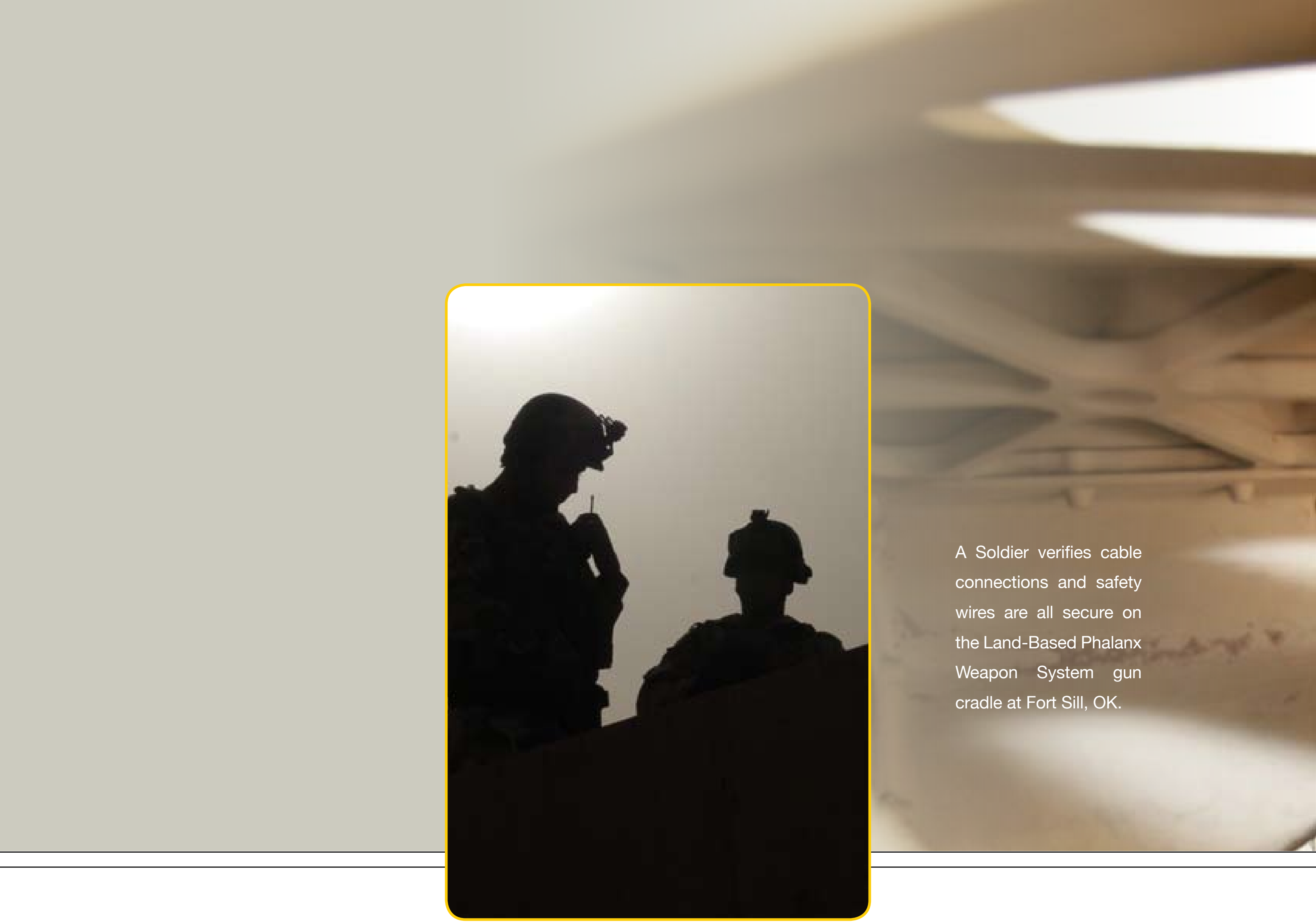
U.S.ARMY

Fiscal Year 2009 United States Army Annual Financial Statement

The NCO Corps: The Strength of America's Army

2009



A Soldier verifies cable connections and safety wires are all secure on the Land-Based Phalanx Weapon System gun cradle at Fort Sill, OK.

Since 1775, the Army has set apart its NCOs from other enlisted Soldiers by distinctive insignia of grade.

With more than 200 years of service, the U.S. Army's Noncommissioned Officer (NCO) Corps has distinguished itself as the worlds most accomplished group of military professionals. Historical and daily accounts of life as an NCO are exemplified by acts of courage, and a dedication and a willingness to do whatever it takes to complete the mission. NCOs have been celebrated for decorated service in military events ranging from Valley Forge to Gettysburg, to charges on Omaha Beach and battles along the Ho Chi Minh Trail, to current conflicts in Afghanistan and Iraq.

