posing the most risk to impeding achieving a positive audit opinion. Further, the AMC, its commands, and activities are fully engaged with documenting and testing processes and controls for its systems to ensure all are effective and produce reliable information. In FY 2018, the Army achieved a 100 percent response rate related to samples issued by the auditor. This indicates a significant achievement for the Army and dedication to supporting the annual financial statement audits. Our service providers, especially the Defense Finance and Accounting Service (DFAS) and DLA, have also been implementing corrective action plans to remediate deficiencies in internal controls over financial reporting relevant to the Army WCF financial statements.

The Logistics Modernization Program (LMP), is the first Army Enterprise Resource Planning (ERP) system to remediate all of its Information Technology (IT) findings and is leading the effort to achieve an audit opinion on the Army WCF financial statements. The Logistics Modernization Program Product Office implemented corrective action plans to remediate all of the FY 2017 Notices of Findings and Recommendations the Army received for LMP IT General Controls. The Army received no findings related to the 31 LMP applications controls tested during the FY 2018 Army WCF Audit. This is a major achievement for LMP and the Army. Army Materiel Command, through the efforts of the LMP

Sustainment Division and the LMP Product Office, has also implemented a series of key system change requests to improve internal controls and reduce the risk of material misstatement on the Army WCF financial statements.

While sufficient, appropriate evidential matter isn't always available to support the sampled transactions, AMC, the Civilian Human Resources Activity, the Army National Guard, Forces Command (FORSCOM), Army Special Operations Command, and our service providers DFAS and DLA, gave their best effort to respond to every audit request and provide everything available to satisfy auditor requests.

Coordinating the planning and execution of site visits to perform walkthroughs and enable existence and completeness testing is not easy. It requires highly dedicated professionals, open communication, and the ability to be nimble and adjust course to account for unexpected circumstances. Our ability to execute this massive undertaking, without negatively impacting operations, is a significant achievement.

Possible Future Effects of Existing Conditions and Financial Demands

Today's political environment is one that almost ensures the likelihood for major contingency efforts in multiple areas at a time. Having a global Army presence throughout the last 15 years at a minimum has taken a serious toll not only on the operability of Army equipment, but has also created additional priorities for available funding in the Army.

The Army WCF operations are critical to providing supplies, materiel, and services that ensure unit and soldier readiness for current and future deployments and contingencies. As Army investments to promote readiness continue, the Army will likely expand investment in modernization to achieve greater future lethality and to build the future force and infrastructure through the entire organizational spectrum. This kind of process engineering will look across the entire Army enterprise including its doctrine, organization, training, materiel, leadership and education, personnel, and facilities (DOTMLPF).

The IO and SM activities of the AMC are within that spectrum. Within the discussion of performance goals and results, we identified the AMC's three strategic priorities - Strategic Readiness, Future Force, and Soldier and Civilians - and that its major focus was in the support provided to guarantee operational readiness.

A portion of the Army WCF operational activity also contributes to future force priorities by supporting science, technology, research and development efforts. Technological advances, the speed of innovation, proactivity and insight into the need for change are vital to transforming the Army, and preparing for war, contingency operations, and planning to defeat the adversary are no different.

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

Army WCF activities will ensure its people - Soldiers, civilians, and contracted support - are in line with the AMC's modernization aspirations to be strategic, innovative, agile, and credible. Successfully achieving these in a financially constrained environment will be the Department's challenge in keeping the Army and all other components and activities focused. In this uncertain worldview, the potential risk of failing to do so will have a negative impact on the Army's missions. Success will be met through readiness, modernization and reform to ensure our freedom.

A Soldier tackles a rope traverse obstacle. (U.S. Army photo by Spc. Ashley Low)

Working Capital Fund

ANALYSIS OF FINANCIAL STATEMENTS

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

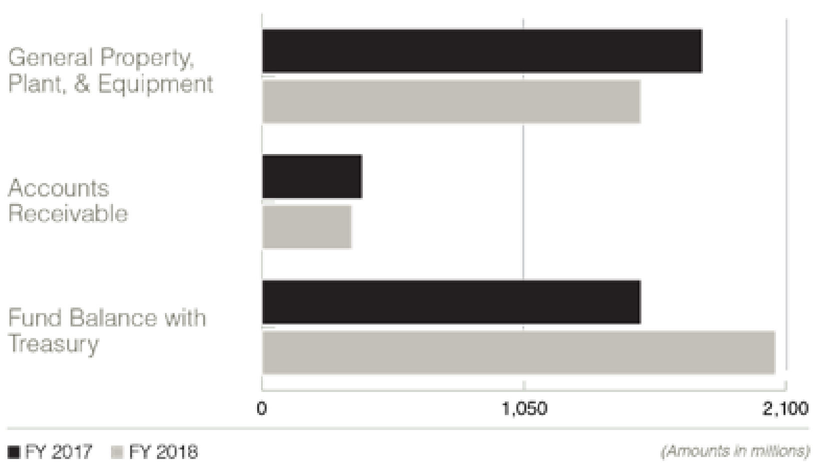
The Army Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army, pursuant to the requirements of the *Chief Financial Officers (CFO) Act of 1990* and the *Government Management Reform Act of 1994*. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2017 to FY 2018. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

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

Figure 4 shows the Army WCF Assets Comparison as of September 30, 2018 and 2017. Total assets amounted to $23,334.1 million in FY 2018 and $21,629.4 million in FY 2017, a 7.9 percent increase. This increase is mainly attributed to an increase in Inventory and Related Property to $19,317.2 million in FY 2018 from $17,850.7 million in FY 2017.

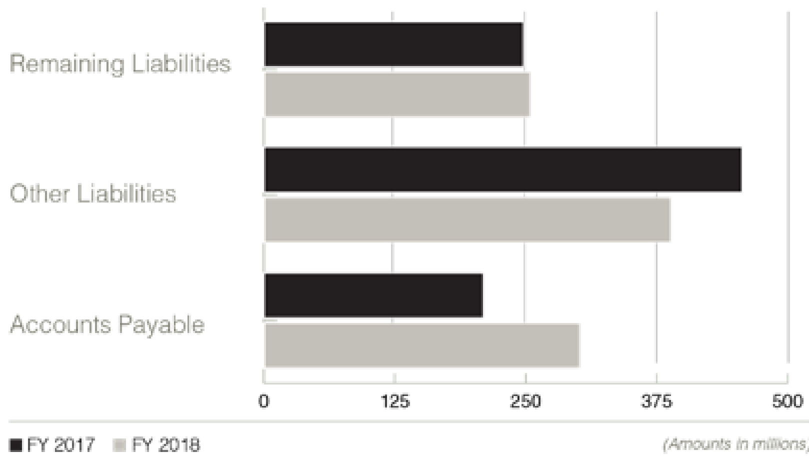
FIGURE 4. Assets Comparison



To maintain a meaningful presentation scale, Inventory and Related Property is not included in table.

Figure 5 shows the Army WCF Liabilities Comparison as of September 30, 2018 and 2017. Total liabilities amounted to $945.2 million in FY 2018 and $913.5 million in FY 2017, a 3.5 percent increase. This increase is primarily attributed to an increase in nonfederal Accounts Payable from $25.7 million in FY 2017 to $112.1 million in FY 2018, a 336.9 percent increase.

FIGURE 5. Liabilities Comparison



Consolidated Statements of Net Cost

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

The major elements of the Consolidated Statements of Net Cost include program costs totaling $17,412.3 million in FY 2018 and $26,312.3 million in FY 2017, and earned revenues amounting to $18,834.8 million in FY 2018 and $26,428.0 million in FY 2017. These amounts are comprised of both intragovernmental and public amounts. Total net cost of operations increased by $1,306.8 million, or 1129 percent, which is attributed to the two factors below.

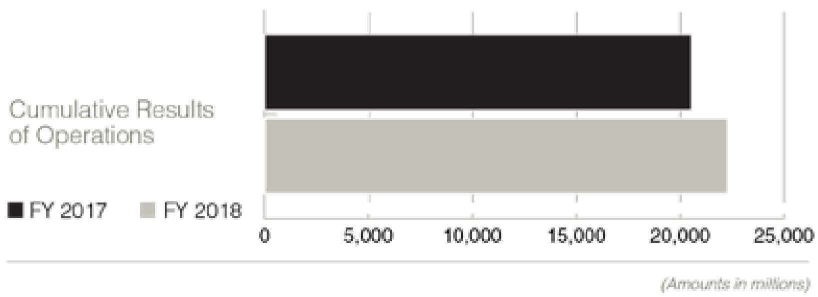
Gross costs decreased by $8,900.0 million, or 34 percent. Earned revenue decreased by $7,593.2 million or 29 percent. The gross costs and earned revenue decreases are attributable to lower levels of gains and losses recognized in FY 2018 relative to FY 2017.

Consolidated Statements of Changes in Net Position

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

Figure 6 shows the largest component of the Army WCF net position, Cumulative Results of Operations, for FY 2018 and FY 2017. Total net position amounted to $22,388.9 million in FY 2018 and $20,715.8 million in FY 2017, an 8.1 percent increase. The increase is attributed to an increase in Cumulative Results of Operations from $20,550.8 million in FY 2017 to $22,260.5 million in FY 2018.

FIGURE 6. Net Position



Combined Statement of Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Army WCF as of September 30, 2018 and 2017, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments results from an order placed, contract awarded, or similar transaction, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by the Department of the Treasury for Army obligations.

Figure 7 shows a comparison of budget authority, new obligations and upward adjustments, and gross outlays in FY 2018 and FY 2017. The reported total Army budget authority was $17,197.6 million and $15,767.4 million as of September 30, 2018 and 2017, respectively. The increase in budget authority is primarily due to an increase in Army WCF contract authority. New obligations and upward adjustments amounted to $13,733.0 million as of September 30, 2018 and $12,093.0 million as of September 30, 2017. Figure 9 shows a year to year comparison of net outlays as of September 30, 2018 and 2017, respectively. Net outlays amounted to $305.4 million as of September 30, 2018 and $290.8 million as of September 30, 2017. The increase in budget authority is primarily due to an increase in Army WCF contract authority.

FIGURE 7. Budgetary Resources

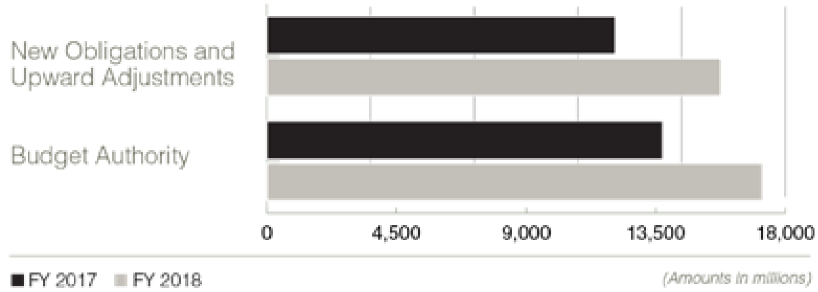
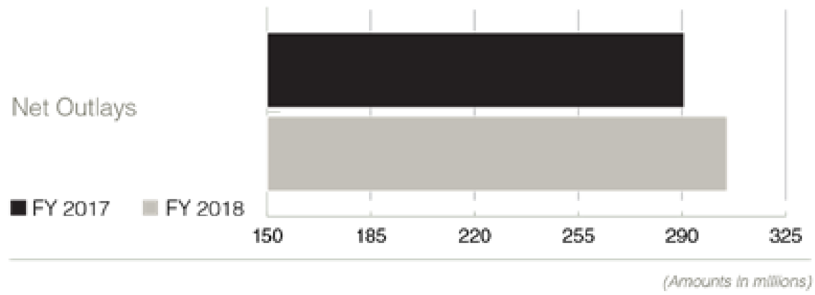


FIGURE 8. Budgetary Resources



MANAGEMENT ASSURANCES

Analysis of Systems, Controls and Legal Compliance

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

The Army operates a robust Manager's Internal Control Program in compliance with OMB Circular No. A-123 to employ a comprehensive system of continuous evaluation of internal controls. The Army's program is fully integrated with functional program control assessments. The objectives of the Army's system of internal control are to provide reasonable assurance regarding:

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

Internal Controls Governance

The Assistant Secretary of the Army for Financial Management and Comptroller (ASA (FM&C)) staff published an Army *Auditability Executive Order* (EXORD) in December 2017. This order outlined the roles and responsibilities of Army stakeholders in shaping the environment for the future attainment of unmodified audit opinions. The EXORD expands on the roles and responsibilities of the Army in becoming audit ready, including milestones associated with nine audit priorities, and also outlines the requirements for an appropriate audit governance structure. Each Reporting Organization develops and maintains an Internal Control Evaluation Plan (ICEP) for their organization. The ICEP maps out the key business processes and functional areas to be monitored over the next five years.

Internal Control Evaluation

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

In FY 2018, each reporting organization will refresh its ICEP to align with the risk priority areas. Specifically, higher risk areas will be monitored on a more frequent basis than lower risk areas. The ICEP previously reflected regulation testing minimum requirements. Testing is facilitated by the Department of the Army (DA) Form 11-2 and an internal control checklist with supporting documentation. Army Reporting Organizations conduct testing of the key processes listed on their ICEP facilitated by the DA Form 11-2. These forms are retained with evidence of the completed testing. Testing included identifying material key processes that was included in the risk assessments, developing test plans (with the consideration of nature, timing, and extent), selecting the testing method, executing testing of automated versus manual controls, and summarizing/analyzing the results.

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

Utilizing the ICEP process, and as stated in the Army's Annual Statement of Assurance dated October 26, 2018, the Army conducted its assessment of the effectiveness of ICOFR 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 modified statement of assurance that the internal controls over financial reporting were operating effectively, with the exception of 22 material weaknesses, as cited below. In order to address the findings associated with the weaknesses, the Army has implemented the necessary corrective actions across the organization. The Army continues to show progress in strengthening the internal control environment through leadership involvement and audit readiness training efforts.

In addition to the 16 ICOFR material weaknesses for the Army General Fund (GF) and Working Capital Fund (WCF), there are two ICOFS material weaknesses and four operational material weaknesses for a total of 22 material weaknesses.

The Army GF currently has 17 identified financial statement material weaknesses: (1) General Information Technology (IT) Systems Control; (2) Completeness; (3) Evidential Matter – Supporting Documentation; (4) Accrual Estimation Methodology; (5) Fund Balance with Treasury; (6) Inventory (Operating Materiel and Supplies); (7) General Property, Plant and Equipment; (8) Intragovernmental Eliminations; (9) Manual General Ledger Adjustments / Accounting Adjustments; (10) Statement of Net Cost; (11) Financial Reporting / Abnormal Account Balances; (12) Accounts Receivable; (13) Accounts Payable; (14) Statement of Budgetary Resources; (15) Reconciliation of Net Cost of Operations to Budget; (16) Contingency Payment Audit Trails; and (17) Beginning Balances.

During FY 2018 the Army GF resolved two previously auditor identified material weaknesses, Financial Management Improvements (Closed by KPMG) and Environmental Liabilities (Closed by Army Audit Agency); and a third, Service Provider Oversight, was downgraded by KPMG, from a material weakness to a significant deficiency.

The Army WCF currently has 10 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) Financial Reporting; (7) Accounting Adjustments; (8) Beginning Balances; (9) Completeness; and (10) Evidential Matter – Supporting Documentation. The Army WCF did not correct any of these material weaknesses during FY 2018.

The Army is working to remediate these weaknesses, devising corrective action plans (CAPs) to tighten service provider oversight and internal controls over financial reporting and creating a governance board through the Business Mission Area Champion (BMAC) framework to aid in the implementation and sustainment of changes to business processes, systems, and internal controls. Over 400 CAPs have been issued in response to these changes.

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

Also in accordance with OMB Circular No. A-123 the Army conducted its assessment of the reliability, effectiveness and efficiency of internal controls over non-financial operations in accordance with the FMFIA and the OMB Circular No. A-123. Based on the results of this assessment, the Army can provide a modified Statement of Assurance, except for four material weaknesses, that internal controls over non-financial operations were operating effectively.

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

The FFMIA as well as OMB Circular No. A-123, Appendix D, requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management system requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. Based on the results of this assessment the Army can provide a modified statement of assurance, except for two material weaknesses, that the internal controls over systems compliance were operating effectively.

UH-60 Black Hawk helicopters. (U.S. Army photo by Sgt. 1st Class Ty McNeeley)

Snipers conduct training to move slowly and deliberately to approach their target under concealment. (U.S. Army photo by Maj. Carson Petry)

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.), Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

This page left intentionally blank.

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

November 15, 2018

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

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Department of the Army General Fund Financial Statements and Related Notes for FY 2018 (Project No. D2018-D000FI-0084.000, Report No. DODIG-2019-020)

We contracted with the independent public accounting firm of KPMG, LLP, to audit the U.S. Department of the Army (Army) General Fund FY 2018 Financial Statements and related notes as of September 30, 2018, and for the year then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008.[1] KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army General Fund financial statements. As a result, KPMG could not conclude whether the financial statements and related notes were fairly presented in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army General Fund FY 2018 Financial Statements and related notes.

[1] In June 2018, the Government Accountability Office issued an updated Financial Audit Manual. KPMG updated its audit procedures to be in accordance with the updates issued in the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018.

KPMG's report discusses 12 material weaknesses related to the Army's internal controls over financial reporting. Specifically, KPMG found material weaknesses in Beginning Balances; Operating Materials and Supplies; General Property, Plant, and Equipment; Evidential Matter; General Information Technology Controls; Manual General Ledger Adjustments; Accounts Payable/Receivable; Environmental and Disposal Liabilities; Completeness; Financial Reporting; Fund Balance With Treasury; and Entity Level Controls. KPMG's report also discusses three instances of noncompliance with applicable laws and regulations.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed the audit results with KPMG representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we did not express, an opinion on the Army General Fund FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control, conclusions on whether the Army's financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether the Army complied with laws and regulations.

KPMG is responsible for the attached report, dated November 15, 2018, and the conclusions expressed in the report. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with GAGAS.

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

Lorin T. Venable

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

Attachment:
As stated

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

Independent Auditors' Report

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

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States (U.S.) Department of the Army (Army) General Fund (GF), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

The Department of Defense Office of Inspector General (DoD OIG) was engaged to audit the accompanying consolidated financial statements as of and for the year ended September 30, 2017. The DoD OIG's report thereon, dated November 7, 2017, expressed a disclaimer of opinion.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin Number (No.) 19-01, *Audit Requirements for Federal Financial Statements.* Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements.

Disclaimer of Opinion

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

KPMG

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In connection with our engagement to audit the consolidated financial statements as of and for the year ended September 30, 2018, we considered the Army GF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army GF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in

2

internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit I to be material weaknesses and Exhibit II to be a significant deficiency.

Army's management did not report the material weaknesses for Environmental Liabilities and Entity Level Controls in the Army's Annual Statement of Assurance for the year ended September 30, 2018, included in the MD&A section of the accompanying Army's Agency Financial Report.

Compliance and Other Matters

In connection with our engagement to audit the Army GF's consolidated financial statements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to perform an audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01, and which are described in Exhibit III.

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

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Management's Responses to Findings

Management's responses to the findings identified in our engagement are described in Exhibits I, II, and III. Management's responses were not subjected to the auditing procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 15, 2018

Exhibit I – Material Weaknesses

A. Beginning Balances

The United States (U.S. Department of the Army (Army) management did not have policies and procedures in place to perform a reconciliation over the completeness and accuracy, or provide supporting documentation of the opening balances for the fiscal year (FY) 2018 Army General Fund statement of budgetary resources, balance sheet, and statement of changes in net position. Army was unable to provide transaction level detail supporting general ledger balances and other adjustments to prior year balances for all systems.

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

Army has limited ability to reconcile, research, and compile supporting documentation for aged transactions. Management has undergone significant efforts to become auditable in recent years and considered it more beneficial to focus their efforts on populations and supporting documentation for current year transactions rather than for historical activity.

Beginning balances in the Army general ledger systems may not be supported by transaction level detail and may be incomplete, inaccurate, or not representative of existing transactions; which may result in a material misstatement to the Army General Fund financial statements.

Recommendations:

We recommend that management:

- Develop and implement internal controls and reconciliations to prepare complete and accurate populations for beginning balances reported in the financial statements.
- Compile supporting documentation for historical transactions to support that the transactions exist and were recorded completely and accurately and no adjustments are necessary.
- Expand current efforts and focus resources on preparing and maintaining support for beginning balances.

B. Operating Materials and Supplies

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

- Management did not provide sufficient appropriate supporting documentation to demonstrate the historical cost of OM&S was properly reported on the balance sheet.
- Management had not designed and implemented effective controls to determine that excess, obsolete, or unserviceable OM&S was completely and accurately reported at its net realizable value within the financial statements.
- Management did not consistently execute internal controls and maintain documentation over OM&S receipt, shipment, turn-in, production, issuance, account code, and condition code change transactions. As such, management could not consistently demonstrate that transactions were recorded completely and accurately in the correct accounting period, and that transactions were authorized, reviewed, and accurately recorded in the accounting records.
- Management did not consistently reconcile quantities recorded in the accounting system to observed OM&S quantities and feeder systems. Further, management was unable to provide transactional data that reconciled to the net change in the OM&S balance for a roll forward period.
- Management did not have effective controls to validate that all Army-owned OM&S was recorded and reconciled to the general ledger and items owned by other entities are excluded from the financial statements. Management also did not design, document, and implement controls to reconcile OM&S held at government owned, contractor operating locations to the balances reported in the financial statements.
- Management did not design, document, and implement controls to record operating expenses when OM&S is issued to end users.

The above conditions primarily resulted because of the following:

Management is in the process of valuing OM&S in accordance with *Statement of Federal Financial Accounting Standards* (SFFAS) Number (No.) 48; however, the valuation is not complete. Management had not fully designed and implemented controls to maintain historic supporting documentation for the valuation of OM&S, or estimating the net realizable value of excess, obsolete and unserviceable OM&S. Additionally, management did not record transaction level detail when financial events occur and system interfaces or manual reconciliations were not in place.

Further, management had not designed or implemented effective policies and procedures over the complete, accurate and timely recording, authorization, approval, monitoring, and reconciling of OM&S transactions and balances to the accounting system, recording OM&S related expenses, and providing all supporting documentation.

The criteria are as follows:

- Federal Accounting Standards Advisory Board (FASAB), SFFAS *3: Accounting for Inventory and Related Property*
- GAO, *Standards for Internal Control in the Federal Environment*
- Office of Management and Budget (OMB) No. A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*

As a result of deficiencies noted above, the potential exists that material misstatements in OM&S balances reporting on the balance sheet or related note disclosures would fail to be prevented, or detected and corrected.

Recommendations:

We recommend that management:

- Complete all the necessary steps to value OM&S balances in accordance with SFFAS No. 48.
- Design and implement policies, procedures, and controls over the following:
  - Maintaining sufficient appropriate supporting documentation to support controls and transactions.
  - Completely reporting excess, obsolete, or unserviceable OM&S in the financial statements and developing a methodology to report excess, obsolete, or unserviceable OM&S at net realizable value.
  - Validating that OM&S transactions are authorized, reviewed, recorded completely and accurately, and reconciled to the financial statements. Such processes and controls should include that assets owned by Army are reported by Army and assets owned by other entities are not reported by Army.
  - Reconciling OM&S held at government owned, contractor operating locations to the balances reported in the financial statements.
  - Provide training to key personnel to validate that policies and procedures are followed across all Army installations.
  - Recording expense transactions in the correct United States Standard General Ledger (USSGL) accounts when OM&S is issued to an end user for consumption in normal operations.

C. General Property, Plant and Equipment

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

- Army policies did not include instructions on how to conduct inventory counts and remediate discrepancies; accept new PP&E; track property held by contractors; accumulate and monitor costs for internal use software, construction in process, and non-Military construction; and monitor costs associated with transfer assets in or out of the accounting system.
- Management did not consistently have evidential matter including: the PP&E population, performance of reviews of PP&E information that is recorded into the property systems, valuation at historical cost, data integrity of acquisition dates, completeness at installations when plates were missing or inaccurate, and ownership.
- The Army and Army National Guard did not perform a secondary review of PP&E information that is recorded in the property systems.
- Army management did not have controls designed and implemented over the offline spreadsheet of PP&E information that is used in preparing the PP&E footnote and the manual calculation of accumulated depreciation for PP&E. Further, management did not provide a population that agreed to the general ledger. The Army also assigned useful lives for general equipment assets that was inconsistent the OSD useful life policy.

The above conditions primarily resulted because Army management did not design and implement policies and procedures to identify all key risks associated with PP&E, including all of the relevant financial statement risks and related internal controls to address such risks, and Army personnel were not trained to properly record or provide populations of PP&E transactions.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- Army Regulation 405-45, *Real Property Inventory Management*
- The Department of Defense (DoD), *Financial Management Regulation (FMR)*
- SFFAS No. 6 *Accounting for Property, Plant, and Equipment*
- DoD *Strategy and Implementation Guidance for General Equipment Valuation*
- FASAB, *Technical Release 14*

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

Recommendations:

We recommend that management:

- Design and implement controls to determine that PP&E financial information, including depreciation information, is authorized, reviewed, and properly recorded in the property systems.
- Update existing policies, procedures, and controls to address risks associated with PP&E, to include defining key supporting documentation, validating acquisition dates, conducting inventory counts and the remediation of discrepancies, and performing reconciliations between counts and the general ledger detail.
- Enforce implementation of inventory count policies and provide periodic refresher training on executing inventory counts.

D. Evidential Matter

Army management did not consistently have sufficient evidential matter (i.e. supporting documentation) readily available to demonstrate that budgetary resources and obligations, revenue, costs, fund balance with Treasury (FBwT), inventory and general property, plant and equipment transactions and balances were properly reported on the consolidated financial statements. Management did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, evidential matter (a) was not readily available and thus not provided, (b) did not sufficiently support the request and/or transaction(s) recorded in the general ledger used to prepare the consolidated financial statements, (c) was inappropriately reviewed and approved or the review and approval was not documented by management, and/or (d) did not support the accounting treatment of certain transactions.

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

The above conditions primarily resulted because of the following:

- Due to the decentralization of the Army General Fund, locating supporting documentation takes additional time and resources.
- Management and/or its service providers did not design and implement business processes and controls to maintain evidential matter and evidence of supervisory review.
- Management and/or its service providers did not maintain evidential matter outside of the system for transaction types that relied on system controls with ineffective GITCs.
- Control operators were not trained to accurately record certain transactions and perform controls as designed.

The criteria are as follows:

- American Institute of Certified Public Accountants (AICPA), *Auditing Accounting Estimates*
- GAO, *Principles of Federal Appropriations Law*
- GAO, *Standards for Internal Control in the Federal Government*
- Department of Treasury "Treasury", *Treasury Financial Manual*
- FASAB, *SFFAS 1: Accounting for Selected Assets and Liabilities*
- FASAB, *SFFAS 5: Accounting for Liabilities of the Federal Government*
- DoD FMR

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur, or records in the general ledger may not represent valid transactions, potentially leading to a misstatement in the Army GF's financial statements.

Recommendations:

We recommend that management perform the following:

- Update policies and procedures to define key supporting documentation that is required, reconciles to the general ledger detail, shows evidence of secondary review, and is readily available for inspection upon request.
- Design, document, and implement procedures and controls to maintain evidential matter.

- Communicate the evidential matter policies, procedures, and controls to the Army and its service providers.
- Provide training on evidential matter policies, procedures, and controls to the Army and its service providers.
- Prioritize efforts on correcting GITC failures for systems used to generate evidential matter supporting the amounts reported on the consolidated financial statements, including segregating duties and requiring secondary review. Further, management should consider audit requirements when implementing new systems.

E. General Information Technology Controls

The Army and its service providers have continued to make progress in addressing prior year GITC deficiencies within their systems. The Army and its service providers did not fully implement sufficient and effective GITCs to protect the Enterprise Resource Planning (ERP) and related feeder systems financial data. The conditions could affect the Army's ability to provide timely financial data that is complete, valid, and accurate. The specific findings are summarized by the GAO *Federal Information System Controls Audit Manual* (FISCAM) information systems control review areas as follows:

- **Access Controls**. Management and its service providers did not consistently implement operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end users, super users, and system administrative backend support users, to include the removal of access for terminated or transferred employees and contractors and the periodic review of user accounts to determine the need for continued and appropriate access based on least privilege provisions. In addition, management and its service providers did not consistently implement operating system, database, and application audit logging and review controls, including the identification, tracking, evaluation, and response procedures. Further, management and its service providers did not consistently implement a period review of application, database, and operating system user account and password security parameters. In regards to physical access controls, management and its service providers were unable to consistently provide documentation evidencing the individuals with authorized access to its data centers or periodic reviews of data center access were performed appropriately.

- **Segregation of Duties**. Management and its service providers did not consistently establish a comprehensive process to identify, define, evaluate, restrict, document, and/or implement the use of incompatible operating system, database, and/or application privileges. Management did not consistently implement an effective process for restricting access to the ERP and feeder system separation of duties risk rule set, when applicable, based on least privilege considerations. In cases where incompatible access privileges were required based on business need, management and its service providers did not consistently establish processes to monitor the activities of users granted access to such privileges to ensure unauthorized activities were not performed. As a result of the aforementioned matters, management and its service providers did not consistently segregate/monitor the use of incompatible access privileges related to system support functions that preclude system developers from updating production environments.

- **Configuration Management**. Management and its service providers did not consistently implement a comprehensive operating system, database, and application configuration change management process, to include timely installation of critical patch updates and proper configuration of production settings to prevent unauthorized changes from being made in the production environment. Management and its service providers did not consistently maintain evidence to support the identification and tracking, testing and/or approval of operating system, database, and application changes/patches before migration into the production environment. Finally, management and its service providers did not consistently provide documentation evidencing the existence of separate development, test and production environments for operating systems, databases, and applications.

- **Security Management**. Management and its service providers did not consistently design and implement formal vulnerability management and assessment programs for the operating systems, databases, and/or applications. For implemented programs, management did not consistently track all known vulnerabilities and associated remediation activities.

- **Contingency Planning**. Management and its service providers did not consistently implement a process to monitor application processing issues, to include the tracking of processing issues through resolution.

Army management and its service providers did not consistently develop and/or fully implement policies and procedures or corrective actions based on prior year findings to comply with authoritative GITC system requirements as listed below. As a result, the weaknesses posed increased risks to the accuracy, integrity, validity, and availability of the systems and their financial data.

The criteria included the following:

- GAO *Standards for Internal Control in the Federal Government*, GAO-14-704G
- Office of Management and Budget (OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Controls*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4
- NIST 800-92, *Guide to Computer Security Log Management*
- DoD, Instruction 8510.01
- Defense Information Systems Agency (DISA) Security Technical Implementation Guide (STIG) - *The General Purpose Operating System Security Requirements Guides (SRG)*, Version 1, Release 3
- Army Regulation (AR) 25-2, *Information Assurance*, Chapter 4, Information Assurance Policy
- Information Assurance Best Business Practice for Army Password Standards, version 2.5
- United States Property and Fiscal Office (USPFO) Data Processing Installation (DPI) Standard Operating Procedure (SOP)
- The Memo for Army National Guard USPFO
- The Army National Guard USPFO's Memorandum for Guidance on Securing Hewlett-Packard UNIX (HP-UX) and Oracle Database Servers
- Oracle Database 12c STIG, Version 1 Revision 10

Recommendations:

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

- Establishing and applying access, segregation of duties, configuration management, security management, and/or contingency planning controls.
- Developing and implementing policies and procedures for GITCs.
- Directing its service providers to strengthen controls of service provider GITC environments or implement compensating controls at Army.

F. Manual General Ledger Adjustments

The Army had process and internal control deficiencies over journal entries and other adjustments to the general ledger. Improvements are needed in management's processes to identify populations of manual general ledger adjustments and researching the underlying causes for adjustments as follows:

- The Army did not define the criteria to identify manual journal entries from transactions entered through normal business processes in its main accounting system of record. Additionally, authorized users and individuals with elevated access were able to record journal entries without review and approval.
- Army legacy accounting systems were unable to identify and differentiate between manual journal entries and transactions entered through normal business processes. Accounting systems were unable to demonstrate that manual journal entry listings were complete, or that system generated adjustments were complete and accurate.
- The Army recorded manual journal entries in the financial reporting system to correct account relationships, edit checks, abnormal balances, to agree to the Treasury's records, or to resolve variances with federal trading partners, but Army did not research the underlying causes of the need for the manual journal entries to determine that the journal entries were appropriate. Additionally, although Army and its service provider self-identified and corrected erroneous or inaccurate manual journal entries, the journal entry review control did not prevent the entries from being made.

The criteria is as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- TFM, Volume I, *Federal Agencies*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD Financial Management Regulation (FMR) 7000.14-R, Volume 6A, *Reporting Policy*
- Office of the Under Secretary of Defense (Comptroller) OUSD(C), Memorandum, *Accurate and Reliable DoD Component-level Financial Management Trial Balances*

The above conditions were caused in part by system limitations from legacy systems that were unable to produce reports of manual journal entries and require resources to process and cross-walk the transactions to be presented in USSGL accounts. In other accounting systems there was not a process in place to demonstrate that manual journal entry logs were complete because management did not identify incomplete identification of manual journal entries as a process risk point.

Further, management did not define standard postings for standard business processes in the accounting systems or consider unique risks over entries by individuals with elevated access and did not implement consistent review and documentation requirements for transactions entered outside established standard business processes. Management also had not completely documented and validated posting logic in the accounting systems which may cause account relationship errors.

The multiple causes noted above created a significant volume of manual journal entries that needed to be processed and reviewed within a compressed financial reporting timeline. Management had not fully remediated prior year deficiencies due to the size and complexity of Army operations.

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

Recommendations:

We recommend that Army management work with their service provider, as appropriate, to:

- Develop, document, and implement policies and procedures to track and minimize the manual journal entries processed in legacy systems to reduce the impact of system limitations in identifying manual journal entries.
- Coordinate with the systems owners to identify and correct the root cause of errors in the files submitted to the financial reporting system; develop and implement procedures and controls over the completeness and accuracy of transactional data transmitted to the financial reporting system; and improve the transactional data so that it contains the appropriate level of detail.
- Define standard postings that are part of normal business processes and subject to established controls and require individuals responsible for data entry to use standard transaction codes to significantly reduce the number of manual journal entries.
- Adhere to monitoring procedures to verify manual journal entries are supported adequately, are appropriate, and are consistently reviewed to prevent erroneous or inaccurate entries.
- Perform reconciliations to ensure that manual journal entry logs are complete.

G. Accounts Payable / Receivable

Army management did not fully develop, document and implement accrual estimation methodologies to verify that the balances on the consolidated financial statements reflect accrual transactions. Specifically, the Army GF did not record all estimates or validate that existing estimation methodologies are reasonable as follows:

- Contracted goods and services - Management did not develop sufficient methodologies to record accruals for expenses and liabilities, or other non-payroll accruals that are not yet recorded in the accounting systems. Further, Army excluded certain trading partner coded transactions and those for no year funding or unexpired funding prior to FY11 from the accrual calculation. Additionally, for recorded accruals, Army's process did not require a review of the parameters used to generate the report.

- Civilian payroll and personnel related liabilities - Management did not develop an accrual methodology and record accruals for civilian payroll leave expense, Permanent Change of Station liabilities, and travel liabilities. Further, management did not have a documented methodology, including assumptions used, for accounting for its Federal Employee Compensation Act expenses or liabilities.

- Military payroll - Management did not have comprehensive, finalized, and documented policies and procedures in place, to include a methodology and assumptions, for identifying and recording reserve component military payroll or an assessment demonstrating the accrual is qualitatively and quantitatively immaterial. Further, management developed a methodology for identifying and recording active component military payroll; however, they were unable to provide documentation for the assumptions and other factors to support the methodology.

Further, Army management did not validate that the presentation of accounts payable and receivable was correctly classified as follows:

- Management recorded a summary adjustment through the FBwT process that impacts accounts payable and receivable but did not include necessary attributes to identify whether the adjustments to other accounts should be presented as intragovernmental or nonfederal in the financial statements. Further, management was unable to support accounts payable and receivable amounts eliminated from the consolidated financial statements at a detailed transactional level.

- Management did not properly configure the accounting system to record military payroll related payables such as withholdings payable, employer contributions, and payroll taxes payable, in the correct USSGL accounts.

The above conditions primarily resulted because management did not perform sufficient risk assessment to identify necessary accruals, establish policies and procedures, configure the accounting system to record transactions to the correct general ledger accounts, and maintain supporting documentation. Specifically, management did not document and implement the methodologies, policies, and procedures to identify and record accruals and perform a look-back analysis over the completeness, validity, and accuracy of the accruals. Management did not prioritize efforts to define the processes and methodologies for accruals or developing a retrospective review.

For newly developed methodologies, Army management has not dedicated the time and resources to document and implement the new methodologies, implement internal controls, and provide supporting documentation.

For revenue accruals, Army's accrual methodology did not consider the incomplete expense accruals in the calculation and did not include the review of the system-generated reports for completeness and accuracy or the need to research and resolve sales transactions with certain trading partner codes. Due to system limitations, Army did not have data available to perform accruals for sales orders with no year funding or unexpired funding prior to FY11. Additionally, the FBwT adjustment did not include all relevant data attributes because parts of the adjustments are sourced from non-general ledger systems.

The criteria are as follows:

- FASAB SFFAS No. 1, *Accounting for Selected Assets and Liabilities*
- FASAB SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- FASAB Statement of Federal Financial Accounting Concepts (SFFAC) No. 5, *Objectives of Federal Financial Reporting*
- GAO, *Standards for Internal Control in the Federal Environment*
- TFM
- DoD FMR

By not recording the necessary accruals and adjustments the risk exists that balances on the consolidated financial statements and related note disclosures could be misstated or misclassified.

Recommendations:

We recommend that management perform the following:

- Develop, document, and implement the methodologies, assumptions, policies, procedures, and controls to identify and record accruals.
- Perform a look-back analysis to determine that the methodologies and assumptions are valid, complete, and accurate.
- Identify all relevant documentation to support accrual calculations and dedicate time and resources to improve the documentation for existing accruals.
- Develop processes and controls to validate the accuracy of assigning intragovernmental and nonfederal balances changed through the FBwT adjustment.
- Implement policies and procedures to review the accounting system's posting logic for liabilities to evaluate accuracy and compliance with the USSGL. Implement necessary changes to the accounting system to correct non-compliant postings identified through the review.

H. Environmental and Disposal Liabilities

Army management did not consistently design, document and implement internal controls over environmental and disposal liabilities (E&DL) as follows:

- Management did not provide the E&DL population listing as support for the FY18 year end balances in a timely manner; as such, the E&DL findings presented below are based off of FY17 estimates.
- Management did not include or disclose all potential liabilities in their estimate. Specifically, the estimate did not report liabilities related to general equipment, nuclear reactor, open-burn/open-detonation sites, and operational ranges.
- Management did not appropriately prepare cost-to-complete estimates. Specifically, it did not include all required elements, was not reproducible due to insufficient documentation, was not adjusted to reflect current dollars, was based on outdated data and incorrect inputs, and was reviewed by an estimator that did not have appropriate training.
- Management did not have appropriate input parameters to generate cost factor estimates for estimate document reports. Specifically, the estimates were based on an incomplete and inaccurate inventory of real property assets and did not consider all costs required by environmental regulation. Further, they contained inappropriate or imprecise inputs and unrealistic assumptions.
- Management's asbestos estimate used several incorrect data sources, including an incomplete and inaccurate inventory of assets, contract dollars in the estimate that were not escalated to current year dollars, and inaccurate inputs for the asbestos cost factor. Further, the estimate mischaracterized asbestos abatement costs leading to overstating or understating the cost factor. The estimate also incorrectly calculated the asbestos and related abatement cost calculation.

The untimely population listing was caused by Army not having policies and procedures designed and implemented to address the timeliness of compiling the population listing. Additionally, the Army did not realize they were required to estimate a liability for operational ranges, according to OUSD(C) guidance. For general equipment, nuclear reactors and open-burn/open-detonation sites, management agrees that there should be a liability, but they have not had resources to complete the necessary work to create the estimate.

The conditions related to cost-to-complete estimates and asset-driven estimate document reports primarily resulted because the Army's policies over the preparation and review of the estimates did not include the specificity required to address the conditions related to the estimates. Further, the cost factor calculated that was prepared by U.S. Army Corps of Engineers was not reviewed to validate that inputs and calculations were accurate. Additionally, policies did not include guidance for recording the liability in current dollars, how to more accurately capture abatement costs, or requirements to apply cost factors to a complete and accurate inventory of assets.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Environment*
- FASAB SFFAS No. 6, *Accounting for Property, Plant and Equipment*
- FASAB Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*
- DoD Manual No. 4715.20, *Defense Environmental Restoration Program (DERP) Management*

- Code of Federal Regulation Title 40, *Protection of Environment – Criteria for Municipal Solid Waste Landfills*
- RACER Help File

Ineffective controls over the compilation of environmental and disposal liabilities transactions may increase the risk of inaccurate reporting of liabilities on the financial statements and related notes. Further, the lack of effective process over the preparation and review of estimates may result in misstatements of estimated environmental and disposal cleanup liability balances on the financial statements and related note disclosures.

Recommendations:

We recommend that management:

- Design and implement policies and procedures to develop the environmental and disposal liabilities population listing on a timely basis.
- Continue efforts to develop methodologies, complete cost estimates and implement policies to recognize environmental cleanup and disposal liabilities and related disclosures associated with general equipment, nuclear reactors, open-burn/open-detonation sites, and operational ranges.
- Continue to update polices over the preparation and review of cost-to-complete estimates to include all required elements, appropriate documentation, reflective of current dollars, based on current data, contain the proper inputs and is reviewed by estimators with the appropriate training.
- Revise the policies over the preparation of certain asset-driven estimates to include procedures to determine that the correct population of assets is used in applying the cost estimates, all reasonable costs and those required by regulation are considered, inputs are accurate, actual costs are used when readily available, and estimates are based on realistic/historic baselines.
- Establish and implement policies to include procedures relating to reviews of asbestos cost factors and inputs for accuracy, appropriateness and completeness and the policy requires costs be reflected in current dollars, captures abatement costs more accurately and validates the completeness and accuracy of the asset listing.

Exhibit I – Material Weaknesses

I. Completeness

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

- Army management relies on the general information technology controls for data transmission between systems and has not fully designed and implemented a manual reconciliation process to determine that data transfers are complete and accurate. While the long term solution is in development, management performs several manual reconciliations of transactions moving between feeder, general ledger, and financial reporting systems to ensure balances in the financial statements are complete. Management's current reconciliations had deficiencies in design and implementation. Specifically:
    - Reconciliations between entitlement and accounting systems did not consistently reconcile transactions between all relevant systems and all relevant USSGL accounts, were not designed to detect transactions recorded in the general ledger system but not the entitlement system, utilize source data from an intermediary source rather than the feeder systems, and did not include explanations for differences as part of the documentation such that a reviewer is able to determine the cause of the difference.
    - A reconciliation between two accounting systems and between a feeder and general ledger system did not include evidence of the timely completion of the reconciliation by the preparer or reviewer or relevant information for the reviewer to determine that identified variances are being researched and corrected within a timely manner.
    - Civilian payroll reconciliations between feeder systems and general ledger systems did not clearly identify what was being reconciled, the purpose of the reconciliation, or guidance on how to assess the results, including how a large variance is defined. Additionally, certain reconciliations between feeder systems were not designed with an appropriate timeline to complete reviews and identify adjustments for year-end reporting. Other reconciliations between foreign payroll information and feeder systems or were not consistently performed as required.
- Management did not have year-end controls in place to validate accounts payable, accounts receivable, advances, undelivered orders, and unfilled customer order balances.
- Management did not design and implement or consistently perform controls to resolve sales order and military payroll related error report balances and open bills charged reports to determine that the financial statements are complete and accurate.
- Management has not analyzed and documented consideration of whether exclusions of certain budgetary transactions between the accounting system and the financial reporting system is appropriate. Further, certain feeder adjustments are recorded in the financial reporting system but not the feeder or general ledger systems resulting in variances between systems.

The above conditions were primarily caused by the following:

- Army management relied on ineffective interface controls, edit checks, and on its service providers for the complete and accurate transfer of data between systems. Army had developed, but not implemented an automated reconciliation process for all general ledger accounts and for all entitlement and feeder systems to be fully reconciled to all general ledger systems due to the number of systems and complex nature of transactions. Army did not have the appropriate resources to design and implement the reconciliation processes for all relevant systems due to resource and budget constraints and challenges. Procedures that were in place did not always consider the need to evidence the timely completion by preparer and reviewer and the documentation necessary to evidence review, or that reconciliations could result in adjustments to the financial statements at year end.

- The Army did not have a policy to require monitoring and timely resolution of error reports, missing transaction reports, open bills charged reports, or reconciling items to determine if information should be included in the relevant system and resolve the issue.

The criteria are the following:

- GAO, *Standards for Internal Controls in the Federal Government*
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- CHRA-E Regional Director's Office, Europe, *Standard Operating Procedure Internal Audit*

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

Recommendations:

We recommend that management perform the following:

- Implement an effective reconciliation process until GITC deficiencies are addressed. Policies and procedures should include that the reconciliation: a) include all relevant feeder systems, general ledger systems, and USSGL accounts; b) establish criteria for what represents a variance, guidance on how to timely research and resolve variances, and how to evidence such; and c) document the preparation and review of reconciliations.
- Continue to design, develop and implement policies and procedures to allow the timely correction of transaction processing errors and other reports for inclusion in the general ledger in the correct period.
- Assess the financial reporting impact of the procedures performed by the service provider for determining which funds and adjustments to include and exclude from the financial reporting system.
- Consider year-end financial reporting requirements to determine the appropriate timing for completing the process of performing reconciliations or evaluating the completeness, existence, and accuracy of account balances.
- Dedicate additional resources to perform reconciliations if necessary.

J. Financial Reporting

Army management did not effectively implement internal controls over financial reporting. Specifically:

- Improvements are needed in management's accounting for transactions impacting the statement of budgetary resources (SBR) as follows:
  - Management inaccurately presented anticipated amounts in quarterly budgetary activities; however, Army properly presented the anticipated amounts as zero at year end.
  - Management was unable to support differences between distributed offsetting receipts in the SBR and the Treasury monthly distributed offsetting receipts and did not formally document their process for recording the amounts, risk points and key controls.
  - Management's recorded adjustments to prior year obligations incorrectly by creating a downward adjustment for the full amount of the obligation and an upward adjustment for the full amount of the new amount rather than only recording the change in value as an adjustment. Further, a system error erroneously created unsupported upward and downward adjustments during the year.
  - Management did not record budgetary entries related to supply turn-ins government purchase card refunds, advance travel refunds, and foreign currency fluctuations consistent with relevant guidance or in compliance with the USSGL.
  - Management's review control over recording and reconciling appropriations made available by public law to the general ledger, and the reconciliation between the Report on Budget Execution (SF-133) and Apportionment and Reapportionment Schedule (SF-132) do not operate at a sufficient level of precision to prevent or correct misstatements.
- Management has not defined major programs and aligned the presentation of the statement of net cost to those programs and strategic goals.
- Management was unable to support amounts eliminated from the consolidated financial statements at the detailed transaction level, including identifying intra-entity eliminations from other adjustments. Management recorded transactional detail with blank or inaccurate trading partner codes and did not have a process for reconciling transactional detail to the financial reporting system that includes considering the accuracy of trading partner attributes. Management also did not appropriately reconcile and resolve significant errors and abnormalities within the trading partner reconciliation.
- Management did not effectively implement controls to identify, research, and resolve abnormal USSGL account balances and relationships, transactions, and the correct use of Treasury Account Fund Symbols (TAFS).
- Management did not collect fees in full and in advance of the services performed for agreements with non-federal customers as required.
- Army management did not properly design its methodology and assumptions for estimating potential losses for cases where the Office of General Counsel (OGC) indicated they are "unable to express an opinion concerning the likely outcome." Further, the interim Legal Representation Letter and Management Schedule of Information review process did not identify a case that was incorrectly attributed to Army instead of another service.

The above conditions were primarily caused by system limitations or incorrect configuration in the legacy, general ledger, accounting, and financial reporting systems. Abnormal balances were also caused by using guidance that did not align with authoritative sources or was not applicable and internal controls to review such balances was only performed at a consolidated level rather than for individual accounting systems.

Exhibit I – Material Weaknesses

Management has not trained personnel executing transactions to recognize and record all transactions such that they comply with the USSGL at the transaction level. Further, management has not performed risk assessment procedures to obtain and formally document their understanding of relevant processes, risk points, and responses such as designing and implementing effective controls and evaluating existing assumptions and methodologies.

The criteria for the above include:

- USC 31, Section 1535
- USC Section 1301
- USC Section 1341
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix D*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*
- FASAB SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary Financial Accounting*
- *TFM, USSGL supplement* and *Federal Account Symbols and Titles (FAST) Book*
- GAO *Standards for Internal Control in the Federal Government*
- GAO *Principles of Federal Appropriations Law,* Chapter 6
- OUSD(C), Memorandum, *Accurate and Reliable DoD Component-level Financial Management Trial Balances*

As a result of the deficiencies noted above, the potential exists that misstatements or misclassifications would fail to be prevented, or detected and corrected in the financial statements and note disclosures. A lack of controls over use of the correct TAFS is non-compliance with the FAST Book and increases the potential of non-compliance with the Anti-Deficiency Act.

Recommendations:

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

- Implement policies and procedures to prevent or detect and correct transactions, account mapping, trading partner coding, and other erroneous data elements that results in abnormal balances and align them with the TFM.
- Perform risk assessment procedures over relevant processes to obtain and formally document its understanding, including the identification and assessment of material risk points and key controls. Further, document the justification for accounting policies to include the accounting standards that support their position.
- Design or implement policies, procedures, and controls to address the risk associated with the assignment of the correct TAFS and trading partner.
- Develop, document and implement policies and procedures to:
    - Collect in advance of services for agreements with non-federal customers of non-federal agreements.

  - Identify and record travel advance refunds, dining collections, government purchase card refunds, and supply turn-ins using the correct USSGL posting logic and post to the correct appropriation year.
  - Reconcile, research, and resolve all material errors and abnormal balances identified through reconciliations and maintain documentation of such.
- Define major programs and align, track and report costs by major program.
- Update the methodology for determining potential losses where the OGC indicated they are "unable to express an opinion concerning the likely outcome" and work with OGC to strengthen controls over review of the Legal Representations Letter and Management Schedule of Information.

K. Fund Balance with Treasury

The Army has made progress in addressing prior year FBwT deficiencies; however, the Army did not fully develop, document, and implement internal controls over FBwT as follows:

- Management did not consistently research and resolve differences identified through the monthly FBwT reconciliation in a timely manner.
- Management used suspense accounts that are not in accordance with the definition of suspense accounts published by the OMB's Circular No. A-11 and did not consistently resolve suspense transactions within 60 days.
- Management's control over the suspense account report reconciliation was not adequately designed. The policy did not include the precision of the control, criteria for ensuring variances were resolved timely, the specific attributes of the reconciliation to be reviewed by management, or requirements for how to document evidence of review.
- Management and its service provider recorded adjustments to the general ledger to balance to Treasury at month end; however, the adjustment is not supported by transactional detail at the time it is made. Further, management did not research and resolve unmatched unsupported disbursements at year end.
- Management's statement of differences (SOD) control included differences exceeding the departmental policy requiring differences to be cleared within 60 days. Additionally, the relevant standard operation procedures were not effectively designed. The procedures did not include specific, robust policies and procedures over the attributes management reviews as part of the control and procedures for reconciling all differences before the financial reporting deadline at year end. Under existing timelines, the year-end reconciliations are not available until mid to late November.

The above conditions were caused by Army management and its service provider not having resources to research and address reconciling amounts, unmatched disbursements, SOD differences, and suspense transactions in a timely manner. Army and its service provider have decentralized operations and process disbursement and collection transactions through multiple feeder and general ledger systems, contributing to timing and other reconciling differences. The number of differences creates resource strains for month end reporting and research and requires a summary level adjustment.

Further, management used suspense accounts to record certain types of transactions (e.g. revenue generating programs such as agricultural and grazing leases, sale of forestry products, etc.,) because they did not have access to the appropriate fund types.

The criteria is as follows:

- Treasury's *Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual,* I TFM 2-5100
- TFM
- GAO *Standards for Internal Control in the Federal Government*
- DoD FMR, Volume 4

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

Recommendations:

We recommend that management perform the following:

- Allocate sufficient resources to develop, document, and implement policies and procedures to timely identify, research and resolve variances, including at year end.
- Establish an understanding of the root causes behind recurring differences identified through the FBwT reconciliation process. Coordinate with relevant system and process owners to reduce the number of differences requiring research and resolution and resolve differences prior to reporting due dates.
- Continue pursuing implementation of special funds and record the receipt of revenue collections related to agricultural and grazing leases, sale of forestry products and recyclable materials, and royalties and trademarks in special funds rather than suspense accounts.
- Continue to work with its service provider to research and resolve all amounts held in suspense, particularly those for which the balance remain in suspense beyond the 60 day required timeline.
- Strengthen standard operating procedures over the suspense account report and statement of differences reconciliations to include the precision of the control, criteria for ensuring variances have been resolved timely, the specific attributes of the reconciliation to be reviewed by management, or requirements for how to document evidence of review.
- Coordinate with its service provider to reevaluate the operational design of the supervisory review element of the SOD control in order to properly define various aspects of the control.