In recognition of their commitment to service and willingness to make great sacrifices on behalf of our nation, the Secretary of the Army established 2009 as the Year of the NCO.

ON THE COVER: A Soldier demonstrates to an Iraqi child how to properly take a knee during Operation Warhorse Scimitar in west Mosul. The child was running up and down this alley way giving high fives to Soldiers.

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

FY 2009 Contents

Our NCO Corps is unrivaled by any Army in the world, envied by our allies and feared by our enemies. Throughout the Army's history, the NCO has been a pivotal figure, but never more so than today with our full spectrum of operations... the "backbone of our Army."

Kenneth O. Preston, Sergeant Major of the Army

During this past year, the Army has continued to confront a myriad of challenges while simultaneously transforming itself. This is all the more remarkable given the Army's engagement in fighting two wars and its inherent impact on our force, its Soldiers and their Families.

While this era of persistent conflict requires continued flexibility and adaptability, we remain focused on ensuring that we have full spectrum readiness and retaining our ability to meet current and future asymmetric threats. We are fully committed to providing a quality of life for our Army Families equal to their extraordinary service.

As the Army has made progress in restoring balance, we must also set conditions for the future. Our Army's future readiness will require that we continue to modernize, adapt our institutions and transform Soldier and leader development in order to sustain an expeditionary and campaign-capable force. The Army's continued growth – and the necessary funding for it – remains vital.

Last year, the Army continued its strong commitment to Army Families. Using appropriated resources, we have improved housing, built child development centers and restructured the support system for our returning Wounded Warriors. We must continue to provide the financial resources that will guarantee our steadfast support of Army Soldiers and the Families who stand with them.

We have made great progress in this past year – but more work lies ahead. Many of the challenges of the past will remain before us in the future. With your support and partnership, we will continue to build an Army that will meet the threats, challenges and opportunities of the 21st Century.

John McHugh
Secretary of the Army

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

General George Casey, Chief of Staff of the Army

In fiscal year 2009 (FY 2009) the Army continued the transformation of its warfighting forces, implementing the most sweeping changes since the end of World War II. At the same time, we have transformed and adapted Army financial management, to ensure that we not only accomplish our assigned missions in support of combatant commanders, but that we do so while also serving as effective stewards of the resources that have been entrusted to us.

A key component of this financial transformation has been the integration of cost management into the Army's decision-making processes. By applying cost management principles and techniques, our leaders and managers are gaining a better understanding of the full cost of Army processes, products, and services, and thus are becoming better equipped to manage business operations effectively and efficiently.

To implement cost management throughout the Army, we are taking action on three broad fronts. We are placing greater emphasis on the use of cost-benefit analysis to support decision making; implementing training and education programs to ensure that our Soldiers and civilians have the requisite skills and knowledge; and providing timely, accurate, and reliable data to support cost management.

An essential element in the provision of data to support decision making is the fielding, beginning in FY 2009, of the General Fund Enterprise Business System (GFEBS). GFEBS is much more than the Army's new accounting system. It is an enterprise resource planning system that integrates budget, real property, financial, cost, logistics and related non-financial performance data to give leaders and managers the information they need to make cost-informed decisions in a timely manner. When fully deployed, GFEBS will give 79,000 end users at 200 Army sites around the world access to real-time data to support their analysis and decision making.

While much work remains to be done in the continuing transformation of Army financial management, we are confident that our ongoing efforts will enable us to continue to accomplish our challenging missions while significantly improving our ability to do so in the most cost-effective manner possible.

Mr. Robert M. Speer
Acting Assistant Secretary of the Army
Financial Management & Comptroller

Army NCOs trace their roots to the beginnings of American military history. They helped Washington preserve the Continental Army at Valley Forge, stood with Winfield Scott at Chippewa, and directed Zachary Taylor's guns at Palo Alto. They carried the Nation's colors at Gettysburg and Vicksburg, fought yellow fever in Cuba with Walter Reed, and led Pershing's and Eisenhower's legions into Germany. Whether helping local populations build a village in Southeast Asia or teaching young Iraqi soldiers to conduct operations, American NCOs are leading from the front and are some of our nation's best ambassadors. Over time, through various changes in tactics and technology, Army NCOs have emerged as the Army's small–unit leaders, trainers, and guardians of standards.

NCO TIMELINE

1775-1840 | Revolutionary War & Early United States
1861-1885 | Civil & Indian Wars
1902-1909 | Early Twentieth Century
1930-1948 | Post-WWI & the Interwar Years
1949-1959 | World War II
1951-1970 | Korean War & Pre-Vietnam Era
1970-2000 | Vietnam, Post-Vietnam & Desert Storm
2001-Present | September 11, 2001 to Present Day

SCHOFIELD BARRACKS, Hawaii - Nearly 400 pairs of small boots line the mint green wall of the Warrior Transition Clinic on Schofield Barracks. Numerous boots hold signatures of Soldiers who have graduated from the clinic, leaving behind their legacy.