L. Entity Level Controls

Army Management needs to improve their entity level controls to establish an internal control system that will produce reliable financial reporting. Specifically:

Control Environment: Management did not fully design and implement control activities over its control environment as follows:

- Management did not consistently develop policies to establish and implement internal controls across its Civilian Payroll, Financial Reporting, FBwT, Military Payroll, Legal and Contingent Liabilities, OM&S, and Revenue control environments.
- Management did not adequately review and monitor certain memorandum of understanding (MOU) agreements with its service providers to verify that the agreement was current and all requirements were met.

Risk Assessment: Management did not fully design and implement a risk assessment process as follows:

- Management did not timely provide a FY18 strategic plan.
- Management did not complete the development of its risk assessment process, including consideration of risks associated with prior year findings, during FY18.
- Management did not complete a control catalog that detailed all key controls.

Information and Communication: Management did not fully design and implement internal controls over the completeness and accuracy of financial data and supporting documentation.

Monitoring: Management needs to improve their monitoring controls as follows:

- Management did not adequately monitor the internal control evaluation performed by the reporting organizations.
- Management did not properly evaluate service organization control reports to determine reliance on such controls.
- Management did not develop or complete corrective action plans in response to all prior year audit findings.

The above conditions primarily resulted because management did not have resources, policies and procedures in place to maintain an internal control environment that detects and mitigates risk of material misstatements. In addition, the service organizations did not timely respond to management's requests to make updates to the MOUs.

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

Without the proper level of entity-wide controls in place and operating effectively, management continues to run the risk that significant misstatements are neither prevented nor detected in the financial records and financial statements. In addition, there is an increased risk that management will continue to have control deficiencies over financial reporting.

Recommendations:

We recommend that management:

- Continue to develop and implement internal control procedures across its control environment.
- Annually, review and monitor the relevancy of the information in the memorandum of agreements and that the agreement was current and/or all requirements were met.
- Finalize their strategic plan
- Complete the development of the risk assessment process.
- Complete a control catalog that details the key controls by process area and the risks the controls address.
- Develop and implement internal controls over the completeness and accuracy of financial data and supporting documentation.
- Improve monitoring efforts over SOC report evaluations and determine if the Army can rely upon the SOC reports.
- Improve monitoring of internal control evaluations performed by reporting organizations.
- Develop and/ or complete corrective action plans related to audit findings

Exhibit II – Significant Deficiency

A. Service Provider Oversight

United States Department of the Army (Army) management made progress in implementing monitoring controls over Service Organization Control (SOC) reports; however, management did not fully design and implement and consistently perform its monitoring controls. Specifically, the management conclusion options (full-, partial-, or non-reliance) used for assessing reliance on a SOC report excluded consideration of the design and operating effectiveness of Complementary User End Controls (CUECs). Additionally, management did not identify the following during their assessment of the SOC 1 reports:

- The scope of multiple SOC reports did not include all key controls.
- Certain control descriptions in multiple SOC reports did not explain the precision of the control.
- The testing results for certain controls in multiple SOC reports did not have sufficient detail to determine if the control was appropriately tested.
- The service provider auditor did not perform procedures over certain aspects of controls in multiple SOC reports.

Further:

- A Statement on Standards for Attestation Engagements 18 examination was not performed over controls at two subservice providers.
- Service provider procedures to evaluate subservice organizations controls not covered by a SOC report were not sufficient.

The above condition primarily resulted because management considered the CUEC analysis as a separate evaluation, independent from their SOC report assessment. In addition, the lack of a standardized report, timing between when the reports are received and when the report assessments need to be completed, and the volume of reports imposes a challenge to identify all issues during their assessment process.

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

An ineffective SOC evaluation process increases the risk of improper reliance on service organization controls, which can lead to control deficiencies and gaps not being properly mitigated by management. These control deficiencies and gaps would not prevent or detect potential misstatements in the consolidated financial statements.

Recommendations:

We recommend that management:

- Re-evaluate the definitions of the conclusion options to consider the inclusion of its CUEC assessments and update their Standard Operating Procedure accordingly.
- Work with its service providers throughout the year to verify that the specific systems, edit checks, inputs, outputs, and interfaces that support management's control environment are subject to testing by the service auditor.

Exhibit III – Compliance and Other Matters

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

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

- **Federal Financial Management Systems Requirements**. As discussed in Exhibit I – Material Weaknesses – E. General Information Technology Controls (GITCs), management did not implement sufficient effective GITCs to protect the financial accounting, reporting and feeder systems data. As a result, Army did not substantially comply with the financial management systems requirements.

- **Federal Accounting Standards**. As discussed in Exhibit I – Material Weaknesses, the Army's controls were not properly designed, implemented, and operating effectively, which affected management's ability to prepare the consolidated financial statements and support the amounts reported on the consolidated financial statements in accordance with the federal accounting standards. As a result, the Army did not substantially comply with the federal accounting standard requirements.

- **U.S. Standard General Ledger**. Management did not configure certain financial systems and to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level.

The Army did not substantially meet FFMIA requirements because management did not dedicate the necessary resources to remediate deficiencies identified in previous years and the accounting system was not configured to post transactions in compliance general ledger posting logic.

The criteria is FFMIA.

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

Recommendations:

We recommend management:

- Focus resources on implementing the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial system and federal accounting standard requirements.
- Configure the accounting system to record transactions in compliance with the USSGL.

B. Federal Managers' Financial Integrity Act (FMFIA)

The Army performed an internal control assessment as required under the FMFIA, however, the Army did not substantially comply with FMFIA and the related Office of Management and Budget (OMB) Circular Number (No.) A-123 requirements as follows:

- Management did not fully design and implement a process and an Enterprise Risk Management framework when evaluating the internal controls. In addition, management did not document their defined scope of the significant financial reports and the key processes supporting material line items on the significant financial reports.

- Management did not provide sufficient oversight, sampling, and documentation guidance to the reporting organizations, review the appropriateness of the testing plans, and document its oversight and review controls.

- Management did not provide evidential matter to demonstrate a completed internal control testing plan, including listing of internal controls evaluated, how samples were selected, tolerance thresholds, and testing results for key processes. In addition, the Army did not identify and report material weaknesses related to entity level controls and environmental and disposal liabilities in the annual Statement of Assurance.

Management did not allocate sufficient resources with appropriate knowledge to implement the Enterprise Risk Management and OMB Circular No. A-123 process.

The criteria are as follows:

- FMFIA of 1982
- GAO, *Standards for Internal Controls in the Federal Government*
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and the related *Appendix A, Implementation Guide*

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

Recommendations:

We recommend that management perform the following:

- Implement an enterprise risk management approach over the evaluation internal controls as defined by OMB Circular No. A-123.

- Document the defined scope to include the significant financial reports, materiality, and the key processes supporting material line items on the significant financial reports.

- Assess and document the risk profile and internal controls that address such risks to support Army's FMFIA Assurance Statement, as well as, monitor and update the risk profile when needed.

- Provide oversight, sampling, and documentation guidance to the reporting organizations, review the appropriateness of each reporting organizations testing plan and evidence its oversight and review controls.
- Allocate sufficient resources with appropriate knowledge to implement the Enterprise Risk Management and OMB Circular No. A-123 process.
- Request material weaknesses identified by the external auditor through the end of the audit and update the Statement of Assurance Appendix D-2 Material Weaknesses, Significant Deficiencies to incorporate material weaknesses identified by the external auditor.

C. The Anti-Deficiency Act (ADA)

Army management identified the following two violations with the requirements of 31 U.S. Code (USC) Section 1341, the Anti-Deficiency Act ADA, through management's ADA compliance monitoring process:

- The Army obligated operations and maintenance funds to salaries and entitlements for two dual status military technicians for more than a year after loss of membership in the selected reserve, a condition of employment, violating 31 USC Section 1341 (a)(1)(A).
- The Army obligated operations and maintenance funds to acquire a covered defense business system without obtaining certification and approval by an investment review board and the defense business systems management committee required for investments in excess of $1 million, violating 10 USC Section 2222.

The criteria is 31 U.S.C. Sections 1341, *Limitations on Expending and Obligating Amounts* and 10 USC Section 2222, *Defense Business Systems: Business Process Reengineering, Enterprise Architecture; Management*

The Army procurement officials did not fully understand or apply the requirements of the ADA and covered defense business system provisions when procuring goods or services. As a result, Army committed violations of the ADA.

Recommendations:

We recommend that management:

- Continue training Army procurement officials on the ADA requirements to prevent further violations of the ADA.

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 15 2018

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2018 Army General Fund Financial Statement Audit Report

1. We appreciate the efforts and professionalism your staff exhibited during Army's historic first General Fund full financial statement audit. Thank you for providing us the opportunity to respond to the draft report provided to us on November 10, 2018.

2. We concur with the findings identified in the Fiscal Year 2018 Army General Fund draft audit report and will ensure our corrective action plans address the findings identified. We will continue to work with Army stakeholders to correct issues related to completeness of populations, evidential matter, information technology controls, beginning year balances, financial reporting, general ledger adjustments, accruals and liabilities, fund balance with Treasury, general property, plant and equipment, operating materials and supplies, environmental liabilities, service provider oversight, and entity level controls.

3. In Fiscal Year 2019, we will continue implementing, tracking, and monitoring actions taken to correct material weaknesses identified in the audit report and within our Annual Statement of Assurance.

4. Despite the observations noted, we continue to make progress in reaching our ultimate goal of achieving a clean audit opinion. The results of continued audit readiness efforts, including corrective actions developed and implemented from findings issued during previous audits, demonstrate Army's commitment toward resolving longstanding financial reporting material weaknesses.

Wesley C. Miller
Deputy Assistant Secretary Army
(Financial Operations)

CONSOLIDATED BALANCE SHEETS

As of September 30, 2018 and 2017

(Amounts in Thousands)	2018 Consolidated	2017 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 121,987,931	$ 108,094,630
Investments (Note 4)	1,430	2,178
Accounts receivable (Note 5)	302,779	393,580
Other assets (Note 6)	337,054	354,050
Total intragovernmental	122,629,194	108,844,438
Cash and other monetary assets (Note 7)	671,946	793,772
Accounts receivable, net (Note 5)	761,131	655,958
Inventory and related property, net (Note 9)	28,592,566	28,091,819
General property, plant and equipment, net (Note 10)	147,571,143	151,335,665
Other assets (Note 6)	2,232,667	1,995,125
TOTAL ASSETS	$ 302,458,647	$ 291,716,777
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts payable (Note 12)	$ 2,139,119	$ 2,239,722
Other liabilities (Note 15 & 16)	1,644,781	1,514,953
Total intragovernmental	3,783,900	3,754,675
Accounts payable (Note 12)	385,685	1,020,078
Military retirement and other federal		
Employment benefits (Note 17)	1,256,792	1,286,118
Environmental and disposal liabilities (Note 14)	20,718,893	29,446,158
Other liabilities (Note 15 & 16)	9,891,757	8,195,353
TOTAL LIABILITIES	$ 36,037,027	$ 43,702,382
COMMITMENTS AND CONTINGENCIES (Note 16)		
NET POSITION		
Unexpended appropriations - dedicated collections (Note 23)	$ -	$ -
Unexpended appropriations - other funds	112,955,571	100,009,015
Cumulative results of operations - dedicated collections (Note 23)	59,860	68,351
Cumulative results of operations - other funds	153,406,189	147,937,029
TOTAL NET POSITION	266,421,620	248,014,395
TOTAL LIABILITIES AND NET POSITION	$ 302,458,647	$ 291,716,777

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

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2018 and 2017

(Amounts in Thousands)	2018 Consolidated	2017 Consolidated
Program Costs		
Gross costs	$ 160,041,922	$ 142,417,820
Military personnel	59,887,057	57,472,249
Operations, readiness & support	64,277,667	62,985,890
Procurement	14,164,891	758,385
Research, development, test & evaluation	14,028,030	12,927,827
Family housing & military construction	7,684,277	8,273,469
(Less: earned revenue)	(6,633,247)	(6,589,506)
Net cost before losses/(gains) from actuarial assumption changes for military retirement benefits	$ 153,408,675	$ 135,828,314
Net program costs including assumption changes	$ 153,408,675	$ 135,828,314
Net Cost of Operations	$ 153,408,675	$ 135,828,314

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2018

(Amounts in Thousands)	Dedicated Collections	All Other Funds	Consolidated
UNEXPENDED APPROPRIATIONS			
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ -	$ 100,009,015	$ 100,009,015
Budgetary Financing Sources:			
Appropriations received	-	175,836,295	175,836,295
Appropriations transferred-in/out	-	1,146,730	1,146,730
Other adjustments (+/-)	-	(8,219,031)	(8,219,031)
Appropriations used	-	(155,817,438)	(155,817,438)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)		12,946,556	12,946,556
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	-	112,955,571	112,955,571
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	68,351	147,937,029	148,005,380
Prior Period Adjustments:			
Changes in accounting principles (+/-)	-	(559,658)	(559,658)
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	68,351	147,377,371	147,445,722
Budgetary Financing Sources:			
Other adjustments (+/-)	-	(489,799)	(489,799)
Appropriations used	2,180	155,815,257	155,817,437
Nonexchange revenue	1,984	13,766	15,750
Donations and forfeitures of cash and cash equivalents	26,430	397,269	423,699
Transfers-in/out without reimbursement	-	-	-
Other budgetary financing sources	-	(3,491,368)	(3,491,368)
Other Financing Sources:			
Donations and forfeitures of property	-	12,838	12,838
Transfers-in/out without reimbursement (+/-)	-	10,294,103	10,294,103
Imputed financing from costs absorbed by others	-	1,016,091	1,016,091
Other (+/-)	(347)	(4,169,402)	(4,169,749)
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	30,247	159,398,755	159,429,002
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	38,738	153,369,937	153,408,675
Net Change	(8,491)	6,028,818	6,020,327
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	59,860	153,406,189	153,466,049
Net Position	$ 59,860	$ 266,361,760	$ 266,421,620

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2017

(Amounts in Thousands)	Dedicated Collections	All Other Funds	Consolidated
UNEXPENDED APPROPRIATIONS			
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ -	$ 99,761,179	$ 99,761,179
Budgetary Financing Sources:			
Appropriations received	-	157,158,291	157,158,291
Appropriations transferred-in/out	-	175,302	175,302
Other adjustments (+/-)	-	(8,332,321)	(8,332,321)
Appropriations used	-	(148,753,436)	(148,753,436)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	-	247,836	247,836
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	-	100,009,015	100,009,015
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	67,094	150,364,642	150,431,736
Prior Period Adjustments:			
Changes in accounting principles (+/-)	-	-	-
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	67,094	150,364,642	150,431,736
Budgetary Financing Sources:			
Other adjustments (+/-)	-	329,846	329,846
Appropriations used	-	148,753,436	148,753,436
Nonexchange revenue	2,063	(3,620)	(1,557)
Donations and forfeitures of cash and cash equivalents	13,180	118,173	131,353
Transfers-in/out without reimbursement	-	336,000	336,000
Other budgetary financing sources	-	(3,927,492)	(3,927,492)
Other Financing Sources:			
Donations and forfeitures of property	-	1,310	1,310
Transfers-in/out without reimbursement (+/-)	-	2,233,107	2,233,107
Imputed financing from costs absorbed by others	-	726,481	726,481
Other (+/-)	(420)	(15,180,106)	(15,180,526)
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	14,823	133,387,135	133,401,958
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	13,566	135,814,748	135,828,314
Net Change	1,257	(2,427,613)	(2,426,356)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	68,351	147,937,029	148,005,380
Net Position	$ 68,351	$ 247,946,044	$ 248,014,395

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

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2018 and 2017

(Amounts in Thousands)	2018 Combined	2017 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 41,902,092	$ 40,889,491
Appropriations (discretionary and mandatory)	176,702,941	157,498,907
Spending authority from offsetting collections (discretionary and mandatory)	23,916,974	20,252,333
Total Budgetary Resources	$ 242,522,007	$ 218,640,731
Net adjustments to unobligated balance brought forward, Oct 1	9,014,232	7,165,339
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 205,212,854	$ 185,752,871
Unobligated balance, end of year:		
Apportioned, unexpired accounts	26,148,260	18,466,001
Exempt from apportionment, unexpired accounts	40,086	31,344
Unapportioned, unexpired accounts	42,602	125,242
Unexpired unobligated balance, end of year	26,230,948	18,622,587
Expired unobligated balance, end of year	11,078,205	14,265,273
Unobligated balance, end of year (total)	37,309,153	32,887,860
Total Budgetary Resources	$ 242,522,007	$ 218,640,731
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	154,627,089	147,653,732
Distributed offsetting receipts (-)	(339,708)	142,653
Agency Outlays, net (discretionary and mandatory)	$ 154,287,381	$ 147,796,385

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Reporting Entity

Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernible.

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

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as funds from dedicated collections.

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

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

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

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

The Army GF's nonappropriated fund instrumentalities (NAFIs) are fiscal entities supported in whole or in part by nonappropriated funds (NAFs). For the most part, NAFs are generated from sales and user fees. Additional information is provided in Note 26, *Reporting Entities and Related Parties*.

1.B. Basis of Presentation and Accounting

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

The basis of presentation for the Army GF financial statements is U.S. GAAP. The accounting structure of the Army GF is designed to reflect both accrual and budgetary accounting transactions. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash.

The Army GF's financial statements being presented are comparative and Army GF is not subject to income taxes.

The Army GF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army GF sub-entities (Army Active, Army Reserve and Army National Guard). 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. The Army GF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Army GF level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

1.C. 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* and *Title 32* of the U.S.C., to preserve peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 243-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.D. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

1.E. Recognition of Expenses

For financial reporting purposes, the Army GF requires the recognition of operating expenses in the period incurred. In the case of Operating Materiel & Supplies (OM&S), operating expenses are recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expense. 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 expense. The Army GF continues to implement process and system improvements to Enterprise Resource Planning (ERP) systems to address these limitations. However, the Army GF 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.F. Accounting for Intragovernmental Activities

The *Treasury Financial Manual* (TFM), Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army GF cannot accurately identify intragovernmental transactions by customer because the Army GF's systems do not track buyer and seller data at the transaction level. Seller entities to the Army GF provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with Army GF seller-side balances and are then eliminated. The Army GF is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable the Army GF to correctly report, reconcile, and eliminate intragovernmental balances.

The Army GF'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 Army GF financial statements do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.

Financing for the construction of the Army GF 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 the Army GF.

Imputed financing represents the cost paid on behalf of the Army GF by another Federal entity. The Army GF recognizes imputed costs for: (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under the *Federal Employees' Compensation Act*; and (3) losses in litigation proceedings. Consistent with the implementation of Statement of Federal Financial Accounting Standards (SFFAS) 55, "Amending Inter-entity Cost Provisions," certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

1.G. Transactions with Foreign Governments and International Organizations

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

1.H. Entity and Nonentity Assets

Entity assets are assets the Army GF has the authority to use in its operations. The authority to use funds in an entity's operations indicates either that the Army GF management has the authority to decide how funds are used or that management is legally obligated to use funds to meet entity obligations (e.g., salaries and benefits).

Nonentity assets are assets held by the Army GF but not available for use in its normal operations. The Army GF maintains stewardship accountability and reporting responsibility over stewardship assets. Nonentity assets are offset by corresponding liabilities. See Note 2, *Nonentity Assets* for detail regarding nonentity assets.

1.I. Revenues and Other Financing Sources

When authorized by legislation, the Army GF appropriations are supplemented by revenues generated by sales of goods or services. The Army GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and to the public. The Army GF utilizes full-cost pricing, as defined in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, for services provided as required by OMB Circular No. A-25, *User Charges*.

The Army GF recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued. The Army GF excludes nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in 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 GF records accrued interest from U.S. Treasury securities and user fees transferred from custodial activities in trust and special funds as nonexchange revenue. Exchange revenues arise when the Army GF provides goods and services to the public or to another Government entity for a price.

1.J. Fund Balance with Treasury

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

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

1.K. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army GF including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and 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 of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Army GF conducts a significant portion of operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five 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 current exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Army GF does not separately identify currency fluctuation transactions.

1.L. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor’s ability to pay, and payment history by aging category during the previous three years. The Army GF regards its intragovernmental accounts receivable balance as fully collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual (TFM) (Chapter 4700, Appendix 10, Section 9.4.4).

1.M. Inventory and Related Property

The Army GF manages only military or government-specific materiel under normal conditions. OM&S is a unique term that relates to military force management and includes ammunition not held for sale. Items commonly used in and available from the commercial sector are not managed in the Army GF materiel management activities.

Related property includes OM&S. The OM&S are valued at standard purchase price, based upon catalog price. In the case of OM&S, operating expenses are recognized when the items are purchased. Although Items that are centrally managed and stored, are recorded using the consumption method and are reported on the Balance Sheet as Inventory and Related Property, the Army GF expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user.

Many high-dollar ammunition items are categorized as OM&S rather than general equipment. The Army GF determined 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 GF recognizes excess, obsolete, and unserviceable OM&S at a net realizable value of zero pending development of an effective means of valuing such materiel.

1.N. Investments and Related Interest

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

The Bureau of Fiscal Service, on behalf of the Army GF, invests in nonmarketable market-based U.S. Treasury securities, marketable securities issued to federal agencies by the U.S. Treasury Bureau of Fiscal Service. 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

The Army GF uses the historical cost for valuing equipment. The Army GF adopted SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*, for land balances, which permitted the removal of the land dollar 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 Army GF capitalization threshold. The Army GF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Army GF depreciates all General PP&E, other than Construction-in-Process (CIP), on a straight-line basis.

The Army's General PP&E capitalization threshold is $250 thousand. The capitalization threshold applies to 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 their remaining net book value.

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

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

1.P. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that are not included in General PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely. These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in General PP&E on the Balance Sheet.

1.Q. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the Army GF records advances and prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services should be reported within other assets on the Balance Sheet. The Army GF expenses and/or properly classifies assets when the related goods and services are received. The Army GF has not fully implemented this for advances identified in contract feeder systems due to system limitations.

1.R. Leases

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

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

1.S. 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 GF's Balance Sheet.

The Army GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army GF may provide financing payments. Contract financing payments are defined in the *Federal Acquisition Regulations* (FAR), Part 32 - *Contract Financing*, as authorized disbursements to a contractor before acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. The Army GF records certain contract financing payments as other assets.

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

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

1.T. Environmental and Other Contingent Liabilities

The Army GF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

Other liabilities also arise as a result of anticipated disposal costs for the Army GF 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. Consistent with SFFAS No. 6, the Army GF recognizes nonenvironmental disposal liabilities when management decides to dispose of an asset. In addition, the Army GF 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.

Environmental and Disposal Liabilities – Environmental and disposal liabilities include future costs to address government-related environmental contamination at the Army GF sites and other sites at which the Army GF is directed by Congress to perform remediation work. The Army GF recognizes a liability for each site as the need for cleanup work becomes probable and costs, based on site-specific engineering estimates, become measurable.

1.U. Accrued Leave

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

1.V. 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.W. Treaties for Use of Foreign Bases

The Army GF has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Army GF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms allow the Army GF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any 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.X. 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. However, both supported and unsupported adjustments may have been made to the Army GF accounts payable and receivable trial balances before validating the underlying transactions.

1.Y. 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 GF is required to account separately for and report on the receipt, use, and retention of revenues and other financing sources for funds from dedicated collections. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statement of Changes in Net Position (SCNP) and the Balance Sheet.

1.Z. Fiduciary Activities

Fiduciary activities, detailed in Note 24, *Fiduciary Activities*, are Federal Government activities that relate to the collection or receipt and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which nonfederal individuals or entities have an ownership. Federal accounting standards require the Army GF to distinguish the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized on the accompanying financial statements. Fiduciary activities are reported on the financial statement note schedules.

1.AA. Military Retirement and Other Federal Employment Benefits

The Army GF's actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and provided to the Army GF at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The Army GF reported no gains and losses in retirement benefits during this fiscal year. Actuarial assumptions related to Military Retirement and Other Federal Employment Benefits are detailed in Note 17, *Military Retirement and Other Federal Employment Benefits*. The Army GF recognizes its estimated total share of the Army liability reported by the DOL.

NOTE 2. NONENTITY ASSETS

As of September 30	2018	2017
(Amounts in thousands)		
Nonentity Assets		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 780,983	$ 873,971
B. Total Intragovernmental Assets	$ 780,983	$ 873,971
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 671,946	$ 793,772
B. Accounts Receivable	8,640	8,439
C. Total Nonfederal Assets	$ 680,586	$ 802,211
3. Total Nonentity Assets	$ 1,461,569	$ 1,676,182
4. Total Entity Assets	$ $300,997,078	$ 290,040,595
5. Total Assets	$ $302,458,647	$ 291,716,777

Information Related to Nonentity Assets

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

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

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2018	2017
(Amounts in thousands)		
Status of Fund Balance with Treasury		
1. Unobligated Balance		
A. Available	$ 26,188,346	$ 18,497,345
B. Unavailable	11,122,014	14,391,723
2. Obligated Balance Not Yet Disbursed	$ 110,031,048	$ 98,773,172
3. Non-budgetary FBWT	$ 1,336,571	$ 1,119,537
4. Non-FBWT Budgetary Accounts	$ (26,690,048)	$ (24,687,147)
5. Total	$ 121,987,931	$ 108,094,630

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 of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current and future obligations.

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

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

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

Non-FBWT Budgetary Accounts reduce the Status of FBWT. Examples include: unfilled customer orders without advance, reimbursements and other income earned-receivable, and investment accounts.

Undistributed Adjustments

Undistributed adjustments made in an attempt to reconcile the general ledger amount to the Treasury amount totaled $21.1 billion. This amount includes $0.3 billion in undistributed unsupported collections, $0.2 billion undistributed supported collections, $18.2 billion in undistributed unsupported disbursements, and $2.4 billion undistributed supported disbursements.

Reconciling Amount

The U.S. Treasury reported $7.3 million more in FBWT than reported by the Army GF. This difference includes $13.2 million in fiduciary activity less $4.7 million in net differences because of the U.S. Treasury treatment of allocation transfers, and less $1.2 million in unappropriated receipts. The fiduciary activity (contributions less distributions to and on behalf of beneficiaries) amount is provided by the U.S. Treasury. The reconciling difference due to allocation transfers results from instances in which Army allocates to, or is allocated funds from, various governmental entities. In cases in which Army is allocated funds, the allocated amount is excluded from the Fund Balance per Army, but included in the Fund Balance per Treasury.

NOTE 4. INVESTMENTS AND RELATED INTEREST

As of September 30	2018			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
1. Gift Funds	$ 1,424	$ 2	$ 1,426	$ 1,433
B. Accrued Interest	4	-	4	4
C. Total Intragovernmental Securities	$ 1,428	$ 2	$ 1,430	$ 1,437

As of September 30	2017			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
1. Gift Funds	$ 2,171	$ -	$ 2,171	$ 2,162
B. Accrued Interest	7	-	7	7
C. Total Intragovernmental Securities	$ 2,178	$ -	$ 2,178	$ 2,169

Information Related to Investments and Related Interest

Other Funds are comprised of the *Department of the Army General Gift Fund*, a dedicated collection fund, (see Note 23, *Funds from Dedicated Collections*). The amortization method used is the effective interest rate and the source of the market value is FedInvest. The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army GF along with interest received from the investment of such donations. The related earnings are allocated to the appropriate Army GF activities to be used in accordance with the directions of the donor. These funds are recorded as Nonmarketable Market-Based U.S. Treasury Securities, which are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

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

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

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2018		
(Amounts in thousands)	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 302,779	N/A	$ 302,779
2. From the Public	$ 882,281	$ (121,150)	$ 761,131
3. Total Accounts Receivable	$ 1,185,060	$ (121,150)	$ 1,063,910

As of September 30	2017		
(Amounts in thousands)	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 393,580	N/A	$ 393,580
2. From the Public	$ 819,824	$ (163,866)	$ 655,958
3. Total Accounts Receivable	$ 1,213,404	$ (163,866)	$ 1,049,538

Information Related to Accounts Receivable

Accounts Receivable represent the Army GF's claim for payment from other entities. The Army GF only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules (TFM, Chapter 4700, Appendix 10, *Intragovernmental Transactions* (IGT) Guide).

The allowance is derived by applying specific percentages by aging category, based on uncollectible balances over the preceding 36 months, and adjusted accordingly each quarter based on the remaining outstanding balance for each time period at quarter-end.

NOTE 6. OTHER ASSETS

As of September 30	2018	2017
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 337,054	$ 354,050
B. Total Intragovernmental Other Assets	$ 337,054	$ 354,050
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 1,184,127	$ 924,337
B. Advances and Prepayments	1,048,540	1,070,788
C. Total Nonfederal Other Assets	$ 2,232,667	$ 1,995,125
3. Total Other Assets	$ 2,569,721	$ 2,349,175

Information Related to Other Assets

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

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

In May 2015 the Office of the Under Secretary of Defense (OUSD) limited recognition of contract financing payments as defined under FAR 32.4—*Advance Payments for Non-Commercial Items* 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 $427.9 million in contract financing payments and an additional $756.2 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	2018	2017
(Amounts in thousands)		
1. Cash	$ 210,899	$ 191,231
2. Foreign Currency	461,047	602,541
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 671,946	$ 793,772

Information Related to Cash

Cash and Other Monetary Assets are nonentity assets and by nature the Army GF may not obligate against these assets.

See Note 2, *Nonentity Assets*, for additional information regarding Cash and Other Monetary Assets.

Foreign currency is valued using the U.S. Treasury prevailing rate of exchange. The Army GF cash and foreign currency are restricted.

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

The Army GF operates no direct loan or loan guarantee programs.

NOTE 9. INVENTORY & RELATED PROPERTY, NET

As of September 30	2018	2017
(Amounts in thousands)		
1. Operating Materiel & Supplies, Net	$ 28,592,566	$ 28,091,819
2. Total	$ 28,592,566	$ 28,091,819

Operating Materiel and Supplies, Net

As of September 30 *(Amounts in thousands)*	2018 OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 23,845,404	$ -	$ 23,845,404	Standard Price
B. Held in Reserve for Future Use	1,986,251	-	1,986,251	Standard Price
C. Held for Repair	2,760,911	-	2,760,911	Standard Price
D. Excess, Obsolete, and Unserviceable	1,213,806	(1,213,806)	-	Standard Price
E. Total OM&S	$ 29,806,372	$ (1,213,806)	$ 28,592,566	

As of September 30 *(Amounts in thousands)*	2017 OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 23,730,955	$ -	$ 23,730,955	Standard Price
B. Held in Reserve for Future Use	1,787,746	-	1,787,746	Standard Price
C. Held for Repair	2,573,118	-	2,573,118	Standard Price
D. Excess, Obsolete, and Unserviceable	1,344,104	(1,344,104)	-	Standard Price
E. Total OM&S	$ 29,435,923	$ (1,344,104)	$ 28,091,819	

Information Related to OM&S

OM&S include ammunition, spare, and repair parts. The OM&S categorization is assigned based upon the type and condition of an asset.

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

There are no restrictions on OM&S.

NOTE 10. GENERAL PP&E, NET

As of September 30 *(Amounts in thousands)*	2018 Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes				
A. Land (see narrative)		$ -	$ -	$ -
B. Buildings, Structures, and Facilities	20 or 40	102,814,315	(44,602,556)	58,211,759
C. Leasehold Improvements	lease term	24,634	(16,383)	8,251
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	2 to 50	225,987,478	(138,454,436)	87,533,042
F. Construction-in- Progress	N/A	1,522,558	N/A	1,522,558
G. Other		64	(12)	52
H. Total General PP&E		$ 330,850,767	$ (183,279,624)	$ 147,571,143

As of September 30 (Amounts in thousands)	2017						
	Useful Life*		Acquisition Value		(Accumulated Depreciation/ Amortization)		Net Book Value
1. Major Asset Classes							
A. Land		$	559,659	$	-	$	559,659
B. Buildings, Structures, and Facilities	20 or 40		94,004,216		(38,826,199)		55,178,017
C. Leasehold Improvements	lease term		24,634		(16,394)		8,240
D. Software	2-5 or 10		501,718		(206,237)		295,481
E. General Equipment	2 to 50		211,480,342		(123,389,619)		88,090,723
F. Construction-in- Progress	N/A		7,203,378		N/A		7,203,378
G. Other			179		(12)		167
H. Total General PP&E		$	313,774,126	$	(162,438,461)	$	151,335,665

* Valuation method (where applicable) = Straight Line

Information Related to General PP&E

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

In FY 2018, the Army GF adopted SFFAS No. 50 paragraph 40.f.i, allowing an exclusion of land and land rights from opening balances with, alternatively, disclosure of acreage information and expensing of future land and land rights acquisitions. This exclusion resulted in recognition of a prior period adjustment of $559.7 million, representing total net book value of Land and Land Rights, to the beginning balance of FY 2018 Cumulative Results of Operations.

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2018 Army GF Annual Financial Report.

Heritage Assets and Stewardship Land Information

The Army GF has stewardship responsibilities for heritage assets that date not only from the military history of the land, but also from prior historic occupations. The Army GF relies upon heritage assets, such as historic buildings and stewardship land, for daily use in administering, housing, and training Soldiers. Heritage assets not currently employed as multi-use, such as archeological collections or museum collections, are items that embody the multi-faceted history of the land, the military, the local communities, and the Nation. In that mission, the Army GF, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance 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 (FASAB), requires note disclosures for these types of assets. The Army GF's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

The Army GF is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2018 due to limitations of the Army GF's financial and nonfinancial management processes and systems.

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

As of September 30, 2018, the Army GF owned 11,572,397 acres of land. The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

Buildings and Structures

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

Archaeological Sites

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

Museum Collection Items

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

	As of Oct 1, 2017	Increase	Decrease	As of Sept 30, 2018
Buildings and Structures	36,740	336	654	36,422
Archaeological Sites	10,136	197	66	10,267
Museum Collection Items (Objects, Not Including Fine Art)	576,795	18,081	19,136	575,740
Museum Collection Items (Objects, Fine Art)	37,629	924	-	38,553

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2018	2017
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Other	$ 276,623	$ 311,814
B. Total Intragovernmental Liabilities	$ 276,623	$ 311,814
2. Nonfederal Liabilities		
A. Accounts Payable from Canceled Appropriations	$ 1,253,432	$ 970,250
B. Military Retirement and Other Federal Employment Benefits	1,256,792	1,286,118
C. Environmental and Disposal Liabilities	18,988,787	27,156,374
D. Other Liabilities	3,989,406	3,969,279
E. Total Nonfederal Liabilities	$ 25,488,417	$ 33,382,021
3. Total Liabilities Not Covered by Budgetary Resources	$ 25,765,040	$ 33,693,835
4. Total Liabilities Covered by Budgetary Resources	$ 10,271,987	$ 10,008,547
5. Total Liabilities	$ 36,037,027	$ 43,702,382

Liabilities not Covered by Budgetary Resources - Liabilities not covered by budgetary resources are those liabilities for which Congressional action is needed before budgetary resources can be provided.

Intragovernmental Liabilities, Other, primarily consists of the unfunded *Federal Employees' Compensation Act* (FECA) liability $211.7 million and $43.9 million of other unfunded employment-related liabilities, as of September 30, 2018 and of the unfunded FECA liability $222.7 million and $55.4 million of other unfunded employment-related liabilities, as of September 30, 2017.

Nonfederal Accounts Payable not covered by budgetary resources represent amounts that are related to cancelled 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 of the actuarial FECA benefits liability of $1.3 billion as of September 30, 2018 and September 30, 2017. 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, *Environmental and Disposal Liabilities*).

Nonfederal Other Liabilities consist of $3.7 billion in unfunded annual leave and $0.3 billion of contingent legal liabilities as of September 30, 2018 and September 30, 2017 (see Note 15, *Other Liabilities*).

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

NOTE 12. ACCOUNTS PAYABLE

As of September 30	2018		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 2,139,119	$ N/A	$ 2,139,119
2. Nonfederal Payables (to the Public)	384,667	1,018	385,685
3. Total	$ 2,523,786	$ 1,018	$ 2,524,804

As of September 30	2017		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 2,239,722	$ N/A	$ 2,239,722
2. Nonfederal Payables (to the Public)	996,153	23,925	1,020,078
3. Total	$ 3,235,875	$ 23,925	$ 3,259,800

Accounts payable include amounts owed to federal and nonfederal entities for goods and services received by the Army GF. While the Army GF ERP systems track intragovernmental accounts payable transactions by customer, the Army GF legacy systems do not. See Note 1.H., *Accounting for Intragovernmental Activities*, above regarding Accounting for Intragovernmental Activities and Note 1.X., *Undistributed Disbursements and Collections*, regarding allocation of Undistributed Disbursements.

NOTE 13. DEBT

The Army GF has no intragovernmental loan or nonfederal debt.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2018	2017
(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)	$ 2,518,632	$ 2,424,230
2. Active Installations—Military Munitions Response Program (MMRP)	914,142	898,947
3. Formerly Used Defense Sites—IRP and BD/DR	2,942,120	2,967,802
4. Formerly Used Defense Sites--MMRP	7,683,019	7,968,266
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	554,586	595,791
2. Environmental Closure Requirements	2,126,609	1,944,344
3. Environmental Response at Operational Ranges	92,320	76,013
4. Asbestos	2,451,397	2,369,742
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	555,414	630,140
2. Military Munitions Response Program	642,959	579,578
3. Environmental Corrective Action / Closure Requirements	237,695	246,825
D. Chemical Weapons Disposal Program		
1. Chemical Demilitarization - Chemical Materials Agency (CMA)	-	2,671,375
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	-	6,073,105
2. Total Environmental Liabilities	$ 20,718,893	$ 29,446,158

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

The Army's report for E&DL consists of both event-driven and asset-driven liabilities. Event-driven liabilities caused by the release of contamination to the environment that will require future cleanup. Asset-driven liabilities are the environmental disposal costs incurred at the end of the asset's useful life. The Army's Note 14, *E&DL* are reported in four general categories:

1.A Accrued Environmental Restoration Liabilities (Active Installations and Formerly Used Defense Sites (FUDS));
1.B Other Environmental Liabilities (Non-BRAC);
1.C Base Realignment and Closure (BRAC) Installations; and
1.D Chemical Weapons Disposal Program.

The Army GF addresses event-driven liabilities for the Defense Environmental Restoration Program (DERP) requirements at Active Installations, BRAC, FUDS (Lines 1.A and 1.C) and environmental restoration or corrective action not covered by DERP (Line 1.B). Other Environmental Liabilities (Line 1.B) includes disposal liabilities for operational assets such as buildings (asbestos, lead based paint, other environmental issues), underground storage tanks (USTs), above ground storage tanks (ASTs), piping associated with storage tanks, Open Burning/Open Detonation (OB/OD) areas, landfills, low level radioactive waste (LLRW), and decommissioning of deactivated nuclear power plants, which will incur environmental costs at closure.

For each category, the E&DL reflects the future work required to address legal requirements. The Army also does not reports a balance for line items where another DoD Entity serves as the DoD Executive Agent. Executive agents are responsible for identifying funding requirements and disclosing financial information regarding the progress of these programs. The Army is the Lead Agent for FUDS Program, which is reported on Note 14 Lines 1.A.3 and 1.A.4.

In 2nd Quarter, FY 2018, the liability balances previously reported for Note 14 Line 1.D. Chemical Weapons Disposal Program, CMA and ACWA, would transition from the Army GF to OUSD – Other Defense Organizations. The basis for this transition is 50 U.S.C., Section 1521, *Destruction of existing stockpile of lethal chemical agents and munitions*, paragraph (h), and aligning the prospective liabilities with the agency whose budget has been established with the associated funding.

Applicable Laws and Regulations

The Army GF addresses cleanup of contamination resulting from past waste disposal practices, leaks, spills and other past activities. This cleanup requirement applies to releases of hazardous substances and wastes that created a public health or environmental risk and risk from exposure to unexploded ordnance, discarded military munitions, and munitions constituents at other than operational ranges. DERP was established by Section 211 of the *Superfund Amendments and Reauthorization Act of 1986* codified in 10 U.S.C. of the United States Code 2700 et. seq. The Army GF is also required to clean up contamination resulting from waste disposal practices, leaks, spills (not governed by DoD Instruction (DoDI) 4715.05, *Environmental Compliance at Installations Outside the United States*) and other activities at overseas locations in accordance with DoD policy as prescribed in DoD Instruction 4715.08, *Remediation of Environmental Contamination Outside the United States*, under the Army Compliance Cleanup Program. Cleanup Sites located overseas that qualify for cleanup cannot be part of an imminent installation/site handover to host nation governments where a residual value determination may occur as part of the turnover.

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

In accordance with SFFAS No. 6, and FASAB Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment, June 2, 2010* provides clarification on determining and reporting disposal liabilities for general equipment. The guidance provides that cleanup costs that occur when equipment operations cease shall be estimated when the associated asset is placed in service and a portion of estimated total cleanup costs shall be recognized as expense during each period that the asset is in operation. The Army GF is in its initial stages of determining completeness for general equipment and defining a liability valuation method.

Applicable laws and regulations addressing environmental restoration and closure include:

- Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- Superfund Amendments and Reauthorization Act (SARA)
- Clean Water Act (CWA)
- Safe Drinking Water Act (SDWA)
- Clean Air Act (CAA)
- Resource Conversation and Recovery Act (RCRA)
- Toxic Substances Control Act (TSCA)
- Medical Waste Tracking Act (MWTA)
- Atomic Energy Act
- Nuclear Waste Policy Act
- Low Level Radioactive Waste Act
- National Defense Authorization Acts (NDAA)
- DoDI 4715.08, Remediation of Environmental Contamination Outside the United States

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Army GF uses one or more of the following cost estimating approaches: parametric cost estimates using the Remedial Action Cost Engineering Requirements (RACER) software, site-specific cost estimate in a feasibility study (FS) or corrective measures study (CMS), cost estimate from a similar site (e.g., FS or CMS), engineering estimates, historical cost data, or recently awarded contract information where some contract options are awarded but not exercised. The RACER system is the Army's preferred model for DERP and non-DERP event-driven liabilities that are still in the study phase (i.e., preliminary assessment, site inspection, or remedial investigation). The Army GF relies upon the Air Force, which is the RACER executive agent, to validate the model in accordance with DoDI 5000.61, *DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A).* The Army generally uses FS or CMS cost estimates to estimate environmental cleanup project once the feasibility study phase is complete. The FS-level estimates include review by Federal or state regulatory agencies. For recurring actions, such as sites in a remedial operations or LTM phase, cost estimates will rely on historical cost data to generate the estimate. In some cases, engineering estimates are used to develop the cost estimate and these estimates must be supported by contracts, invoices, or actual costs on similar completed sites.

At Joint Base Cape Cod (JBCC), both the Army and Air Force have event-driven liabilities associated with future environmental cleanup requirements. As a National Priority List site, CERCLA requires the DoD (Air Force and Army) to enter into a Federal Facility Agreement (FFA). For sites covered by the FFA, the Air Force is the lead, so the Army has 10 Installation Restoration Program (IRP) sites where the Air Force reports E&DL. Each year, the Army transfers funding for the execution of these 10 IRP sites, so the Army reports the unliquidated obligations associated with the work for these sites, and the Air Force reports the future cost-to-complete estimates on Line 1.B.3.

Program management costs beyond the FYDP are estimated by applying the average percentage of program management costs through the FYDP to the site-level requirements remaining after the FYDP. The procedure is based on the 19 Jan 2016 Deputy Assistant Secretary of Defense (Environment, Safety and Occupational Health) memo entitled, *"Revisions to the Knowledge-Based Corporate Reporting System (KBCRS) Defense Environmental Restoration Program (DERP)."*

For asset-driven liabilities, the Army GF uses the real property inventory and cost factors derived using industry standards or historical costs to develop environmental closure liabilities. Examples of asset-driven liabilities include the environmental costs associated with a building, storage tanks, piping, OB/OD areas, and operating landfills. Environmental closure liabilities for individual building demolition will vary significantly, so environmental related building closure liabilities are reported in aggregate (from various sites around CONUS) using cost factors updated annually and the total FEE building square footage inventory. Environmental Closure Requirements are reported on line 1.B.2 of the Note 14. Asbestos disposal costs cannot be adequately estimated due to the ubiquitous nature of non-friable asbestos. However, the Army uses historical cost data from recent pre-demolition building survey to develop cost factors for asbestos survey and abatement. In 1990, the U.S. Environmental Protection Agency (USEPA) provided the final regulatory ban on the use of asbestos-containing materials in construction. Therefore, Environmental and Disposal Liability for asbestos abatement only includes facilities put into service before 1990. The liability is determined using the square footage of buildings put in service before 1990 and the asbestos abatement cost factor, and reported on Line 1.B.4.

The Army also has some highly specialized facilities that require unique closure requirements which do not fit the model above. The decommissioning of the Army's deactivated nuclear power plants require extensive closure requirements in accordance with Army Regulation 50-7. Although these facilities are not under the jurisdiction of the Nuclear Regulatory Commission (NRC), the Army adheres to the substantive requirements of NRC regulations. The estimation process requires a detailed engineering study and financial analysis prepared in advance of the detailed engineering that will be required to carry out the decommissioning and disposal. The estimates are based on numerous industry standards and fundamental assumptions that consider current regulations, radioactive waste disposal options, site restoration practices, and project contingencies. The Army GF is also uncertain regarding the costs for cleanup associated with nuclear reactors . The closure liability for reactors will be reported on Line 1.B.2.

The Army uses independently validated models to estimate environmental disposal liabilities for storage tanks. The model is contained within the RACER. Storage Tanks, which typically contain petroleum, oil or lubricants, are assets that will incur environmental disposal costs at the end of the asset's useful life. Disposal costs for these assets include removal of the storage tank and associated piping, and back filling the excavation with fill material; however, the Army's experience with similar efforts, suggests petroleum releases are usually encountered when closing many storage tanks. As a result, closure costs includes tank removal, over excavation of potentially contaminated soil, and back filling of excavated site. Cost estimates for storage tank closure were developed using three major categories (based on tank volume): Small - Category 1 (0-999 gallons), Medium - Category 2 (1,000 – 9,999 gallons), and Large - Category 3 (greater than 10,000 gallons). There are several sub categories for tanks with volume greater than 10,000 gallons and RACER cost estimates using local cost factors were used along with the inventory of tanks in each category to develop the reported Environmental Disposal Liability.

Permitted landfills closure liabilities are estimated using federal solid waste closure requirements. The future closure costs for operating landfills considers the type of landfill (e.g., hazardous waste or sanitary/municipal) and acreage. Reported Environmental Liability also include post-closure requirements (i.e. 30 years of groundwater monitoring). The Army uses independently validated models to estimate environmental closure liabilities for landfills. The model is contained within the RACER. RACER estimates were developed using local cost factors, type, and size of each operating landfill in the Army's real property inventory.

Sunflower Army Ammunition Plant is a Non-BRAC Excess facility that has both DERP cleanup requirements and facility closure requirements to include explosives decontamination of existing structures. The explosives decontamination costs are based on contract costs and include removal of potentially explosive building foundation slabs, walls when present, and sumps; removal and decontamination of potentially explosive sewers and underground infrastructure. The environmental investigations and cleanup to address environmental contamination beneath the foundations and sewers is being executed under DERP is included on line 1.A.1 of the Army's Note 14 Financial Statement, and the explosives decontamination work associated with facility closure is reported on Line 1.B.2.

OB/OD are environmentally permitted disposal facilities and another of the Army's highly specialized facilities that require unique closure requirements. The Army GF is also uncertain regarding the costs for cleanup associated with OB/OD. The Army utilizes the RACER modeling software to capture closure requirements and determine the environmental liabilities. OB/OD areas/facilities are used as a common disposal method for munitions stockpiles. These activities are necessary to destroy unserviceable, unstable, or unusable munitions and explosives. Unique RACER estimates are generated for each of the Army's OB/OD facilities focusing on the high probability of explosives and heavy metal contamination cleanup in the soil. Environmental Closure Requirements are reported on line 1.B.2 of the Note 14.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General PP&E

For General PP&E placed in service on or after October 1, 1997, the table below presents the unrecognized portion of the total cleanup, closure, or disposal costs. The recognized amounts are included in the Environmental Closure Requirements on Note 14 (Line 1.B.2) over the useful life of the asset.

As of September 30, 2018	
(Amounts in thousands)	
The unrecognized portion of the estimated total cleanup, closure or disposal costs associated with general property, plant, and equipment (environmental related facility closures, storage tanks, and piping).	$231,235

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

The Army GF estimates are updated annually to reflect changes in previously unknown information, better site characterization, re-estimation based on different assumptions, price growth (inflation), increase in labor rates and materials, and lessons learned. Environmental Liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. Environmental Liabilities may also change due to updated criteria and new ways of determining current categories on the financial statement.

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

The Environmental Liabilities for the Army GF are based on accounting estimates, which require certain judgments and assumptions that are believed to be reasonable based upon information available to the Army at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Environmental Liabilities can be further impacted if investigation of environmental sites discloses contamination levels different than known at the time of the estimates. To reduce these and other impacts as per April 2017 FIAR guidance, the Army has implemented an ERP system for the determination of environmental liabilities and the system capabilities include solutions for resolving audit impediments, The system, Headquarter Army Environmental System (HQAES) is the database of record for the recording and data repository for all costs associated with the event driven liabilities.

The Army GF has reported asbestos survey costs but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, per FASAB TB 2006-1, presents too much uncertainty to recognize on the balance sheet. Friable asbestos mitigation estimates are based on historical costs of asbestos abatement during facility demolition. A cost factor is generated per square foot of building demolished. The cost factor is used as a multiplier with the total square footage of Army facilities put into service prior to 1990.

The Army GF is also uncertain regarding the costs for cleanup associated with general and military equipment. The Army GF is unable to determine general equipment disposal liabilities because the determination for completeness for general equipment and defining valuation method are still ongoing. The Army GF is also currently unable to provide a reasonable estimate due to fact that a large portion of the Army GF's general equipment is disposed of as a routine part of current operations, while other general equipment is recycled. Other general equipment does not present a liability for the Army GF since they are disposed of through various governmental sales program (e.g. foreign military sales, Defense Logistics Agency equipment sales, etc.).

NOTE 15. OTHER LIABILITIES

As of September 30	2018		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Advances from Others	$ 70	$ -	$ 70
B. Deposit Funds and Suspense Account Liabilities	555,587	-	555,587
C. Disbursing Officer Cash	680,076	-	680,076
D. Judgment Fund Liabilities	21,074	-	21,074
E. FECA Reimbursement to the Department of Labor	94,945	116,721	211,666
F. Custodial Liabilities	3,147	(1,331)	1,816
G. Employer Contribution and Payroll Taxes Payable	130,556	-	130,556
H. Other Liabilities	43,936	-	43,936
I. Total Intragovernmental Other Liabilities	$ 1,529,391	$ 115,390	$ 1,644,781
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 2,566,204	$ -	$ 2,566,204
B. Advances from Others	1,271,006	-	1,271,006
C. Deposit Funds and Suspense Accounts	762,283	-	762,283
D. Nonenvironmental Disposal Liabilities			
(1) Conventional Munitions Disposal	-	5,974	5,974
E. Accrued Unfunded Annual Leave	3,645,124	-	3,645,124
F. Contract Holdbacks	230,548	-	230,548
G. Employer Contribution and Payroll Taxes Payable	152,638	-	152,638
H. Contingent Liabilities	309,107	947,809	1,256,916
I. Other Liabilities	1,064	-	1,064
J. Total Nonfederal Other Liabilities	$ 8,937,974	$ 953,783	$ 9,891,757
3. Total Other Liabilities	$ 10,467,365	$ 1,069,173	$ 11,536,538

As of September 30 *(Amounts in thousands)*	2017 Current Liabilities	2017 Noncurrent Liabilities	2017 Total
1. Intragovernmental			
A. Advances from Others	$ 26,574	$ -	$ 26,574
B. Deposit Funds and Suspense Account Liabilities	245,567	-	245,567
C. Disbursing Officer Cash	802,072	-	802,072
D. Judgment Fund Liabilities	33,760	-	33,760
E. FECA Reimbursement to the Department of Labor	101,148	121,549	222,697
F. Custodial Liabilities	3,147	(2,418)	729
G. Employer Contribution and Payroll Taxes Payable	128,045	-	128,045
H. Other Liabilities	55,509	-	55,509
I. Total Intragovernmental Other Liabilities	$ 1,395,822	$ 119,131	$ 1,514,953
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 932,170	$ -	$ 932,170
B. Advances from Others	1,261,169	-	1,261,169
C. Deposit Funds and Suspense Accounts	863,744	-	863,744
D. Nonenvironmental Disposal Liabilities			
(1) Conventional Munitions Disposal	-	5,974	5,974
E. Accrued Unfunded Annual Leave	3,665,572	-	3,665,572
F. Contract Holdbacks	229,351	-	229,351
G. Employer Contribution and Payroll Taxes Payable	121,472	-	121,472
H. Contingent Liabilities	202,452	913,007	1,115,459
I. Other Liabilities	442	-	442
J. Total Nonfederal Other Liabilities	$ 7,276,372	$ 918,981	$ 8,195,353
3. Total Other Liabilities	$ 8,672,194	$ 1,038,112	$ 9,710,306

Intragovernmental Liabilities

Advances from Others

Advances from Others represent liabilities for collections received from the customer to cover the Army GF's future expenses incurred or assets acquired related to fulfillment and delivery of the respective goods or services.

Deposit Fund and Suspense Accounts

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

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.

Judgment Fund Liabilities

The Judgment Fund liabilities are available for court judgments and Justice Department compromise settlements of actual or imminent litigation against the government as specified under 31 U.S.C. Section 1304. The Judgment Fund is also available for awards and settlements involving discriminatory conduct by the Army GF under statutes identified in the Notification and *Federal Employee Antidiscrimination and Retaliation Act of 2002*, commonly known as the *No FEAR Act*. (U.S.C. Section 2301).

FECA Reimbursement to the Department of Labor

FECA provides federal employees injured in the performance of duty with workers' compensation benefits. The FECA program is financed by direct reimbursements from the Army GF and pays benefits on behalf of the Army GF as costs are incurred. The Army GF's FECA payments are funded through Army GF appropriations reimbursed to the FECA fund.

Custodial Liabilities
Custodial Liabilities represent liabilities for collections reported as non-exchange revenues for which the Army GF is acting on behalf of another Federal entity. The noncurrent portion of the overall liability reported as of September 30, 2018 is abnormal. Further research is required regarding the identification of current versus noncurrent activity.

Employer Contribution and Payroll Taxes Payable
Employer contribution and payroll taxes payable represents the employer portion of payroll taxes and benefit contributions for health benefits, life insurance, Social Security, Medicare and other retirement benefits, including the Army GF's contribution to the Thrift Savings Plan.

Other Liabilities
Other Liabilities primarily consists of unfunded benefits related to unemployment.

Nonfederal Liabilities

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

Nonenvironmental Disposal Liabilities
Nonenvironmental disposal liabilities represent the accrual for expected expenditures for disposal of conventional munitions.

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

Contract Holdbacks
Contract holdbacks consist of amounts withheld from payments to contractors to assure compliance with contract terms, usually expressed as a percentage in the respective contract provisions.

Contingent Liabilities
FY 2018 contingent liabilities include $756.2 million related to contracts authorizing progress payments based on cost as defined in the 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 Army GF policy that these rights should not be misconstrued as rights of ownership. The Army GF is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. The Army GF 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.

An additional $338.3 million of contingent liabilities as of September 30, 2018, represent the accrual for various legal actions for which the Army Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss measurable. These liabilities totaled $297.7 million as of September 30, 2017.

Other Liabilities

Other Liabilities represent miscellaneous accruals, not otherwise classified above, for which there is a related budgetary obligation.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Information Related to Commitments and Contingencies

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

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

The Army GF has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army GF's financial statements. As of September 30, 2018, the Army GF had $0.7 billion in claims considered reasonably possible. Estimates for litigations, claims, and assessments are required to be fully supported. As of September 30, 2017, the Army GF had $0.6 billion in claims considered reasonably possible.

As of September 30, 2018, the Army has cases with claim amounts totaling approximately $2.6 trillion for which the outcome is undetermined, however there is a reasonably possible outcome for a loss. Army determined that the historical payout percentage for these cases is less than 0.002 percent. As of September 30, 2017, the Army has cases with claim amounts totaling approximately $12.1 billion for which the outcome is undetermined.

Other Information Pertaining to Commitments

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

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2018	
(Amounts in thousands)	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 1,256,792	$ 1,256,792
B. Total Other Benefits	$ 1,256,792	$ 1,256,792
2. Total Military Retirement and Other Federal Employment Benefits:	$ 1,256,792	$ 1,256,792

As of September 30	2017	
(Amounts in thousands)	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 1,286,118	$ 1,286,118
B. Total Other Benefits	$ 1,286,118	$ 1,286,118
2. Total Military Retirement and Other Federal Employment Benefits:	$ 1,286,118	$ 1,286,118

Information Related to Military Retirement and Other Federal Employment Benefits

Federal Employees' Compensation Act (FECA)
The actuarial liability for the FECA decreased $29.3 million between FY 2017 and FY 2018.

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:
2.716 percent in Year 1 and years thereafter.

For medical benefits:
2.379 percent in Year 1 and years thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPIMs were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2018 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
2018	N/A	N/A
2019	1.31%	3.21%
2020	1.51%	3.48%
2021	1.89%	3.68%
2022	2.16%	3.71%
2023	2.21%	4.09%

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 2018 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2018 projection to the average pattern for the projections of the most recent three years.

Other Disclosures
Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year. The Army GF 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 CONSOLIDATED STATEMENT OF NET COST

Intragovernmental Costs and Exchange Revenue

For the Years Ended September 30	2018	2017
(Amounts in thousands)		
Military Personnel		
1. Gross Cost	$ 59,887,057	$ 57,472,249
2. Less: Earned Revenue	(340,130)	(328,125)
Total Net Cost	$ 59,546,926	$ 57,144,124
Operations, Readiness & Support		
1. Gross Cost	$ 64,277,667	$ 62,985,890
2. Less: Earned Revenue	4,727,074	4,823,236
Total Net Cost	$ 69,004,742	$ 67,809,126
Procurement		
1. Gross Cost	$ 14,164,891	$ 758,385
2. Less: Earned Revenue	(2,252,217)	(1,797,570)
Total Net Cost	$ 11,912,674	$ (1,039,185)
Research, Development, Test & Evaluation		
1. Gross Cost	$ 14,028,030	$ 12,927,827
2. Less: Earned Revenue	(5,371,906)	(4,871,729)
Total Net Cost	$ 8,656,124	$ 8,056,098
Family Housing & Military Construction		
1. Gross Cost	$ 7,684,277	$ 8,273,469
2. Less: Earned Revenue	(3,396,068)	(4,415,318)
Total Net Cost	$ 4,288,209	$ 3,858,151
Consolidated		
1. Gross Cost	$ 160,041,922	$ 142,417,820
2. Less: Earned Revenue	(6,633,247)	(6,589,506)
Total Net Cost	$ 153,408,675	$ 135,828,314

Information Related to the Consolidated 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 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.

Additional Disclosures

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

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

Information Related to the Consolidated 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 GF'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 SCNP should not and will not agree with the Appropriations line item on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The $866.6 million difference is due to additional resources included in the Appropriation line item on the SBR.

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.

For the Year Ended September 30, 2018 *(Amounts in millions)*

Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		Total
Appropriations, Statement of Budgetary Resources	$	176,702.9
Appropriations Received, Statement of Changes in Net Position	$	175,836.3
Total Reconciling Amount	$	866.6
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent Reductions	$	(341.4)
Items Reported as Additions to Appropriations, Statement of Budgetary Resources		
Transfers	$	1,179.6
Items Not Reported as Appropriations Received on the Statement of Changes in Net Position		
Dedicated appropriations and earmarked receipts	$	28.4
Total Reconciling Items	$	866.6

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30		**2018**
(Amounts in thousands)		
1. Intragovernmental Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid	$	55,586,516
B. Prepaid/Advanced		868,738
C. Total Intragovernmental	$	56,455,254
2. Nonfederal Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid	$	45,882,482
B. Prepaid/Advanced		1,476,454
C. Total Nonfederal	$	47,358,936
3. Budgetary Resources Obligated for Undelivered Orders at the End of the Period*	$	103,814,190

**For FY 2017 this table was not prepared and as of September 30, 2017 Budgetary Resources Obligated for Undelivered Orders was $93,219,863 thousand.*

Information Related to the Statement of Budgetary Resources

Net adjustments to unobligated balance brought forward, Oct 1 represents the total of recoveries of prior year unpaid obligations and other changes in unobligated balance, previously reported separately within the combined Statement of Budgetary Resources, and together impacting the obligated balance, end of the prior year and brought forward, Oct 1, as reported.

Undelivered Orders

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

Breakdown of Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations

The amount of direct and reimbursable obligations and upward adjustments 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:

	FY 2017 Apportionment Categories	
Type	Direct (Amounts in thousands)	Reimbursable (Amounts in thousands)
Category A	$126,136,643	$4,305,103
Category B	$38,474,031	$16,828,390
Exempt from Apportionment	$8,931	$72
Total	$164,619,605	$21,133,565

There is a $319 thousand unidentified reconciling difference between the totals in this table and total New Obligations and Upward Adjustments in the SBR.

	FY 2018 Apportionment Categories	
Type	Direct (Amounts in thousands)	Reimbursable (Amounts in thousands)
Category A	$133,460,357	$3,765,105
Category B	47,923,667	20,051,566
Exempt from Apportionment	12,232	(73)
Total	$181,396,256	$23,816,598

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 New Obligations and Upward Adjustments as reported on the SBR.

Reconciliation of Combined SBR to Budget of the U.S. Government

Explanation of Differences between the FY 2017 SBR and the *FY 2019 Budget of the U.S. Government*

	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Agency Outlays	Explanation for reconciling differences
(Amounts in Millions)	Line 1910	Line 2190	Line 4200	Line 4190	
Combined Statement of Budgetary Resources	218,641	185,753	142	147,796	
Reconciling Difference	7,510				Less: Schedule P, Obligations “upward adjustments,” expired accounts (included within SBR line 2190, New obligations and Upward Adjustments (Note 1)
Reconciling Difference	14,266				Less: SF 133 line 2413 - Expired Unobligated Balance, end of year (Note 2)
Reconciling Difference			142		Less: Distributed Offsetting Receipts (Note 3)
Total	196,865	185,753	-	147,796	
Budget of the U.S. Government	196,853	185,730	-	147,654	
Difference	12	23	-	142	Due to rounding

Note 1: Per FY 2017 OMB A-11, paragraph 130.11, upward adjustments of obligations to expired appropriation accounts are subtracted from expired unobligated balances as reported on line 2403, Unobligated Balance, Unapportioned: Other, a component of total budgetary resources as reported on SBR line 2500 (under Status of Budgetary Resources); and consequently, must also be excluded from line 1910 (also total budgetary resources).

Note 2: Per FY 2017 OMB A-136, section II.4.9.34, paragraph 3 “…expired unobligated balances are reported in the SBR and SF 133, but not in the Budget (of the U.S. Government).”

Note 3: The FY 2017 Appendix, Detailed Budget Estimates, does not report distributed offsetting receipts at the DoD sub agency level.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the Years Ended September 30	2018	2017
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. New Obligations and Upward Adjustments	$ 205,212,854	$ 185,752,871
2. Less: Spending authority from offsetting collections and recoveries (-)	(41,331,530)	(35,234,012)
3. Obligations net of offsetting collections and recoveries	$ 163,881,324	$ 150,518,859
4. Less: Offsetting receipts (-)	(339,708)	142,653
5. Net obligations	$ 163,541,616	$ 150,661,512
Other Resources:		
6. Donations and forfeitures of property	12,838	1,310
7. Transfers in/out without reimbursement (+/-)	10,294,103	2,233,107
8. Imputed financing from costs absorbed by others	1,016,091	726,481
9. Other (+/-)	(4,169,752)	(15,180,527)
10. Net other resources used to finance activities	$ 7,153,280	$ (12,219,629)
11. Total resources used to finance activities	$ 170,694,896	$ 138,441,883
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 (-)	$ (10,594,328)	$ (1,485,219)
12b. Unfilled Customer Orders	2,261,937	(417,507)
13. Resources that fund expenses recognized in prior Periods (-)	(751,624)	(76,600)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	338,403	(501,399)
15. Resources that finance the acquisition of assets (-)	(22,864,727)	(36,216,990)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Other (+/-)	(6,254,459)	13,304,857
17. Total resources used to finance items not part of the Net Cost of Operations	$ (37,864,798)	$ (25,392,858)
18. Total resources used to finance the Net Cost of Operations	$ 132,830,098	$ 113,049,025
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	$ 147,379	$ 37,405
20. Increase in exchange revenue receivable from the public (-)	(6,174)	(769)
21. Other (+/-)	660,719	3,015,909
22. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 801,924	$ 3,052,545
Components not Requiring or Generating Resources:		
23. Depreciation and amortization	$ 20,689,006	$ 20,364,986
24. Revaluation of assets or liabilities (+/-)	(636)	(1,276)
25. Other (+/-)		
25a. Cost of Goods Sold	82,955	-
25b. Operating Material and Supplies Used	-	4
25c. Other	(994,672)	(636,970)
26. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 19,776,653	$ 19,726,744
27. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 20,578,577	$ 22,779,289
28. Net Cost of Operations	$ 153,408,675	$ 135,828,314

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

Required Disclosures
Due to the limitations of the Army GF 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 adjustments to the note schedule to bring it into balance with the SNC totaled $499.6 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 intra-agency 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, including an $8.5 billion gain realized by the Army GF in the transfer of its previously recognized chemical weapons disposal program liabilities (see Note 14, *Environmental Liabilities*) to DoD's Other Defense Activities, Tiers 3 and 4; offset by net losses recognized from adjustments necessary to balance the Army GF's feeder systems reported balances with the Army GF's financial reporting system for general property, plant, and equipment.

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 GF executes the funding on behalf of the Executive Office of the President. The U.S. Treasury requires that the execution for this type of transfer is presented on the Army GF financial statements. This line also includes the current year change in CIP balances.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The Army GF does not collect incidental custodial revenues.

NOTE 23. FUNDS FROM DEDICATED COLLECTIONS

As of September 30	2018 Total Funds From Dedicated Collections	2017 Total Funds From Dedicated Collections
(Amounts in thousands)		
BALANCE SHEET		
ASSETS		
Fund balance with Treasury	$ 62,421	$ 63,649
Investments	1,430	2,178
Other Assets	(2)	(3)
Total Assets	$ 63,849	$ 65,824
LIABILITIES and NET POSITION		
Accounts Payable and Other Liabilities	3,989	(2,527)
Total Liabilities	$ 3,989	$ (2,527)
Cumulative Results of Operations	59,860	68,351
Total Liabilities and Net Position	$ 63,849	$ 65,824
For the Years Ended September 30		
(Amounts in thousands)		
STATEMENT OF NET COST		
Program Costs	$ 39,086	$ 14,842
Less Earned Revenue	(348)	(1,276)
Net Program Costs	$ 38,738	$ 13,566
Less Earned Revenues Not Attributable to Programs		
Net Cost of Operations	$ 38,738	$ 13,566
STATEMENT OF CHANGES IN NET POSITION		
Net Position Beginning of the Period	$ 68,351	$ 67,093
Net Cost of Operations	38,738	13,566
Budgetary Financing Sources	30,594	15,243
Other Financing Sources	(347)	(420)
Change in Net Position	$ (8,491)	$ 1,258
Net Position End of Period	$ 59,860	$ 68,351

Information Related to Funds from Dedicated Collections

In accordance with SFFAS No. 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 nonexchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections with all other funds.

Funds from dedicated collections are financed by specifically identified revenues, required by statute to be used for designated activities or purposes, and remain available over time. The Army GF 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 U.S.C. 670b gives the authority to collect and distribute funds for the intended purposes.

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

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

Forest and Wildlife Conservation, Military Reservations. Funds are received from the sales of forest products harvested from forests on military installations and distributed to the respective states involved in the sales. Each state is entitled to 40 percent of the sales of products from its forest after reimbursement of DoD appropriations for the costs of production. Title 10 U.S.C. 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. A Joint Resolution of the 74th Congress dated May 23, 1935 is the statutory citation that provides authority for the use of this fund.

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

NOTE 24. FIDUCIARY ACTIVITIES

For the Years Ended September 30	2018	2017
(Amounts in thousands)		
Schedule of Fiduciary Activity		
1. Fiduciary net assets, beginning of year	$ 5,536	$ (10,387)
2. Contributions	22,365	(217)
3. Distributions to and on behalf of beneficiaries	(14,685)	16,142
4. Increase/(Decrease) in fiduciary net assets	$ 7,680	$ 15,923
5. Fiduciary net assets, end of period	$ 13,216	$ 5,536
Schedule of Fiduciary Net Assets		
FIDUCIARY ASSETS		
1. Cash and cash equivalents	$ 13,216	$ 5,536
2. Total Fiduciary Net Assets	$ 13,216	$ 5,536

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 Army GF has a fiduciary duty to the Savings Deposit Program in which the Army GF participates. PL 89-538 authorizes DoD, through the Savings Deposit Program, to collect a voluntary allotment from the current pay of members of the armed forces deployed outside the United States or its possessions in designated areas. The Army GF collects the savings and allotments of Soldiers, and the collections and accrued earned interest are transferred to the Navy GF, the program's executive agent. These fiduciary assets are not assets of the Army GF and are not recognized on its Balance Sheet. Detail on contributions and distributions on behalf of beneficiaries are provided by the U.S. Treasury.

The fiduciary activity (contributions less distributions to and on behalf of beneficiaries) amount is provided by the U.S. Treasury.

NOTE 25. LEASES

As of September 30	2018 Asset Category Land and Buildings	Other	Total
(Amounts in thousands)			
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2019	$ 21,150	$ -	$ 21,150
2020	21,721	-	21,721
2021	22,307	-	22,307
2022	22,909	-	22,909
2023	23,528	-	23,528
After 5 Years	127,518	-	127,518
Total Intragovernmental Future Lease Payments Due	$ 239,133	$ -	$ 239,133
2. Nonfederal Operating Leases			
Future Payments Due			
Fiscal Year			
2019	$ 165,185	$ 819	$ 166,004
2020	130,380	773	131,153
2021	95,039	605	95,644
2022	60,822	416	61,238
2023	28,196	416	28,612
After 5 Years	40,182	938	41,120
Total Nonfederal Future Lease Payments Due	$ 519,804	$ 3,967	$ 523,771
3. Total Future Lease Payments Due	$ 758,937	$ 3,967	$ 762,904

As of September 30, 2018, the Army GF has various non-cancelable operating leases. Many of these leases contain clauses to reflect inflation and renewal options. The Army GF has no assets under capital lease.

Entity as Lessor

Nonfederal Operating Leases	
(Amounts in thousands)	
Fiscal Year	
2019	$ 11,671
2020	9,277
2021	6,365
2022	3,913
2023	2,967
After 5 Years	13,943
Total Future Lease Payments	$ 48,136

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

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

The Army has an advisory group for its NAFIs. The group ensures the NAFI is responsive to authorized patrons and to the purposes for which the NAFI was created. Additionally, the NAFIs are subject to financial reporting requirements and financial audits conducted by independent public accounting firms. However, Army NAFI financial activity is not included in the Army GF financial statements.

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

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

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

The Army GF receives significant benefits from the work of the Arroyo Center, which is critical to national security. The Army GF's oversight and management of the Arroyo Center are stipulated by Army Regulation 5-21.3. The regulation establishes a governing board of Army leaders known as the Arroyo Center Policy Committee (ACPC), co-chaired by the Vice Chief of Staff of the Army and the Assistant Secretary of the Army (Acquisition, Logistics and Technology). The ACPC provides overall guidance, reviews the annual research plan, and approves individual projects. While the Army GF does not control the Arroyo Center, the Army GF must agree that it will conduct its business in a manner befitting its special relationship with the Army GF, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. An FFRDC may be used only for work that is within its purpose, mission, and general scope of effort, as established within the sponsoring agreement.

FISCAL YEAR 2018 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The following summarizes nonfederal physical property. Investments in nonfederal 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 investment 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 2014 through 2018

(Amounts in millions)

Categories	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Transferred Assets:					
1. National Defense Mission-Related	$21.4	$21.4	$21.3	$21.2	$21.2
Funded Assets:					
2. National Defense Mission-Related	-	-	-	-	-
Totals	$21.4	$21.4	$21.3	$21.2	$21.2

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

Investment values included in this report are based on nonfederal physical property outlays (expenditures). Outlays are used because current 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 2014 through 2018

(Amounts in millions)

Categories	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Basic Research	$463.8	$462.9	$453.0	$444.3	$437.6
Applied Research	1,130.7	578.1	1,045.7	935.2	858.5
Development					
Advanced Technology Development	1,286.4	1,182.4	1,175.6	1,128.0	1,104.9
Advanced Component Development and Prototypes	723.3	465.1	460.4	421.3	511.1
Systems Development and Demonstration	2,446.5	2,112.8	1,870.0	1,924.1	2,550.4
Research, Development, Test and Evaluation Management Support	1,403.0	1,246.9	1,196.0	1,268.4	1,277.6
Operational Systems Development	1,285.3	866.9	1,283.2	1,270.9	1,261.8
Total	$8,739.0	$6,915.1	$7,483.9	$7,392.2	$8,001.9

Narrative Statement

Research and development (R&D) programs are classified in the following seven Budget Activities (BAs): Basic Research (BA1), Applied Research (BA2), Advanced Technology Development (BA3), Advanced Component Development and Prototypes (BA4), Systems Development and Validation (BA5), RDTE Management Support (BA6), and Operational Systems Development (BA7). The definition of each type of RDTE Budget Activity and representative examples of the research being conducted in each BA is explained below.

Basic Research (BA1) 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 includes all scientific study and experimentation directed toward increasing fundamental knowledge and understanding in those fields of the physical, engineering, environmental, and life sciences related to long-term national security needs. It is farsighted, high payoff research that provides the basis for technological progress. Major outputs are scientific studies and research papers.

The following are two representative program examples for this BA:

Defense Research Sciences (PE 0601102A): This Program Element (PE) builds fundamental scientific knowledge contributing to the sustainment of U.S. Army scientific and technological superiority in land warfighting capability and solving military problems related to long-term national security needs, investigates new concepts and technologies for the Army's future force, and provides the means to exploit scientific breakthroughs and avoid technological surprises. This PE fosters innovation in Army niche areas (e.g., lightweight armor, energetic materials, and night vision capability) and areas where there is no commercial investment due to limited markets (e.g., vaccines for tropical diseases). It also focuses university single investigator research on areas of high interest to the Army (e.g., 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 transition knowledge and technology into appropriate developmental activities. The extramural program leverages the research efforts of other government agencies, academia, and industry.

University and Industry Research Centers (PE 0601104A): This PE fosters university- and industry-based research to provide a scientific foundation for enabling technologies for future force capabilities. Broadly, the work in this PE falls into three categories: Collaborative Technology Alliances/Collaborative Research Alliances (CTAs/CRAs), University Centers of Excellence, and University Affiliated Research Centers (UARCs). The Army formed CTAs to leverage large investments by the commercial sector in basic research areas that are of great interest to the Army. CTAs are industry-led partnerships between industry, academia, and the Army Research Laboratory (ARL) to incorporate the practicality of industry, the expansion of the boundaries of knowledge from universities, and Army scientists to shape, mature, and transition technology relevant to the Army mission. CTAs have been competitively established in the areas of Micro Autonomous Systems Technology (MAST), Network Sciences, Robotics, and Cognition and Neuroergonomics. CRAs are academia-led partnerships, which leverage the cutting-edge innovation found in the academic environment. CRAs have been established in the areas of Multi-Scale Materials Modeling (electronic materials and materials in extreme environments) and in cyber security. The COEs focus on expanding the frontiers of knowledge in research areas where the Army has enduring needs, and couples state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in automotive and rotary wing technology.

Also included in PE 0601104A are Army Educational Outreach Program (AEOP) and activities to stimulate interest in science, math, and technology among middle and high school students. This PE includes support for basic research at three Army UARCs, which have been created to exploit opportunities to advance new capabilities through a sustained long-term multidisciplinary effort. The Institute for Soldier Nanotechnologies focuses on Soldier protection by emphasizing revolutionary materials research for advanced Soldier protection and survivability. The Institute for Collaborative Biotechnologies focuses on enabling network centric-technologies, and broadening 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. Examples of specific research of mutual interest to the entertainment industry and the Army are technologies for realistic immersion in synthetic environments, networked simulation, standards for interoperability, and tools for creating simulated environments. This PE also includes the Historically Black Colleges and Universities and Minority Institution (HBCU/MI) Centers of Excellence that address critical research areas for Army Transformation.

Applied Research (BA2) 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 BA:

Combat Vehicle and Automotive Technology (PE 0602601A): This PE researches, designs, and evaluates combat and tactical vehicle automotive technologies that enable the Army to have a lighter, more survivable, more mobile, and more deployable force. Project C05 investigates, researches, and evaluates advanced ground vehicle design and occupant protection technologies in such areas as armor concepts, ballistic defeat mechanisms, blast mitigation, survivability modeling and simulation (M&S), hit avoidance, kill avoidance, safety, sensors, counter-measures, instrumentation, and survivability packaging concepts to achieve superior survivability/protection for Soldiers and military ground vehicles. Survivability technologies will be designed for integration into the Modular Active Protection System (MAPS). Project H77 funds the National Automotive Center (NAC), which was chartered by the Secretary of the Army to conduct shared government and industry, or "dual use," technology programs to leverage commercial investments in automotive technology research and development for Army ground combat and tactical vehicle applications. Project H91 designs, matures, and evaluates a variety of innovative and enabling technologies in the areas of electrical power, thermal management, propulsion, mobility, power for advanced survivability, vehicle diagnostics, fuels, lubricants, water purification, intelligent systems, autonomy-enabled systems, and other component technologies to enhance the mobility, power and energy and reduce the logistic chain of combat and tactical vehicles. This PE executes the Army's Combat Vehicle Prototyping (CVP) program to mature, integrate, and demonstrate ground vehicle leap-ahead technologies in support of future combat vehicles.

Ballistics Technology (PE 0602618A): This PE investigates and evaluates materials and technologies, and designs and develops methodologies and models required to enable enhanced lethality and survivability. Project H80 focuses on applied research of lightweight armors and protective structures for the Soldier and vehicles; kinetic energy active protection; crew and components protection from ballistic shock and mine-blast; insensitive propellants/munitions formulations; novel multi-function warhead concepts; affordable precision munitions design; and techniques, methodologies, and models to analyze combat effectiveness, and identify vulnerabilities of current and emerging technologies; and developing a demonstrator with associated methods and tools for injury prediction of vehicle occupants during under-body blast events.

Advanced Technology Development (BA3) 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 and projects within this Budget Activity have a direct relevance to identified military needs.

The following are two representative examples for this BA:

Advanced Tactical Computer Science and Sensor Technology (PE 0603772A): This PE matures and demonstrates technologies that allow the Warfighter to effectively collect, analyze, transfer, and display situational awareness information in a network-centric battlefield environment. It matures and demonstrates architectures, hardware, software and techniques that enable Synchronized mission command (MC) during rapid, mobile, dispersed, and Joint operations. Project 101 matures software, algorithms, services, and devices to more effectively integrate MC across all echelons and enable more effective utilization of Warfighter resources including intelligent power management and distribution through accelerated information to decisions and rapid MC on the move. Project 243 matures and demonstrates signal processing and information/intelligence fusion software, algorithms, services, and systems for Army sensors; radio frequency (RF) systems to track and identify enemy forces and personnel; and multi-sensor control and correlation software and algorithms to improve reconnaissance, surveillance, tracking, and target acquisition.

Medical Advanced Technology (PE 0603002A): This PE matures and demonstrates advanced medical technologies including drugs, vaccines, medical diagnostic devises, measures for identification and vector control, and developing medical practices and procedures to effectively protect and improve the survivability of United States Forces across the entire spectrum of military operations. Tri-Service coordination and cooperative efforts are focused in four principal medical areas: Combat Casualty Care, Military Operational Medicine, Militarily Relevant Infectious Diseases, and Clinical and Rehabilitative Medicine. Promising medical technologies are refined and validated through extensive testing, which is closely monitored by the U.S. Food and Drug Administration (FDA) and Environmental Protection Agency (EPA), as part of their processes for licensing and/or approving new medical products. The FDA requires medical products to undergo extensive preclinical testing in animals and/or other models to obtain preliminary effectiveness and safety information before they can be tested in human clinical trials. Clinical trials are conducted in three phases to prove the safety of a drug, vaccine, or device for the targeted disease or medical condition, starting in Phase 1 with a small number of healthy volunteers. Following Phase 1, Phase 2 clinical trials will provide expanded safety data and evaluate the effectiveness of a drug, vaccine, or medical device in a larger population of patients having the targeted disease or medical condition. Each successive phase includes larger numbers of human subjects and requires FDA cognizance prior to proceeding. Work conducted in this PE primarily focuses on late stages of technology maturation activities required to conduct Phases 1 and 2 clinical trials. Some high-risk technologies may require additional maturation with FDA guidance prior to initiating these clinical trials. Such things as proof of product stability and purity are necessary to meet FDA standards before entering later stages of testing and prior to transitioning into a formal acquisition program where large Phase 3 pivotal trials will be conducted for licensure. Activities in this PE may include completion of preclinical animal studies and Phase 1 and 2 clinical studies involving human subjects according to FDA and EPA requirements. Promising medical technologies that are not regulated by the FDA are modeled, prototyped, and tested in relevant environments.

Advanced Component Development and Prototypes (ACD&P, BA4) 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.

The following is a representative example for this BA:

<u>Aviation - Advanced Development (PE 0603801A)</u>: 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 diagnostic technologies to replace obsolete and unsupportable equipment.

System Development and Demonstration (BA5) involves programs that have passed Milestone B approval and are conducting engineering and manufacturing development tasks aimed at meeting validated requirements prior to full-rate 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.

The following is a representative example for this BA:

<u>Patriot/Medium Extended Air Defense System Combined Aggregate Program (CAP) (PE 0604869A)</u>: 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.

RDTE Management Support (BA6) 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.

The following is a representative example for this BA:

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, Alabama. Test planning and safety verification at Headquarters, U.S. Army Developmental Test Command, Maryland, is also supported by this program.

Operational Systems Development (BA7) includes development efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal year. All items are major line item projects that appear as RDT&E Costs of Weapon System Elements in other programs.

The following is a representative example for this BA:

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 2018 REQUIRED SUPPLEMENTARY INFORMATION

Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2018 & September 30, 2017
(Excludes Military Family Housing)

(Amounts in millions)	Current Fiscal Year 2018			Prior Fiscal Year 2017		
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	$259,401	$36,298	14%	$298,019	$44,352	15%
Category 2	$41,780	$8,558	20%	$46,173	$8,049	17%
Category 3	$13,321	$3,687	28%	$14,772	$4,347	29%

Military Family Housing - Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2018 & September 30, 2017
(Military Family Housing Only)

(Amounts in millions)	Current Fiscal Year 2018			Prior Fiscal Year 2017		
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	$6,462	$625	10%	$4,191	$498	12%
Category 2	$447	$119	27%	$410	$112	27%
Category 3	$128	$53	41%	$113	$37	33%

Narrative Statement

Per DoD Financial Management Regulation 7000.14-R (December 2016), Volume 6B, Chapter 12; Para 120303, the Army's deferred maintenance estimates for FY 2018 and FY 2017 include all facilities in which DoD has ownership interest under the control of the Army and are not funded for Sustainment by another service, Non-Appropriated Funds, commissary surcharges or non DoD sources. Assets that have been fully disposed, damaged beyond repair, are obsolete or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings reported in Installation Status Report (ISR) 4th Quarter 2018 and 2017 or Q-ratings obtained by application of business rules described below. For FY 2018 and 2017, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

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

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

Facilities of all ownership interests are included in the data set; relocatable buildings are excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of "Active" or "Semi-Active" are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
  2. The asset is designated as a Heritage Asset.
  3. A Disposal Completion Date is associated with the Asset
  4. A Disposal Reason Code is associated with the asset.
- Category 2: Buildings, Structures, and Utilities that are Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of "Active" or "Semi-Active" and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
  2. A Disposal Completion Date is associated with the Asset
  3. A Disposal Reason Code is associated with the asset.
- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets. Facilities with an Operational Status of "Caretaker", "Excess", "Non-Functional", "Outgrant", "Surplus" or "Closed" plus "Active" and "Semi-active" with a Disposal Reason Code plus "Active" and "Semi-active" with a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

Equipment Deferred Maintenance and Repair (DM&R)

For the for Fiscal Year Ended September 30, 2018

(Amounts in thousands)

Major Categories	PFY 2017 DM&R	CFY OP-30/PB-45/ PB-61 Amounts	Adjustments	CFY 2018 Totals
Aircraft	2,799	-	-	-
Combat Vehicles	243,693	305,842	-	305,842
Construction Equipment	5,650	713	-	713
Electronics and Communications Systems	23,763	102,867	-	102,867
General Purpose Equipment	221,001	62,604	-	62,604
Missiles	26,290	24,632	-	24,632
Ordnance Weapons and Munitions	2,954	18,566	-	18,566
Other	332,679	33,271	-	33,271
Ships	341	348	-	348
Grand Total	**$859,170**	**$548,843**	**-**	**$548,843**

The OP-30 from the FY 2018 president's budget was used to compile the deferred depot level maintenance. Depot Maintenance Operations and Planning System is the automated system for capturing depot-level deferred maintenance data. The data is for subactivity group 123, all active components.

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

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

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2018

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 Years Ended September 30, 2018 and 2017

(Amounts in Thousands)	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,544,133	11,578,289	3,776,546	4,575,663
Appropriations (discretionary and mandatory)	11,571,130	28,098,245	59,825,634	2,361,765
Spending Authority from offsetting collections (discretionary and mandatory)	5,766,324	2,572,560	258,105	5,547,466
Total Budgetary Resources	$ 21,881,587	42,249,094	63,960,285	12,484,894
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct 1	262,207	1,260,266	2,668,668	(99,582)
Status of Budgetary Resources:				
New obligations and upward adjustments (total)				
Unobligated balance, end of year:	$ 16,582,376	28,790,113	62,867,669	7,143,912
Apportioned, unexpired accounts	4,917,934	12,629,410	106,684	4,870,722
Exempt from apportionment, unexpired accounts	-	-	-	-
Unapportioned, unexpired accounts	11,189	(6,353)	-	-
Unexpired unobligated balance, end of year	4,929,123	12,623,057	106,684	4,870,722
Expired unobligated balance, end of year	370,088	835,925	985,930	470,259
Unobligated balance, end of year (total)	$ 5,299,211	13,458,982	1,092,614	5,340,981
Total Budgetary Resources	$ 21,881,587	42,249,095	63,960,283	12,484,893
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)	$ 8,557,678	17,734,670	57,623,157	1,477,301
Distributed offsetting receipts (-)	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	$ 8,557,678	17,734,670	57,623,157	1,477,301

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

Department of Defense — Department of the Army

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2018 and 2017

(Amounts in Thousands)		Operations, Readiness & Support	2018 Combined	2017 Combined
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$	17,427,461	41,902,092	40,899,491
Appropriations (discretionary and mandatory)		74,846,167	176,702,941	157,498,907
Spending Authority from offsetting collections (discretionary and mandatory)		9,672,519	23,916,974	20,252,333
Total Budgetary Resources	$	101,946,147	242,522,007	218,640,731
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct 1		4,922,673	9,014,232	7,165,339
Status of Budgetary Resources:				
New obligations and upward adjustments (total)				
Unobligated balance, end of year:	$	89,828,784	205,212,854	185,752,871
Apportioned, unexpired accounts		3,623,510	26,148,260	18,466,001
Exempt from apportionment, unexpired accounts		40,086	40,086	31,344
Unapportioned, unexpired accounts		37,766	42,602	125,242
Unexpired unobligated balance, end of year		3,701,362	26,230,948	18,622,587
Expired unobligated balance, end of year		8,416,003	11,078,205	14,265,273
Unobligated balance, end of year (total)	$	12,117,365	37,309,153	32,887,860
Total Budgetary Resources	$	101,946,149	242,522,007	218,640,731
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)	$	69,234,283	154,627,089	147,653,732
Distributed offsetting receipts (-)		(339,708)	(339,708)	142,653
Agency Outlays, net (discretionary and mandatory)	$	68,894,575	154,287,381	147,796,385

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

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.), Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

This page left intentionally blank.

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

November 15, 2018

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

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Department of the Army Working Capital Fund Financial Statements and Related Notes for FY 2018 (Project No. D2018-D000FI-0081.000, Report No. DODIG-2019-021)

We contracted with the independent public accounting firm of KPMG, LLP, to audit the U.S. Department of the Army (Army) Working Capital Fund FY 2018 Financial Statements and related notes as of September 30, 2018, and for the year then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008.[1] KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army Working Capital Fund financial statements. As a result, KPMG could not conclude whether the financial statements and related notes were fairly presented in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army Working Capital Fund FY 2018 Financial Statements and related notes.

[1] In June 2018, the Government Accountability Office issued an updated Financial Audit Manual. KPMG updated its audit procedures to be in accordance with the updates issued in the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018.

KPMG's report discusses 12 material weaknesses related to the Army's internal controls over financial reporting. Specifically, KPMG found material weaknesses in Beginning Year Balances; Inventory; General Property, Plant, and Equipment; Revenue; Evidential Matter; General Information Technology Controls; General Ledger Adjustments; Accruals; Financial Reporting; Fund Balance With Treasury; Completeness; and Entity Level Controls. KPMG's report also discusses two instances of noncompliance with applicable laws and regulations.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed the audit results with KPMG representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we did not express, an opinion on the Army Working Capital Fund FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control, conclusions on whether the Army's financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether the Army complied with laws and regulations.

KPMG is responsible for the attached report, dated November 15, 2018, and the conclusions expressed in this report. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with GAGAS.

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

Lorin T. Venable

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

Attachment:
As stated

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

Independent Auditors' Report

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

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States (U.S.) Department of the Army (Army) Working Capital Fund (WCF), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

The Department of Defense Office of Inspector General (DoD OIG) was engaged to audit the accompanying consolidated financial statements as of and for the year ended September 30, 2017. The DoD OIG's report thereon, dated November 7, 2017, expressed a disclaimer of opinion.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin Number (No.) 19-01, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements.

Disclaimer of Opinion

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

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In connection with our engagement to audit the consolidated financial statements as of and for the year ended September 30, 2018, we considered the Army WCF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army WCF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit I to be material weaknesses and Exhibit II to be a significant deficiency.

Army's management did not report the material weakness, *Weaknesses in Entity Level Controls* in the Army's Annual Statement of Assurance for the year ended September 30, 2018, included in the MD&A section of the accompanying Army's *Agency Financial Report*.

Compliance and Other Matters

In connection with our engagement to audit the Army WCF's consolidated financial statements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to perform an audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01, and which are described in Exhibit III.

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

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Management's Responses to Findings

Management's responses to the findings identified in our engagement are described in Exhibits I, II, and III. Management's responses were not subjected to the auditing procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 15, 2018

Exhibit I – Material Weaknesses

A. Beginning Year Balances

Army management has undergone significant efforts to become auditable; however, management did not develop and implement processes and internal controls to prepare complete and accurate populations for the FY 2018 statement of budgetary resources and balance sheet beginning balances.

The above condition primarily resulted because management did not maintain sufficient and appropriate detailed transactions and historical supporting documentation and determined it was more beneficial to focus resources on preparing current year populations and supporting documentation than on beginning balances.

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

As a result of the deficiency noted above, the potential exists that misstatements in the beginning year balances would fail to be prevented, or detected and corrected on the consolidated financial statements.

Recommendations:

We recommend that management:

- Develop and implement processes and internal controls to prepare complete and accurate populations at the transaction-level for beginning balance sheet and statement of budgetary resource balances.

- Focus additional resources on preparing and maintaining sufficient and appropriate detailed transactions and supporting documentation for the beginning balance sheet and statement of budgetary resource balances.

B. Inventory

Army management did not consistently design, document, and implement internal controls over inventory as follows:

- Management made progress in developing a deemed cost methodology for valuation of opening inventory balances; however, management had not completed all the steps to make an unreserved assertion and thus continued to use historical cost valuation. Management did not provide sufficient appropriate supporting documentation to demonstrate the historical cost of inventory was properly reported on the balance sheet.

- Army WCF cycle count procedures were not consistently designed across all locations and did not address the criteria used to set the frequency of the counts, segregation of duties requirements, or floor-to-book counts. The cycle count controls also did not include other elements of an effective cycle count control program, such as generation of count sheets, monitoring of counts, and compilation and analysis of results.

- Management had not properly designed and implemented controls to determine that excess, obsolete, or unserviceable inventory was consistently identified across the population of inventory and reported at net realizable value. In addition, the accounting system was not properly updated or was improperly configured, resulting in certain repairable inventory items being improperly valued at zero dollars.

- Management did not fully reconcile and resolve differences between warehouse management systems and the accounting system. In addition, management did not reconcile inventory held by contractors to the accounting system, resolve differences between contractor confirmations and the accounting system, and provide certain point of contact information for contractors.

- Management did not consistently execute internal controls over recording inventory receipt, issuance, and disposal transactions as inventory quantities in the warehouse management system did not always agree to the inventory quantities in the warehouse. Management did not consistently execute internal controls to properly segregate and track inventory stored for other entities.

- Management did not have effective controls over inventory–in-transit, anticipated receipts of due-in inventory and gains and losses for inventory transactions. In addition, management did not perform an analysis to assess the amount of inventory provided to production but not used in production as of the end of year.

- Management did not have controls in place to monitor the status of inventory work-in-progress to identify completed projects that should be moved to inventory held-for-sale or to monitor aged projects for potential net realizable value adjustments. In addition, management did not provide a population of inventory work-in-progress by project code.

The above conditions primarily resulted due to the following:

- Management had not fully designed and implemented controls to maintain historical supporting documentation for the valuation of inventory.

- Management and their service provider did not fully develop, document, and implement inventory and related gain and loss policies and internal controls.

- The accounting system is not configured to generate necessary data populations or accurately assign certain costs related to inventory items.

- Warehouse personnel did not consistently follow Army policy in executing inventory transactions and fully understand of how to correct erroneous transactions recorded in the accounting system.

The criteria are as follows:

- Federal Accounting Standards Advisory Board (FASAB), *Statement of Federal Financial Accounting Standards (SFFAS) 3: Accounting for Inventory and Related Property*
- GAO, *Standards for Internal Control in the Federal Environment*
- Department of Defense Financial Management Regulation (DoD FMR)
- Army regulations and inventory standard operating procedures (SOPs)
- GAO, Financial Audit Manual
- GAO, Federal Information Systems Control Audit Manual
- Office of Management and Budget (OMB), Circular Number (No.) A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*
- GAO, *DoD Supply Chain Management Procedures: Inventory Accountability and Special Management and Handling*

As a result of deficiencies noted above, the potential exists that misstatements in the inventory balance on the Balance Sheet or related footnotes would fail to be prevented, or detected and corrected.

Recommendations:

We recommend that management:

- Establish and implement controls to maintain sufficient appropriate supporting documentation to demonstrate that the valuation of inventory is properly reported on the balance sheet and complete all necessary steps to make an unreserved assertion for inventory balances.

- Implement consistent inventory cycle count control procedures across all locations, including criteria used to set the frequency of the counts, segregation of duties requirements, floor-to-book counts, generation of count sheets, monitoring of counts, and compilation and analysis of results.

- Design and implement controls to determine that excess, obsolete, or unserviceable inventory is consistently identified across inventory and is reported at net realizable value. In addition, configure the accounting system to properly record repairable inventory items.

- Reconcile and resolve differences between warehouse management systems and the accounting system. Additionally, reconcile inventory held by contractors to the accounting system and train personnel to resolve differences between contractor confirmations and accounting system.

- Properly execute internal controls over the recording of inventory receipt, issuance, and disposal transactions. In addition, improve controls over inventory stored for other entities.

- Implement controls over inventory-in-transit, due-in inventory, and gains and losses from inventory transactions. In addition, perform an analysis to assess the amount of inventory provided to production but not used in production as of the end of year.

- Design, document, and implement controls to monitor the status of inventory work-in-progress to identify completed projects that should be moved to inventory held-for-sale and to monitor aged projects for potential net realizable value adjustments.

C. General Property Plant & Equipment

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

- Management made progress in developing deemed cost methodology for valuation of opening PP&E balances. However, management did not complete all steps to make an unreserved assertion for PP&E and thus continued to use historical cost valuation. Management did not provide sufficient appropriate supporting documentation over the placed-in-service date, activation date or the historical cost of real property, general equipment and internal use software.

- Management did not have controls in place to determine that PP&E acquisition, transfer, and disposal transactions were authorized, reviewed, and completely and accurately recorded in the property systems. Management also improperly recorded certain PP&E belonging to other entities and improperly recorded the incorrect useful life, accumulated depreciation, or depreciation method for certain PP&E. Additionally, management did not fully research and resolve differences between the property system and the accounting system.

- Management did not effectively implement policies and procedures over the accounting treatment of bulk purchases of assets and construction-in-progress projects. Additionally, management did not effectively design and implement controls to address the timely resolution of the costs accumulated in the construction-in-progress clearing accounts.

The above conditions primarily resulted because management had not maintained all the required historic supporting documentation for the valuation of PP&E, did not completely identify all of the relevant financial statement risks and implement internal controls to address such risks, and Army personnel were not trained to properly record PP&E transactions.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- FASAB, *SFFAS 6: Accounting for Property, Plant, and Equipment*
- FASAB, *Technical Release 14: Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD FMR
- DoD, *Financial Statement Reporting for Real Property Assets Policy Memorandum, September 2015*
- DoD, *Strategy and Implementation Guidance for General Equipment Valuation*

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

Recommendations:

We recommend that management:

- Complete all necessary steps to make an unreserved assertion for PP&E and implement policies and procedures to retain supporting documentation for PP&E transactions and balances.

- Design and implement controls to determine that PP&E financial information, including depreciation information, is authorized, reviewed, and properly recorded in the property systems. In addition, implement a reconciliation control to research and resolve differences between the property system and the accounting system.

- Design and implement training programs to properly record PP&E transactions, including the recording of bulk purchases of assets and assets related to construction-in-progress projects.

- Design and implement controls to timely resolve costs accumulated in the construction-in-progress clearing accounts.

D. Revenue

Army management did not consistently design, document, and implement internal controls over earned revenue, accounts receivable, budget authority, and unfilled customer orders in the consolidated financial statements as follows:

- Management did not have controls in place to determine that customer orders, the standard price listing for materials, and the direct labor rates were completely and accurately entered into the accounting system and to determine that the prices and labor rates applied were consistent with the approved prices and labor rates. In addition, management did not provide supporting documentation indicating it is appropriate to change prices and labor rates depending on when services/goods were provided and when the services/goods cross fiscal years.

- Management did not consistently review and approve time sheets to verify that direct labor hours were charged to the appropriate project codes and all direct labor hours incurred working on projects were charged to the projects.

- Management did not consistently provide shipping, pricing, and quantity documentation to support earned revenue and design and implement controls to determine that earned revenue is recorded in the proper period.

- Management did not perform an analysis of agreements that have been executed prior to year-end but not recorded in the general ledger as of year-end, as well as an analysis of the impact of any work performed for those agreements.

- Management did not timely resolve and process certain invoices for collection that did not pass edit checks or resolve and correct unmatched collections. In addition, management did not timely review the corrective actions completed for unmatched collections.

- Management did not effectively perform the unfilled customer orders and accounts receivable, Joint Review Process (JRP) reviews in accordance with the JRP standard operating procedures. Additionally, management did not develop, document and implement internal controls to determine that all unfilled customer orders and accounts receivable are valid at fiscal year-end.

The above conditions primarily resulted because management and their service providers had not designed and implemented controls to maintain relevant supporting documentation and perform timely supervisory review over collections, unfilled customer orders, customer agreements, employee time sheets and other revenue system inputs.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- U.S. Treasury Financial Management U.S. Standard General Ledger Part 1 Section II: Accounts and Definitions for Fiscal Year 2018 Reporting
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD FMR
- DFAS-IN Manual 37-100
- FASAB, *SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*

- *The Federal Acquisition Regulation, section 17.502-1(b)*
- OMB, *Federal Financial Management Improvement Act* (FFMIA)
- OMB, Circular No. A-11, Preparation, Submission and Execution of the Budget

As a result of the deficiencies noted above, the potential exists that misstatements in the earned revenue, accounts receivable, budget authority, and unfilled customer orders in the consolidated financial statements would fail to be prevented, or detected and corrected.

Recommendations:

We recommend that management develop, document, and implement policies and internal controls over revenue, accounts receivable, budget authority and unfilled customer orders to:

- Determine that customer orders, the standard price listing for materials, and the direct labor rates are completely and accurately entered into the accounting system and to determine that the prices and labor rates applied are consistent with the approved prices and labor rates.

- Consistently review and approve time sheets to verify that direct labor hours are charged to the appropriate project codes and all direct labor hours incurred working on projects were charged to the projects.

- Maintain shipping, pricing, and quantity documentation to support earned revenue and determine that earned revenue is recorded in the proper period.

- Perform an analysis of agreements that have been executed prior to year-end but not recorded in the general ledger as of year-end, as well as an analysis of the impact of any work performed for those agreements.

- Timely review and resolve collections that did not pass edit checks and unmatched collections.

- Perform JRP reviews in accordance with the JRP standard operating procedures and review unfilled customer orders and accounts receivable to determine that such balances are valid at fiscal year-end.

E. Evidential Matter

Army management and their service provider did not consistently have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that budgetary resources and obligations, revenue, costs, fund balance with treasury, inventory and general property, plant and equipment transactions and balances were properly reported on the consolidated financial statements. Management did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the request and/or transaction(s) recorded in the general ledger used to prepare the consolidated financial statements, and/or (c) was inappropriately reviewed and approved or the review and approval was not documented by management.

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

The above conditions primarily resulted because of the following:

- Army did not perform a proper risk assessment and/or did not demonstrate a full understanding of its process, in order to identify the proper points of contact to conduct the walkthroughs.

- Management did not focus resources to locate supporting documentation and provide it timely.

- Management and/or its service providers did not design and implement business processes and controls to maintain evidential matter and evidence of supervisory review.

- Management has not obtained the necessary clarification and guidance to support the accounting treatment of certain transactions.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- Public Law, Title 5, United States Code, Section 8147, Employees' Compensation Fund
- Public Law 115-141, Consolidated Appropriations Act, 2018, Division C, Title II, Operations and Maintenance, Army
- Department of Treasury ("Treasury"), *Treasury Financial Manual*
- OMB, Circular No. A-11, *Preparation, Submission and Execution of the Budget*
- Army WCF SOP, *Army Materiel Command Civilian Payroll Process*
- FASAB, *SFFAS 6: Accounting for Property, Plant, and Equipment*
- FASAB, *SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD FMR
- Secretary of Defense, Administrator of General Services, and Administrator of the National Aeronautics and Space Administration, *Federal Acquisition Regulation*
- DoD, *Strategy and Implementation Guidance for General Equipment Valuation*

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

Recommendations:

We recommend that management perform the following:

- Perform and document a thorough risk-assessment and work with its service provider, as necessary, to design, document, and implement procedures and controls to maintain evidential matter.
- Focus and train the necessary resources to locate and provide supporting documentation in a timely manner.
- Update policies and procedures to define key supporting documentation that is required, reconciles to the general ledger detail, and is readily available for inspection upon request.
- Provide training on evidential matter policies, procedures, and controls to the Army and its service providers.

F. General Information Technology Controls

Army management and its service providers have continued to make significant progress in addressing prior year GITC deficiencies within their systems. While the Army and its service providers made progress from the prior year, the Army and its service providers did not fully implement sufficient and effective GITCs to protect the financial systems and related financial data. The conditions could affect the Army's ability to provide timely financial data that is complete, valid, and accurate. Our specific findings are summarized as follows:

- **Access Controls**. Management and its service providers did not consistently implement operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end users, super users, and system administrative backend support users, to include the removal of access for terminated or transferred employees and contractors and the periodic review of user accounts to determine the need for continued and appropriate access based on least privilege provisions. In addition, management and its service providers did not consistently implement operating system, database, and application audit logging and review controls, including the identification, tracking, evaluation, and response procedures. Further, management and its service providers did not consistently implement a periodic review of application, database, and operating system user account and password security parameters. In regards to physical access controls, management and its service providers were unable to consistently provide documentation evidencing the individuals with authorized access to its data centers or periodic reviews of data center access were performed appropriately.

- **Segregation of Duties**. Management and its service providers did not consistently establish a comprehensive process to identify, define, evaluate, restrict, document, and/or implement the use of incompatible operating system, database, and/or application privileges. Management did not consistently implement an effective process for restricting access to the financial system segregation of duties risk rule set, when applicable, based on least privilege considerations. In cases where incompatible access privileges were required based on business need, management and its service providers did not consistently establish processes to monitor the activities of users granted access to such privileges to ensure unauthorized activities were not performed. As a result of the aforementioned matter, management and its service providers did not consistently segregate/monitor the use of incompatible access privileges related to system support functions that preclude system developers from updating production environments.

- **Configuration Management**. Management and its service providers did not consistently implement a comprehensive operating system, database, and application configuration change management process, to include timely installation of critical patch updates and proper configuration of production settings to prevent unauthorized changes from being made in the production environment. For implemented processes, management and its service providers did not consistently maintain evidence to support the identification and tracking, testing and/or approval of operating system, database, and application changes/patches before migration into the production environment. Finally, management and its service providers did not consistently provide documentation evidencing the existence of separate development, test and production environments for operating systems, databases, and applications.

- **Security Management**. Management and its service providers did not consistently design and implement formal vulnerability management and assessment programs for the operating systems, databases, and/or applications. For implemented programs, management did not consistently track all known vulnerabilities and associated remediation activities.

- **Contingency Planning.** Management and its service providers did not consistently implement a process to monitor application processing issues, to include backups and the tracking of processing issues through resolution.

The above conditions primarily resulted because management and its service providers did not consistently develop and/or fully implement policies and procedures to comply with authoritative GITC system requirements as listed below. As a result, the weaknesses posed increased risks to the accuracy, integrity, validity, and availability of the systems and their financial data.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Controls*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4
- NIST 800-92, *Guide to Computer Security Log Management*
- DoD, Instruction 8510.01
- Army Password Standards: BBP 04-IA-O-0001
- DISA Application Security and Development STIG
- Oracle Database 12c Security Technical Implementation Guide
- Army System Standard Operating Procedures

Recommendations

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

- Establishing and applying access, segregation of duties, configuration management, security management, and/or contingency planning controls.
- Developing and implementing policies and procedures for GITCs.
- Directing its service providers to strengthen controls of service provider GITC environments or implement compensating controls at Army.

G. General Ledger Adjustments

Army management did not properly design and implement internal control over manual journal entries and other adjustments to the general ledger as follows:

- Management did not fully develop and implement segregation of duties controls within the accounting system as it was not configured to require a separate preparer and reviewer for each manual journal entry processed and users with privileged access were able to record and approve journal entries without a secondary review and approval.

- Management did not have sufficient appropriate documentation to support journal entries and did not consistently research and investigate the root cause of variances that management recorded to resolve differences between Treasury's records and Army's records, budgetary to proprietary relationship imbalances, financial statement relationship differences, trading partner differences, general account mapping differences, edit check differences and other variances.

The above conditions primarily resulted because of the following:

- When the Army WCF accounting system was set up, management did not configure the accounting system to require separate preparer and reviewer roles when recording a journal entry. Management and its service provider are currently in the process of establishing an automated workflow approval process within the accounting systems that would require a separate preparer and reviewer.

- Management did not consider whether there is a risk of erroneous or inappropriate adjustments being recorded by individuals with privileged access and did not design control activities to address those risks.

- Management and their service provider did not dedicate the necessary resources to fully research and resolve the root cause of the variances that are adjusted with a journal entry.

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

As a result of the deficiencies noted above, the potential exists that unapproved, inaccurate, invalid, or incomplete manual journal entries are executed in the accounting system, potentially causing a misstatement on the consolidated financial statements.

Recommendations

We recommend that management work with their service provider to:

- Configure the accounting system to require separate preparer and reviewer roles when recording a journal entry.

- Focus resources to fully develop and implement guidelines to research, analyze and support the root cause of journal entries in a timely manner to reduce the number of manual journal entries recorded.

H. Accruals

Army management did not fully develop, document, and implement accrual estimation methodologies to verify that the balances on the consolidated financial statements reflect accrual transactions. Specifically, management did not record all estimates or validate that existing estimation methodologies are reasonable as follows:

- Goods and services - Management did not fully define methodologies, assumptions, or inputs to identify and record accruals for certain goods or services as of year-end. Additionally, management did not appropriately classify accruals as intragovernmental versus the public. Furthermore, management did not perform a look-back analysis to determine that the methodology and assumptions provide a reasonable estimate.

- Civilian payroll – Management did not perform a reconciliation of the accrued leave liability from the accounting system to the payroll system and did not consider the leave earned or taken through the end of the accounting period in the accrual methodology. In addition, management did not effectively implement a retrospective review and analysis control of its labor accrual to assess the accuracy of the payroll accrual amount at year end.

The above conditions primarily resulted because management did not document and implement the methodologies, policies, and procedures to identify and record accruals and perform a look-back analysis over the completeness, validity and accuracy of the accruals.

The criteria are as follows:

- FASAB, *SFFAS 1: Accounting for Selected Assets and Liabilities*
- GAO, *Standards for Internal Control in the Federal Environment*
- DoD FMR
- Army Materiel Command Logistics Modernization Program Army Working Capital Fund Leave Liability Reconciliation Procedure

By not recording the necessary accrual transactions, the risk exists that balances on the consolidated financial statements could be misstated.

Recommendations:

We recommend that management:

- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record accruals.

- Perform a look-back analysis to determine that the methodologies and assumptions are valid, complete, and accurate.

- Perform a reconciliation of the accrued leave liability from the accounting system to payroll system and consider the leave earned or taken through the end of the accounting period in the accrual methodology.

I. Financial Reporting

Army management did not effectively design and implement internal controls over financial reporting related to the following:

- Management and their service provider did not provide a detailed listing of transactions supporting the summarized balances for several financial systems and did not sufficiently support the reconciliation from the unadjusted trial balance to the adjusted trial balance.
- Management did not determine that the posting logic library is complete, and did not review the general ledger posting logic to confirm that all transaction codes are properly configured consistent with United States Generally Accepted Accounting Principles and Department of the Treasury's United States Standard General Ledger accounts and transaction guidance (Treasury account and transaction guidance).
- Management and their service provider did not fully research budgetary to proprietary reconciling differences and out of balance tie-point account relationships to determine the appropriate adjustments to the consolidated financial statements.
- Management did not develop and implement a process to present deferred maintenance and repairs for general property, plant and equipment as required supplementary information.

The above conditions primarily resulted because of the following:

- Management and their service provider are in the process of, but have not completed the review and resolution of the reconciliation of the unadjusted trial balance to the adjusted trial balance, the general ledger posting logic, budgetary to proprietary reconciling differences, and tie-point account relationships due to the extent of effort and resources needed to complete such.
- The accounting system was not consistently configured to support compliance with Treasury account and transaction guidance.
- Management is unable to disaggregate deferred maintenance and repairs between the Army General Fund and the Army WCF.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Treasury, *Treasury Financial Manual*
- Office of the Under Secretary of Defense (OUSD) Memorandum, *Accurate and Reliable DoD Component-level Financial Management Trial Balances (Tie Points)*
- DoD FMR
- OMB, Circular No. A-11, *Preparation, Submission and Execution of the Budget*
- FFMIA
- FASAB, *SFFAS 42*: *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*

Exhibit I – Material Weaknesses, continued

As a result of the deficiencies noted above, the potential exists that misstatements may not be prevented or detected and corrected in the consolidated financial statements.

Recommendations:

We recommend that management and/or their service provider:

- Continue implementing corrective actions to analyze and support the reconciliation from the unadjusted to the adjusted trial balances.
- Design and implement controls to determine that the posting logic library is complete and review general ledger posting logic to determine that it is in accordance with United States Generally Accepted Accounting Principles and the Treasury account and transaction guidance.
- Continue implementing corrective actions to identify and correct the root causes of the budgetary to proprietary reconciling differences and out of balance relationships and tie-point account relationships.
- Design and implement policies and procedures including controls to distinguish deferred maintenance between the Army General Fund and the Army WCF consolidated financial statements.

J. Fund Balance with Treasury (FBwT)

Army management and its service provider made progress in addressing prior year FBwT internal control deficiencies; however, management did not fully develop, document, and implement internal controls over the FBwT reconciliation with Treasury as follows:

- Management's service provider did not fully research and resolve reconciling differences for disbursement and collection balances with Treasury that existed before implementation of the Army WCF FBwT reconciliation tool in fiscal year 2015 and did not consistently clear disbursement and collection differences with the Treasury within 60 days of identifying the differences. Additionally, management did not fully document policies and procedures to include timely resolution of reconciling items, review of key financial reporting attributes, and criteria for research and resolution of differences.

- Management did not retain certain supporting documentation for the resolution of reconciling items with Treasury. Additionally, management did not provide sufficient supporting documentation for disbursement and collection transactions and recorded certain disbursement transactions in the incorrect accounting period.

- Management used suspense accounts that are not in accordance with the definition of suspense accounts published by the Office of Management and Budget's Circular No. A-11 and did not timely complete and provide the review and resolution of transactions recorded in suspense / clearing accounts at year end. In addition, the Army WCF suspense amounts are comingled with the Army General Fund and other defense agencies that were not resolved at year end. As such, there could be Army WCF related suspense amounts that should be recorded.

The above conditions primarily resulted because management and its service provider did not define the required control precision, timeliness, or attributes to be reviewed and did not maintain proper supporting documentation. Additionally, management and its service provider did not focus sufficient resources to provide supporting documentation and to research and resolve disbursement and collection differences.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- Treasury, *Treasury Financial Manual*
- OMB, Circular No. A-11, *Preparation, Submission and Execution of the Budget*
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD FMR

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

Recommendations:

We recommend that management and their service provider:

- Focus the necessary resources and enhance reconciliation policies to research and resolve reconciling differences for disbursement and collection balances with Treasury that existed before the implementation of Army WCF FBwT reconciliation tool.

- Fully develop policies and procedures for the disbursement and collection reconciling differences with Treasury, to include control precision, timeliness, and attributes to be reviewed.

- Maintain supporting documentation for disbursement, collection, and reconciliation transactions.

- Develop and implement procedures and internal controls to timely research and resolve suspense transactions, including working with Army General Fund and other defense organizations to research and resolve the commingled suspense amounts.

K. Completeness

Army management has made progress in implementing processes and internal controls to validate that financial transactions are completely and accurately reported in the consolidated financial statements, however management needs to improve the processes and internal controls as follows:

- Management has not fully implemented a reconciliation process to validate that information is transferred completely and accurately between feeder systems, from feeder systems to the accounting system, and from the accounting system to the financial reporting system.

- Management did not have controls in place to verify that budgetary authority and manually entered invoices were completely and accurately entered in the financial systems.

The above conditions primarily resulted because of the following:

- The reconciliation process is a relatively new process, and as such:

  (1) Certain data has been unavailable to perform reconciliations;

  (2) In certain instances the control operator and reviewer have not been properly trained to perform the control; and

  (3) Certain feeder system to feeder system reconciliations have not been prioritized.

- Management is in the process, of analyzing and adjusting the legacy data activity in their financial reporting system reconciliation controls.

- Management did not design policies and procedures to determine that the general ledger budgetary authority transaction register were complete and accurate.

- Management's service provider did not establish policies and procedures to ensure that all invoices received by mail or fax are entered into the relevant feeder system and that invoices are entered accurately.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- The Army WCF Funds Control SOP

Without adequate controls over the entry of information at the point of initiation and the reconciliation of information between financial systems, the risk exists that the consolidated financial statements are potentially incomplete or inaccurate.

Recommendations:

We recommend that management and their service provider perform the following:

- Enhance the policies and procedures, to include internal controls, over the manual system reconciliation process to confirm that all transactions recorded in the feeder systems are completely and accurately interfaced into the accounting system.

- Focus and train the necessary resources to complete implementation of corrective action plans and to reconcile transactional data between financial systems.
- Continue implementing corrective actions to analyze and adjust for the legacy activity.
- Design and implement policies and internal controls to determine that the general ledger budgetary authority transaction register is complete and accurate.
- Establish and implement policies and internal controls to require a secondary review of all invoices received via mail or fax and ensure that all invoices are entered completely and accurately.

L. Entity Level Controls

Army Management needs to improve their entity level controls, including the control activities described in previous sections of Exhibit I, to establish an internal control system that will produce reliable financial reporting. Specifically:

Control Environment: Management did not fully design and implement an effective control environment as follows:

- Management did not consistently develop policies to establish and implement internal controls across its control environment.
- Management did not adequately review and monitor certain memorandum of understanding (MOU) agreements with its service providers to verify that the agreement was current and all requirements were met.

Risk Assessment: Management did not fully design and implement a risk assessment process as follows:

- Management did not complete the development of its risk assessment process, including consideration of risks associated with prior year findings, during FY18.
- Management did not complete a control catalog that detailed all key controls.

Information and Communication: Management did not fully design and implement internal controls over the completeness and accuracy of financial data and supporting documentation.

Monitoring: Management needs to improve their monitoring controls as follows:

- Management did not adequately monitor the internal control evaluation performed by the reporting organizations.
- Management did not properly evaluate service organization control reports to determine reliance on such controls.
- Management did not develop or complete corrective action plans in response to all prior year audit findings.

The above conditions primarily resulted because management does not have resources, policies and procedures to maintain an internal control system that detects and mitigates risk of material misstatements. In addition, the service organizations did not timely respond to management's requests to make updates to the MOUs.

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

Without the proper level of entity-wide controls in place and operating effectively, management continues to run the risk that significant misstatements are neither prevented nor detected in the financial records and financial statements. In addition, there is an increased risk that management will continue to have control deficiencies over financial reporting.

Recommendations:

We recommend that management:

Exhibit I – Material Weaknesses, continued

- Continue to develop and implement internal control procedures across its control environment.
- Annually, review and monitor the relevancy of the information in the memorandum of agreements and that the agreement was current and/or all requirements were met.
- Complete the development of the risk assessment process.
- Focus resources on completing a control catalog that details the key controls by process area and the risks the controls address.
- Develop and implement internal controls over the completeness and accuracy of financial data and supporting documentation.
- Improve monitoring efforts over SOC report evaluations and determine if the Army can rely upon the SOC reports.
- Improve monitoring of internal control evaluations performed by reporting organizations.
- Develop and/or complete corrective action plans related to audit findings.

Exhibit II – Significant Deficiency

A. Service Provider Oversight

Management made progress in implementing monitoring controls over SOC 1 reports; however, management did not fully design and implement and consistently perform its monitoring controls. Specifically, the management conclusion options (full-, partial-, or non-reliance) used for assessing reliance on a SOC 1 report excluded consideration of the design and operating effectiveness of complementary user entity controls (CUECs). Additionally, management did not identify the following during their assessment of the SOC 1 reports:

- The scope of multiple SOC reports did not include all key controls.
- Certain control descriptions in multiple SOC reports did not explain the precision of the control.
- The testing results for certain controls in multiple SOC reports did not have sufficient detail to determine if the control was appropriately tested.
- The service provider auditor did not perform procedures over certain aspects of controls in multiple SOC reports.

Further:

- An SSAE18 examination was not performed over controls at one subservice provider.
- Service provider procedures to evaluate subservice organizations controls not covered by a SOC 1 report were not sufficient.

The above condition primarily resulted because management considered the CUEC analysis as a separate evaluation, independent from their SOC 1 report assessment. In addition, the lack of a standardized report, timing between when the reports are received and when the report assessments need to be completed, and the volume of reports imposes a challenge to identify all issues during their assessment process.

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

An ineffective SOC 1 evaluation process increases the risk of improper reliance on service organization controls, which can lead to control deficiencies and gaps not being properly mitigated by management. These control deficiencies and gaps would not prevent or detect potential misstatements in the consolidated financial statements.

Recommendations:

We recommend that management:

- Re-evaluate the definitions of the conclusion options to consider the inclusion of its CUEC assessments and update their SOP accordingly.
- Work with its service providers throughout the year to verify that the specific systems, edit checks, inputs, outputs, and interfaces that support management's control environment are subject to testing by the service auditor.

Exhibit III – Compliance and Other Matters

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

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

- **Federal Financial Management Systems Requirements.** As discussed in Exhibit I – Material Weaknesses – F. General Information Technology Controls (GITCs), management did not implement sufficient effective GITCs to protect the financial accounting, reporting and feeder systems data. As a result, Army WCF did not substantially comply with the financial management systems requirements.

- **Federal Accounting Standards.** As discussed in Exhibit I – Material Weaknesses, the Army WCF's controls were not properly designed, implemented, and operating effectively, which affected the management's ability to prepare the consolidated financial statements and support the amounts reported on the consolidated financial statements in accordance with the federal accounting standards. As a result, the Army WCF did not substantially comply with the federal accounting standard requirements.

- **U.S. Standard General Ledger.** Management has not configured certain financial systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level.

The Army WCF did not substantially meet FFMIA requirements because management did not dedicate the necessary resources to remediate deficiencies identified in previous years and has not configured the accounting system to produce a complete listing of transaction codes and general ledger posting logic.

The criteria are as follows:

- FFMIA
- OMB Circular A-123 Appendix D, Compliance with the Federal Financial Management Improvement Act (09/20/2013)

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

Recommendations:

We recommend that management:

- Focus resources on implementing the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial system and federal accounting standard requirements.

- Configure the accounting system to produce a complete listing of transaction codes and general ledger posting logic combinations to demonstrate compliance with the USSGL.

B. Federal Managers' Financial Integrity Act (FMFIA)

Army management performed an internal control assessment as required under the FMFIA, however, management's assessment did not substantially comply with FMFIA and the related OMB Circular A-123 requirements as follows:

- Management did not fully design and implement a process and an Enterprise Risk Management framework when evaluating the internal controls. In addition, management did not document their defined scope of the significant financial reports and the key processes supporting material line items on the significant financial reports.
- Management did not provide sufficient, sampling, and documentation guidance to the reporting organizations, review the appropriateness of the testing plans and results, and document its oversight and review controls.
- Management did not provide evidential matter to demonstrate a completed internal control testing plan, including listing of internal controls evaluated, how samples were selected, tolerance thresholds, and testing results for key processes. In addition, management did not identify and report an entity level controls material weakness in the annual Statement of Assurance.

Management did not consider all FMFIA and OMB A-123 requirements when designing their evaluation over internal controls. In addition, management did not allocate sufficient resources to implement the Enterprise Risk Management and A-123 process.

The criteria are as follows:

- FMFIA of 1982
- GAO, *Standards for Internal Control in the Federal Government*
- OMB, Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

The Army WCF did not substantially comply with FMFIA and the related OMB Circular A-123 requirements, which may lead to not identifying the appropriate risks, key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting deficiencies could cause misstatements to the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Implement an enterprise risk management approach over the evaluation of internal controls as defined by OMB No. A-123.
- Document the defined scope to include the significant financial reports, materiality, and the key processes supporting material line items on the significant financial reports.
- Assess and document the risk profile and internal controls that address such risks to support Army's FMFIA Assurance Statement, as well as, monitor and update the risk profile when needed.
- Provide oversight, sampling, and documentation guidance to the reporting organizations, review the appropriateness of each reporting organizations testing plan and results, and evidence its oversight and review controls.

- Allocate sufficient resources with appropriate knowledge to implement the Enterprise Risk Management and A-123 process.

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 1 5 2018

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2018 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the opportunity to comment on the draft report provided to us on November 10, 2018.

2. We concur with the findings identified in the draft report on financial statements. Our audit remediation corrective action plans will continue to address the findings identified. We will continue working with our stakeholders to correct issues related to our general ledger, journal vouchers, adjustments, posting logic, and abnormal balances. Our audit readiness support contractor will continue efforts to review field-level operational data, internal controls, and system controls necessary to ensure accuracy of the financial statements. Our service provider, the Defense Finance and Accounting Service, is continuing corrective actions to remediate audit findings for the Fund Balance with Treasury reconciliation. We established a new Responsible Work Area in the Defense Departmental Reporting System – Budgetary to significantly improve the reasonableness of our beginning balances and the undistributed adjustments recorded to match Treasury.

3. In Fiscal Year 2019, the Defense Logistics Agency will perform a one hundred percent physical count of all our Inventory in their custody and support us in making updates to our data in the Logistics Modernization Program. We continue improvements to Logistics Modernization Program and implementing other financial improvement initiatives. We will improve trading partner reporting and enable reconciliation of intragovernmental transactions between Federal agencies with these initiatives. The goal is for these actions to result in supportable quarterly reporting to Treasury and the Office of Management and Budget, and ultimately correct a long-standing material weakness.

Wesley C. Miller
Deputy Assistant Secretary Army
(Financial Operations)

CONSOLIDATED BALANCE SHEETS

As of September 30, 2018 and 2017

(Amounts in Thousands)	2018 Consolidated	2017 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 2,059,198	$ 1,520,905
Accounts Receivable (Note 5)	338,874	374,262
Other Assets (Note 6)	-	38,565
Total Intragovernmental Assets	2,398,072	1,933,732
Cash and Other Monetary Assets (Note 7)	6,937	2,440
Accounts Receivable, Net (Note 5)	23,492	30,416
Inventory and Related Property, Net (Note 9)	19,317,237	17,850,653
General Property, Plant and Equipment, Net (Note 10)	1,518,960	1,766,816
Other Assets (Note 6)	69,369	45,312
TOTAL ASSETS	$ 23,334,067	$ 21,629,369
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 189,710	$ 183,858
Other Liabilities (Note 15 & 16)	68,680	87,101
Total Intragovernmental Liabilities	258,390	270,959
Accounts Payable (Note 12)	112,078	25,653
Military Retirement and Other Federal	254,158	247,607
Other Liabilities (Note 15 & 16)	320,528	369,310
TOTAL LIABILITIES	$ 945,154	$ 913,529
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 128,378	$ 165,085
Cumulative Results of Operations - Other Funds	22,260,535	20,550,755
TOTAL NET POSITION (Note 19)	22,388,913	20,715,840
TOTAL LIABILITIES AND NET POSITION	$ 23,334,067	$ 21,629,369

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

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2018 and 2017

(Amounts in Thousands)	2018 Consolidated	2017 Consolidated
Program Costs		
Gross Costs	$ 17,412,323	$ 26,312,300
Operations, Readiness & Support	17,412,323	26,312,300
(Less: Earned Revenue)	(18,834,820)	(26,428,044)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(1,422,497)	(115,744)
Net Program Costs Including Assumption Changes	$ (1,422,497)	$ (115,744)
Net Cost of Operations (Note 18)	$ (1,422,497)	$ (115,744)

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2018 and 2017

(Amounts in Thousands)	2018 Consolidated	2017 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 165,085	$ 122,870
Budgetary Financing Sources:		
Appropriations transferred-in/out	232,887	244,983
Appropriations used	(269,594)	(202,768)
Total Budgetary Financing Sources	(36,707)	42,215
Total Unexpended Appropriations	128,378	165,085
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	20,550,755	20,387,039
Budgetary Financing Sources:		
Appropriations used	269,594	202,768
Nonexchange revenue	-	(128)
Transfers-in/out without reimbursement	-	(336,000)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(88,205)	(29,991)
Imputed financing from costs absorbed by others	156,316	109,230
Other (+/-) (Note 19)	(50,422)	102,093
Total Financing Sources	287,283	47,972
Net Cost of Operations (+/-)	(1,422,497)	(115,744)
Net Change	1,709,780	163,716
Cumulative Results of Operations	22,260,535	20,550,755
Net Position	$ 22,388,913	$ 20,715,840

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

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2018 and 2017

(Amounts in Thousands)	2018 Combined	2017 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,253,304	$ 4,460,341
Appropriations (discretionary and mandatory) (Note 20)	232,887	244,983
Contract Authority (discretionary and mandatory)	8,265,120	6,752,427
Spending Authority from offsetting collections (discretionary and mandatory)	4,446,309	4,309,645
Total Budgetary Resources	$ 17,197,620	$ 15,767,396
Net adjustments to unobligated balance brought forward, Oct 1	$ 578,956	$ 762,706
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 20)	$ 13,733,041	$ 12,093,047
Unobligated balance, end of year:		
Apportioned, unexpired accounts	3,464,579	3,674,349
Unexpired unobligated balance, end of year	3,464,579	3,674,349
Unobligated balance, end of year (total)	3,464,579	3,674,349
Total Budgetary Resources	$ 17,197,620	$ 15,767,396
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	(305,406)	(290,765)
Agency Outlays, net (discretionary and mandatory)	$ (305,406)	$ (290,765)

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

The accompanying financial statements and footnotes 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, unless otherwise noted, United States (U.S.) generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The American Institute of Certified Public Accountants' (AICPA) AU-C 411, The Meaning of Present Fairly in Conformity with U.S. GAAP, established a hierarchy of U.S. GAAP for federal financial statements, which recognizes the FASAB as the standard setting body.

The Army WCF records accounting transactions on both an accrual and budgetary basis of accounting. Under the accrual method, revenue is recognized when earned and costs/expenses are recognized when incurred, without regard to receipt or payment of funds. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts. Estimates are made for significant items such as payroll expenses and service contract expenses (federal and nonfederal). The payroll estimate is based on the prior pay period actual expenses divided by the number of days in the pay period, multiplied by the number of days remaining in the period. Contractual estimates pertain to the value of services received but not yet invoiced. The estimates are based on the period of performance, values identified in the contract, and estimated services received. Actual results may differ from those estimates, therefore estimates are adjusted (trued-up) to reflect actuals during the period they become available.

In FY 2018, OMB revised OMB Circular No. A-136 to change the presentation of the Combined Statements of Budgetary Resources (SBR). We implemented the revised SBR format for FY 2018 and updated the FY 2017 SBR to conform to the FY 2018 SBR presentation. In addition, OMB revised OMB Circular No. A-136 to add additional undelivered orders disclosures. We included the additional disclosures for FY 2018 and did not include for FY 2017 as OMB Circular No. A-136 indicated that the disclosure was not required for FY 2017. Finally, OMB revised OMB Circular No. A-136 to remove disclosure of gross costs and earned revenue by intragovernmental and public categories and disclosures of Fund Balance with Treasury (FBWT) by fund type. As a result, we did not include such disclosures for FY 2018 and FY 2017.

1.B. Mission of the Reporting Entity

The Army WCF is a part (i.e., component entity) of the Defense Working Capital Fund and comprised of two activity groups: Supply Management and Industrial Operations. These activity groups provide Army the capability to provide its customers, which are primarily Army General Fund (GF) and Department of Defense (DoD), supplies, equipment and ordinance necessary to project, sustain, and reconstitute forces.

1.C. Appropriations and Funds

The Army WCF received its initial cash corpus through an appropriation or transfer of resources from existing appropriations or funds from the Defense WCF. The corpus financed initial operations. Since then, goods were sold and were provided to customers on a reimbursable basis to maintain the cash corpus (i.e. Fund Balance with Treasury). The Army WCF receives budget authority (contract authority, spending authority from offsetting collections, and appropriations) from the OMB, through the Office of the Under Secretary of Defense (Comptroller). This budget authority and related activity is recorded using the Treasury Account Symbol (TAS) 97X4930.001, Defense WCF, Army. Army executes the Army WCF mission using this budget authority and subsequently reports on resource usage.

1.D. Basis of Accounting

The Army WCF's financial statements and supporting trial balances are compiled from the underlying proprietary and budgetary financial data of the Army WCF. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds may be recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use Federal funds.

1.E. Revenues and Other Financing Sources

Industrial Operations activities recognize revenue according to the percentage-of-completion method.

Supply Management activities recognize revenue when the Army WCF inventory is sold and issued to customers.

1.F. Recognition of Expenses

The Army WCF recognizes costs in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 4: *Managerial Cost Accounting Standards and Concepts*. The Army WCF recognizes costs at the time the expense is incurred or benefit received, regardless of whether an invoice has been received. Cost is the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform a service. The costs that apply to the Army WCF operations in that period are recognized as either cost of goods sold or operating expenses in that period.

1.G. Accounting for Intragovernmental Activities

The *Treasury Financial Manual* (TFM) Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. The Army WCF cannot accurately identify all intragovernmental transactions by customer because: (1) the Army WCF Enterprise Systems Integration Program (AESIP) vendor master does not capture the correct buyer and seller data at the transaction level; and, (2) the standard line of accounting (SLOA) has not been implemented by reciprocal trading partners. In addition, the Army WCF cannot determine the correct reciprocal trading partner dollar amounts and necessary eliminations due to numerous deficient business processes such as: (1) buyer and seller systems do not contain the same information, the same accounts, or the same dollar balances; (2) buyer and seller systems are not real time and do not post transactions and balances at the same time; (3) trading partners are not subject to enforceable agreements for standardization of reciprocal transactions and accounts; (4) buyer and seller transactions do not reside in a standardized, centralized tracking system; and, (5) trading partner information is often not correct, or available, when performing activities solicit third parties to perform actual work (e.g., third party commercial contractors).

Imputed financing represents the cost paid on behalf of the Army WCF by another Federal entity. The Army WCF recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; and (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the *Federal Employees' Compensation Act*. Consistent with the implementation of SFFAS No. 55, *Amending Inter-Entity Cost Provisions*, certain non-business type unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Army WCF sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of the *Act*, the Army WCF 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. Fund Balance with Treasury

The Army WCF received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The Army WCF sells goods and services to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund operations and generally are available in their entirety for use without further congressional action.

The Army WCF's monetary resources are maintained in U.S. Treasury accounts as a FBWT. The disbursing offices of the DFAS, the Military Departments, 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 submits 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 FBWT account.

1.J. Cash and Other Monetary Assets

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

1.K. Accounts Receivable, Net

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 aging of accounts receivable. The Army WCF 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 TFM.

1.L. Inventory and Related Property, Net

The Army WCF manages only military or government-specific materiel under normal conditions. This inventory is retained to support military or national contingencies.

The Army WCF Inventory and Related Property is categorized into the following categories:

Inventory Purchased for Resale – This includes both consumable, non-reparable as well as repairable spare parts owned and managed by the Army WCF. Inventory purchased for resale is valued using the moving average cost method.

Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. SFFAS No. 3 and *Interpretation 7* require that inventory held for repair and resale reflect all capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account. Inventory held for repair is valued using the moving average cost method.

Raw Material – This includes material to be used in the Industrial Operations mission. Raw material is valued using the moving average cost method.

Excess, Obsolete, and Unserviceable (EOU) - Excess inventory is inventory that exceeds management requirements to meet the Army WCF mission. Obsolete inventory is inventory that no longer useful because of obsolescence. Unserviceable inventory is damaged inventory that is non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account.

Work in Process - Work in process balances include (1) costs related to the production of servicing of items, including direct material, labor, and 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 associated costs incurred in the delivery of maintenance services. Work in process balances include the carcass value, which is zero, and repair costs. When the repair is completed, the capitalized costs are moved to the inventory purchased for resale account. Work in process is valued using the actual and standard costs methods.

The Army WCF is working towards making an unreserved assertion for inventory beginning balances by assessing deemed costs in accordance with SFFAS No. 48, *Operating Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.

1.M. General Property, Plant and Equipment, Net

The Army WCF's General Property, Plant & Equipment (PP&E) capitalization threshold is currently $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 and are carried at their remaining net book value. PP&E with an acquisition cost of less than the capitalization threshold is expensed when purchased. PP&E meeting the capitalization threshold is depreciated using the straight-line method over the estimated useful life. The Army WCF follows the estimated useful lives published in Army policy. The Army WCF also capitalizes improvements to existing PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset.

The Army WCF has not adopted SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*. Additionally, the Army WCF is not reporting any value for land. Rather, acreages are reported for land.

The Army WCF is working towards making an unreserved assertion for PP&E beginning balances by assessing deemed costs for assets in accordance with SFFAS No. 50. The Army WCF is currently using known acquisition costs for acquisitions.

1.N. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the Army WCF's policy is to record advances or prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. This applies to advances identified as civil service employee pay advances, travel advances, and advances to contractors. The Army WCF's policy is to expense and/or properly classify assets when the related goods and services are received.

1.O. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease meets the criteria of a capital lease the Army WCF would record the applicable asset as though purchased, with an offsetting liability, and depreciate it.

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.

Vehicle leases with General Services Administration (GSA) entered into by the Army WCF are the largest component of operating leases and the future minimum operating lease payments are based on amounts obtained from existing leases, GSA bills, and interservice support agreements.

1.P. Other Assets

The Army WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army WCF may provide financing payments. Contract financing payments are defined in the *Federal Acquisition Regulations* (FAR), Part 32, 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 Army WCF policy to record certain contract financing payments as Other Assets. 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.

1.Q. Contingencies and Other Liabilities

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government* outlines the definition of liabilities, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*. 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.R. Accrued Leave

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

1.S. 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.T. Undistributed Disbursements and Collections

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

NOTE 2. NONENTITY ASSETS

As of September 30	2018	2017
(Amounts in thousands)		
1. Nonfederal Assets		
A. Accounts Receivable	4	4
B. Total Nonfederal Assets	$ 4	$ 4
2. Total Nonentity Assets	$ 4	$ 4
3. Total Entity Assets	$ 23,334,063	$ 21,629,365
4. Total Assets	$ 23,334,067	$ 21,629,369

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's 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

Status of Fund Balance with Treasury

As of September 30	2018	2017
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 3,464,579	$ 3,674,349
2. Obligated Balance not yet Disbursed	$ 7,973,642	$ 6,131,364
3. Non-FBWT Budgetary Accounts	$ (9,379,023)	$ (8,284,808)
4. Total	$ 2,059,198	$ 1,520,905

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 disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover future obligations.

Obligated Balance not yet Disbursed represents funds 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.

Undistributed adjustments are made to reconcile the general ledger to the U.S. Treasury. Undistributed amounts have not yet posted in the general ledger system but are accounted for in the reporting system. As of September 30, 2018 undistributed collections are $11.4 million; undistributed disbursements are $73.8 million; and cash transfers are $0. As of

September 30, 2017, undistributed collections were ($17.8 million); undistributed disbursements were $15 million; and cash transfers were $336 million.

NOTE 4. INVESTMENTS AND RELATED INTEREST

The Army WCF has no investments and related interest.

NOTE 5. ACCOUNTS RECEIVABLE, NET

As of September 30	2018		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 338,874	N/A	$ 338,874
2. Nonfederal Receivables (From the Public)	$ 23,539	$ (47)	$ 23,492
3. Total Accounts Receivable	$ 362,413	$ (47)	$ 362,366

As of September 30	2017		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 374,262	N/A	$ 374,262
2. Nonfederal Receivables (From the Public)	$ 30,472	$ (56)	$ 30,416
3. Total Accounts Receivable	$ 404,734	$ (56)	$ 404,678

NOTE 6. OTHER ASSETS

As of September 30	2018	2017
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Other Assets	$ -	$ 38,565
B. Total Intragovernmental Other Assets	$ -	$ 38,565
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 69,364	$ 45,271
B. Advances and Prepayments	5	41
C. Total Nonfederal Other Assets	$ 69,369	$ 45,312
3. Total Other Assets	$ 69,369	$ 83,877

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Army WCF 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 Army WCF. The Army WCF 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 during FY 2018 includes $59.0 million in contract financing payments and an additional $10.4 million in estimated future payments to contractors upon delivery and government acceptance. During FY 2017 outstanding contract financing payments totaled $38.7 million in contract financing payments and an additional $6.6 million in estimated future payments to contractors. The Contract Financing Payment asset is related to the Contingent Liabilities reported in Note 15, *Other Liabilities*.

NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30	2018	2017
(Amounts in thousands)		
1. Cash	$ 6,937	$ 2,440
2. Total Cash, Foreign Currency, & Other Monetary Assets	$ 6,937	$ 2,440

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

The Army WCF operates no direct loan or loan guarantee programs.

NOTE 9. INVENTORY AND RELATED PROPERTY, NET

As of September 30	2018	2017
(Amounts in thousands)		
1. Inventory, Net	$ 19,317,237	$ 17,850,653
2. Total	$ 19,317,237	$ 17,850,653

Inventory, Net

As of September 30	2018			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 11,221,587	$ -	$ 11,221,587	MAC
B. Inventory Held for Repair	4,871,020	-	4,871,020	MAC
C. Raw Materiel	1,171,840	-	1,171,840	MAC
D. Excess, Obsolete, and Unserviceable Inventory	125,558	(125,558)	-	NRV
E. Work In Process	2,052,790	-	2,052,790	SP
F. Total Inventory, Net	$ 19,442,795	$ (125,558)	$ 19,317,237	

As of September 30	2017			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 10,428,030	$ -	$ 10,428,030	MAC
B. Inventory Held for Repair	4,842,191	-	4,842,191	MAC
C. Raw Materiel	1,083,368	-	1,083,368	MAC
D. Excess, obsolete, and Unserviceable Inventory	102,012	(102,012)	-	NRV
E. Work In Process	1,497,064	-	1,497,064	SP
F. Total Inventory, Net	$ 17,952,665	$ (102,012)	$ 17,850,653	

Legend for Valuation Methods:
MAC = Moving Average Cost   NRV = Net Realizable Value   SP = Standard Price

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

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

NOTE 10. GENERAL PP&E, NET

As of September 30 *(Amounts in thousands)*	2018 Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	20 or 40	$ 2,577,724	$ (1,845,028)	$ 732,696
B. Software	S/L	2-5 or 10	1,597,495	(1,358,299)	239,196
C. General Equipment	S/L	10	1,853,748	(1,512,634)	341,114
D. Assets Under Capital Lease	S/L	lease term	668	(357)	311
E. Construction-in- Progress	N/A	N/A	205,643	N/A	205,643
F. Total General PP&E			$ 6,235,278	$ (4,716,318)	$ 1,518,960

As of September 30 *(Amounts in thousands)*	2017 Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	20 or 40	$ 2,456,191	$ (1,736,409)	$ 719,782
B. Software	S/L	2-5 or 10	1,717,792	(1,243,430)	474,362
C. General Equipment	S/L	10	1,803,902	(1,452,080)	351,822
D. Assets Under Capital Lease	S/L	lease term	668	(305)	363
E. Construction-in- Progress	N/A	N/A	220,487	N/A	220,487
F. Total General PP&E			$ 6,199,040	$ (4,432,224)	$ 1,766,816

Legend for Valuation Methods:
S/L = Straight Line N/A = Not Applicable

The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or stage-of-completion only for construction of real property, alteration, or repair. Progress payments based on percentage or stage-of-completion are reported as construction-in-progress.

As of September 30, 2018, the Army WCF had 193,914 acres of land.

Assets Under Capital Lease

As of September 30	2018	2017
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 668	$ 668
B. Accumulated Amortization	(357)	(305)
C. Total Capital Leases	$ 311	$ 363

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2018		2017	
(Amounts in thousands)				
1. Intragovernmental Liabilities				
A. Other	$	42,566	$	42,951
B. Total Intragovernmental Liabilities	$	42,566	$	42,951
2. Nonfederal Liabilities				
A. Military Retirement and Other Federal Employment Benefits		254,158		247,607
B. Other Liabilities		7,000		-
C. Total Nonfederal Liabilities	$	261,158	$	247,607
3. Total Liabilities Not Covered by Budgetary Resources	$	303,724	$	290,558
4. Total Liabilities Covered by Budgetary Resources	$	641,430	$	622,971
5. Total Liabilities	$	945,154	$	913,529

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

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $254.2 million for FECA actuarial reserve as of September 30, 2018. For FY 2017, the most significant liability was also FECA actuarial reserve, which totaled $247.6 million. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Other Liabilities includes a $7 million contingent liability associated with pending litigation. See Note 16 for details.

NOTE 12. ACCOUNTS PAYABLE

As of September 30	2018			
(Amounts in thousands)	Accounts Payable		Total	
1. Intragovernmental Payables	$	189,710	$	189,710
2. Nonfederal Payables (to the Public)		112,078		112,078
3. Total	$	301,788	$	301,788

As of September 30	2017			
(Amounts in thousands)	Accounts Payable		Total	
1. Intragovernmental Payables	$	183,858	$	183,858
2. Nonfederal Payables (to the Public)		25,653		25,653
3. Total	$	209,511	$	209,511

Accounts Payable include amounts owed to Federal and non-Federal entities for goods and services received by the Army WCF.

NOTE 13. DEBT

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

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The Army WCF has no environmental or disposal liabilities.

NOTE 15. OTHER LIABILITIES

As of September 30 *(Amounts in thousands)*	2018 Current Liability	 Noncurrent Liability	 Total
1. Intragovernmental			
A. Advances from Others	$ 12,290	$ -	$ 12,290
B. FECA Reimbursement to the Department of Labor	19,059	23,507	42,566
C. Custodial Liabilities	4	-	4
D. Employer Contribution and Payroll Taxes Payable	13,820	-	13,820
E. Total Intragovernmental Other Liabilities	$ 45,173	$ 23,507	$ 68,680
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 166,613	$ -	$ 166,613
B. Advances from Others	56,191	-	56,191
C. Deposit Funds and Suspense Accounts	6,936	-	6,936
D. Contract Holdbacks	37	-	37
E. Employer Contribution and Payroll Taxes Payable	6,108	-	6,108
F. Contingent Liabilities	-	17,363	17,363
G. Other Liabilities	67,280	-	67,280
H. Total Nonfederal Other Liabilities	$ 303,165	$ 17,363	$ 320,528
3. Total Other Liabilities	$ 348,338	$ 40,870	$ 389,208

As of September 30 *(Amounts in thousands)*	2017 Current Liability	 Noncurrent Liability	 Total
1. Intragovernmental			
A. Advances from Others	$ 30,706	$ -	$ 30,706
B. FECA Reimbursement to the Department of Labor	19,709	23,242	42,951
C. Custodial Liabilities	4	-	4
D. Employer Contribution and Payroll Taxes Payable	13,440	-	13,440
E. Total Intragovernmental Other Liabilities	$ 63,859	$ 23,242	$ 87,101
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 160,449	$ -	$ 160,449
B. Advances from Others	49,385	-	49,385
C. Deposit Funds and Suspense Accounts	2,440	-	2,440
D. Contract Holdbacks	43	-	43
E. Employer Contribution and Payroll Taxes Payable	5,878	-	5,878
F. Contingent Liabilities	-	6,527	6,527
G. Other Liabilities	144,588	-	144,588
H. Total Nonfederal Other Liabilities	$ 362,783	$ 6,527	$ 369,310
3. Total Other Liabilities	$ 426,642	$ 29,769	$ 456,411

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

FECA Reimbursement to the DOL represents liabilities due under the *Federal Employee Compensation Act*. Billed amounts payable in Fiscal Years 2018 (if applicable) and 2019 and unbilled amounts for both incurred and estimated accrual amounts are included. However, see Note 17, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

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

Employer Contributions and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Nonfederal Other Liabilities of $67.3 million for FY 2018 and $144.6 for FY 2017 is for industrial operations service accruals related to service-related contracts and Military Interdepartmental Purchase Requests (MIPRs).

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

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

Contingent liabilities include $10.4 million for FY 2018 and $6.5 million for FY 2017 related to contracts authorizing progress payments based on cost as defined in the 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.

There are also contingent liabilities related to litigation. See Note 16, *Commitment and Contingencies*

NOTE 16. COMMITMENTS AND CONTINGENCIES

The Army WCF 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 WCF has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Army WCF recorded a $7.0 million liability for matters that management determined are probable losses. Additionally, management determined that there is litigation related to federal employee compensation with an estimated loss of $0.2 million that is reasonably possible.

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2018	
(Amounts in thousands)	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 254,158	$ 254,158
B. Total Other Benefits	$ 254,158	$ 254,158
2. Total Military Retirement and Other Federal Employment Benefits:	$ 254,158	$ 254,158

As of September 30 *(Amounts in thousands)*	2017 Liabilities	 Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 247,607	$ 247,607
B. Total Other Benefits	$ 247,607	$ 247,607
2. Total Military Retirement and Other Federal Employment Benefits:	$ 247,607	$ 247,607

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 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. The DOL selects the Cost of Living Adjustment (COLA) factors, Consumer Price Index Medical (CPIM) factors, and discount rates by averaging the COLA rates, CPIM factors, and discount rate estimates to reflect historical trends.

DOL selected 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 for FY 2018 and FY 2017, respectively. Using averaging renders estimates that reflect historical trends over five years. DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2018 and FY 2017, respectively.

Interest rate assumptions utilized for FY 2018 discounting were as follows:

Discount Rates

For wage benefits:
2.716 percent in Year 1 and years thereafter;

For medical benefits:
2.379 percent in Year 1 and years thereafter.

Interest rate assumptions utilized for FY 2017 discounting were as follows:

Discount Rates

For wage benefits:
2.683 percent in Year 1 and years thereafter;

For medical benefits:
2.218 percent in Year 1 and years thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, COLAs and CPIMs were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2018 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
2018	N/A	N/A
2019	1.31%	3.21%
2020	1.51%	3.48%
2021	1.89%	3.68%
2022	2.16%	3.71%
2023	2.21%	4.09%

The compensation COLAs and CPIMs used in the projections for FY 2017 were as follows:

CBY	COLA	CPIM
2017	N/A	N/A
2018	1.22%	3.20%
2019	1.35%	3.52%
2020	1.59%	3.80%
2021	1.99%	3.99%
2022	2.26%	3.91%

To test the reliability of the model, comparisons were made between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. The model has been stable and has projected the actual payments by agency well.

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

Schedule of Cost and Revenue by Responsibility Segment

For the Year Ended September 30	Industrial Operations	Supply Management Activities	Eliminations	2018 Consolidated
(Amounts in thousands)				
1. Program Costs				
A. Gross Costs	$ 5,038,774	$ 13,963,446	$ (1,589,897)	$ 17,412,323
Operations, Readiness & Support	5,038,774	13,963,446	(1,589,897)	17,412,323
B. (Less: Earned Revenue)	(4,519,579)	(15,905,129)	1,589,888	(18,834,820)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	519,195	(1,941,683)	(9)	(1,422,497)
D. Net Program Costs Including Assumption Changes	519,195	(1,941,683)	(9)	(1,422,497)
2. Net Cost of Operations	$ 519,195	$ (1,941,683)	$ (9) [1]	$ (1,422,497)

For the Year Ended September 30	Industrial Operations	Supply Management Activities	Eliminations	2017 Consolidated
(Amounts in thousands)				
1. Program Costs				
A. Gross Costs	$ 5,002,515	$ 22,607,350	$ (1,297,565)	$ 26,312,300
Operations, Readiness & Support	5,002,515	22,607,350	(1,297,565)	26,312,300
B. (Less: Earned Revenue)	(4,606,487)	(23,119,083)	1,297,526	(26,428,044)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	396,028	(511,733)	(39)	(115,744)
D. Net Program Costs Including Assumption Changes	396,028	(511,733)	(39)	(115,744)
2. Net Cost of Operations	$ 396,028	$ (511,733)	$ (39) [1]	$ (115,744)

[1] *The amount cannot be identified as either SMA or IO.*

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Army WCF 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 is in the process of reviewing available data and developing a cost reporting methodology as required by the SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts for the Federal Government*, as amended by SFFAS No. 55, *Amending Inter-entity Cost Provisions*.

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

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

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30		2018
(Amounts in thousands)		
1. Intragovernmental Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid	$	4,558,134
B. Total Intragovernmental	$	4,558,134
2. Nonfederal Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid		2,692,889
B. Prepaid/Advanced		59,005
C. Total Nonfederal	$	2,751,894
3. Budgetary Resources Obligated for Undelivered Orders at the End of the Period*	$	7,310,028

** For FY 2017 this table was not prepared and as of September 30, 2017 Budgetary Resources Obligated for Undelivered Orders was $5,443,314 thousand.*

Net adjustments to unobligated balance brought forward, Oct 1 represents the total of Recoveries of prior year unpaid obligations and Other changes in unobligated balance, previously reported separately within the combined Statement of Budgetary Resources, and together impacting the Obligated balance, end of the prior year and brought forward, Oct 1, as reported.

The Army WCF obligations represent reimbursable obligations of $13.5 billion and direct obligations of $270 million in apportionment category B, apportioned by project or activity for FY 2018. For FY 2017, the related amount were $11.8 billion and $262 million, respectively.

The Army WCF SBR includes intra-entity 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 2018 in the amount of $40.6 million to fund War Reserve materiel, $3.8 million for Army Prepositioned Stock, $46.3 million for Inventory Augmentation, $43.1 million for Industrial Mobilization Capacity, and $99 million for Arsenal Sustainment Initiative. In FY 2017, the Army WCF received appropriations amounted to $24.5 million to fund War Reserve materiel; $32 million for Paladin Integrated Management Engines, $46.8 million for Army Prepositioned Stock, $1.7 million for Inventory Augmentation, and $140 million for Arsenal Sustainment Initiative.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the Years Ended September 30	2018	2017
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 13,733,041	$ 12,093,047
2. Less: Spending authority from offsetting collections and recoveries (-)	(12,963,535)	(11,468,069)
3. Obligations net of offsetting collections and recoveries	$ 769,506	$ 624,978
4. Net obligations	$ 769,506	$ 624,978
Other Resources:		
5. Transfers in/out without reimbursement (+/-)	(88,205)	(29,991)
6. Imputed financing from costs absorbed by others	156,316	109,230
7. Other (+/-)	(50,422)	102,093
8. Net other resources used to finance activities	$ 17,689	$ 181,332
9. Total resources used to finance activities	$ 787,195	$ 806,310
Resources Used to Finance Items not Part of the Net Cost of Operations:		
10. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
10a. Undelivered Orders (-)	$ (1,866,714)	$ (671,578)
10b. Unfilled Customer Orders	751,075	(246,636)
11. Resources that fund expenses recognized in prior Periods (-)	(385)	(13,820)
12. Resources that finance the acquisition of assets (-)	(4,290,568)	(3,589,593)
13. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
13a. Other (+/-)	138,627	(72,103)
14. Total resources used to finance items not part of the Net Cost of Operations	$ (5,267,965)	$ (4,593,730)
15. Total resources used to finance the Net Cost of Operations	$ (4,480,770)	$ (3,787,420)
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:		
16. Increase in exchange revenue receivable from the public (-)	(4,497)	2,520
17. Other (+/-)	13,550	-
18. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 9,053	$ 2,520
Components not Requiring or Generating Resources:		
19. Depreciation and amortization	$ 256,771	$ 261,813
20. Revaluation of assets or liabilities (+/-)	(906,477)	39,986
21. Other (+/-)		
21a. Cost of Goods Sold	5,046,670	5,149,159
21b. Other	(1,347,744)	(1,781,802)
22. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 3,049,220	$ 3,669,156
23. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 3,058,273	$ 3,671,676
24. Net Cost of Operations	$ (1,422,497)	$ (115,744)

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 for FY 2018 were adjusted by $0.26 billion and expenses were adjusted by $2.04 billion to bring the note schedule into agreement with the SNC. Gains/Losses for FY 2017 were adjusted by $0.06 billion and expenses were adjusted by $1.64 billion to bring the note schedule into agreement with the SNC.

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.

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

The Army WCF does not collect incidental custodial revenues.

NOTE 23. FUNDS FROM DEDICATED COLLECTIONS

The Army WCF has no funds from dedicated collections

NOTE 24. FIDUCIARY ACTIVITIES

The Army WCF has no fiduciary activities.

NOTE 25. OTHER DISCLOSURES

For the Years Ended September 30	2018			
Asset Category	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Intragovernmental Operating Leases				
Future Payments Due				
Fiscal Year				
2019	$ -	$ -	$ 11,174	$ 11,174
2020	-	-	11,132	11,132
2021	-	-	11,168	11,168
2022	-	-	11,206	11,206
2023	-	-	11,250	11,250
After 5 Years	-	-	10,111	10,111
Total Intragovernmental Future Lease Payments Due	$ -	$ -	$ 66,041	$ 66,041
2. Nonfederal Operating Leases				
Future Payments Due				
Fiscal Year				
2019	$ 206	$ 193	$ -	$ 399
2020	206	136	-	342
2021	207	137	-	344
2022	207	138	-	345
2023	207	140	-	347
After 5 Years	208	141	-	349
Total Nonfederal Future Lease Payments Due	$ 1,241	$ 885	$ -	$ 2,126
3. Total Future Lease Payments Due	$ 1,241	$ 885	$ 66,041	$ 68,167

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

The Army WCF does not have any significant related parties or disclosure entities.

Department of Defense — Army Working Capital Fund

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2018 and 2017

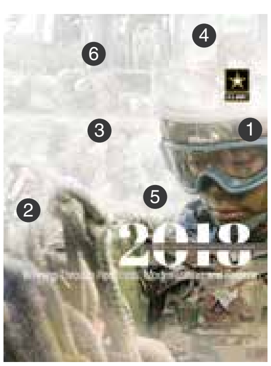
Amounts in thousands	Industrial Operations	Supply Management	Component	2018 Combined	2017 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,140,022	$ 76,568	$ 36,714	$ 4,253,304	$ 4,460,341
Appropriations (discretionary and mandatory)	142,140	90,747	-	232,887	244,983
Contract Authority (discretionary and mandatory)	95,480	8,169,640	-	8,265,120	6,752,427
Spending Authority from offsetting collections (discretionary and mandatory)	4,446,309	-	-	4,446,309	4,309,645
Total Budgetary Resources	$ 8,823,951	$ 8,336,955	$ 36,714	$ 17,197,620	$ 15,767,396
Net adjustments to unobligated balance brought forward, Oct 1	$ 547,491	$ 31,465	$ -	$ 578,956	$ 762,706
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 5,435,793	$ 8,297,248	$ -	$ 13,733,041	$ 12,093,047
Unobligated balance, end of year:					
Apportioned, unexpired accounts	3,388,158	39,707	36,714	3,464,579	3,674,349
Unexpired unobligated balance, end of year	3,388,158	39,707	36,714	3,464,579	3,674,349
Unobligated balance, end of year (total)	3,388,158	39,707	36,714	3,464,579	3,674,349
Total Budgetary Resources	$ 8,823,951	$ 8,336,955	$ 36,714	$ 17,197,620	$ 15,767,396
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	319,272	(624,852)	174	(305,406)	(290,765)
Distributed offsetting receipts (-)					
Agency Outlays, net (discretionary and mandatory)	$ 319,272	$ (624,852)	$ 174	$ (305,406)	$ (290,765)

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

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

Additional copies of this report can be obtained by sending a written request to the e-mail or mailing address listed above. You may also view this document at: http://www.asafm.army.mil/fo/fod/cfo/cfo.asp



COVER PHOTO CAPTIONS

1. An Army Soldier during a drill that improves Soldier readiness by simulating an attack on the base, complete with simulated casualties. (U.S. Army photo by Sgt. 1st Class Randall Pike)
2. Soldiers pull on a cable while shifting a ramp to dismantle a 100 foot temporary floating bridge. (U.S. Army National Guard photo by Staff Sgt. Eddie Siguenza)
3. Competing in the 2018 Best Warrior Competition. (U.S. Army photo by Rebecca Westfall)
4. Carrying another Soldier to safety to provide medical care during combat lifesaver training. (U.S. Army photo by Spc. Hubert D. Delany III.)
5. A U.S. Army armored element performs a strategic convoy maneuver. (U.S. Army photo by Spc. Andrew McNeil)
6. Instructing Soldiers on properly exiting a helicopter and establishing lines of fire. (U.S. Army photo by Spc. Thomas Scaggs)

Inside Cover: An infantryman makes final adjustments to his M2010 sniper weapon system before venturing into snipers' concealed movement techniques training. (U.S. Army photo by Sgt. Alvin Reeves)

2018

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.

United States Army : 1500 Army Pentagon : Washington, DC, 20310-1500 : www.army.mil