Overview

The last eight years have been years of radical transformation and unprecedented operational tempo during a time of war. The Army of 2009 does not look like the Army of 2001. Soldiers are trained, equipped, and led differently. They are battle-hardened and combat-proven throughout the ranks. But many of the challenges of the past remain challenges for the future.

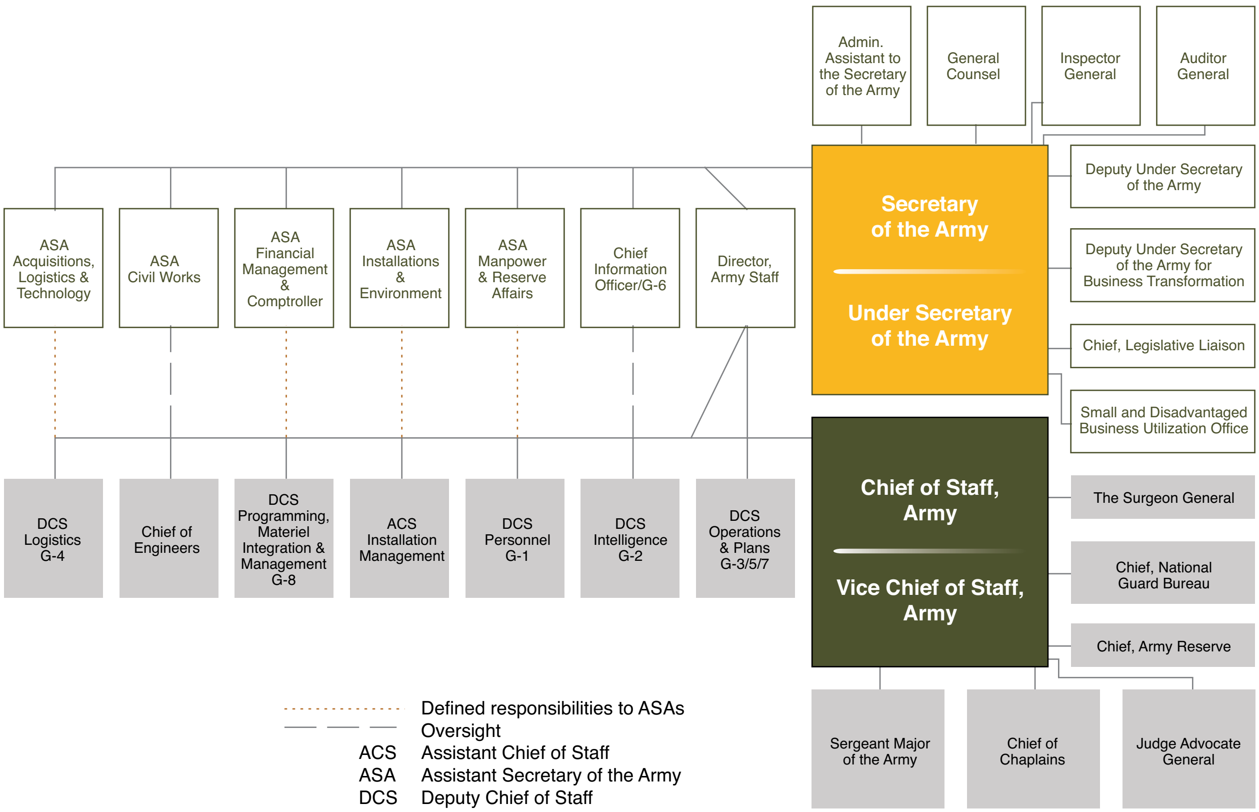
The Army is over halfway through its largest transformation since World War II and this effort is having an impact on everything it does. The Army is changing, becoming more versatile, expeditionary, agile, lethal, sustainable, and interoperable. While executing this transformation, the Army has added more than 74,000 Soldiers to the active and reserve forces and has begun implementation of the Secretary of Defense's temporary end strength increase authorization of up to 22,000 Active Component (AC) Soldiers. The Army is also in the midst of a mass repositioning of forces worldwide. Plans for resetting equipment and units to full capacity through Army force generation are in full swing.

Last year, it was reported that the Army, while a committed, resilient and combat-seasoned force, was out of balance. The demand for the Army's forces exceeded the sustainable supply, and it had gone to 15-month deployments. Consumed with meeting the requirements of the current fight, the Army lacked sufficient strategic flexibility and operational depth to respond to other contingencies. The Army leadership was unable to provide a predictable, sustainable tempo of deployments for the Army's Soldiers and their families. Support systems designed for the pre-September 11, 2001, peacetime Army were stretched and stressed by the demands of lengthy and repeated deployments with insufficient recovery time. Overall, readiness was being depleted as fast as it could be built. In 2009, there was some relief on the demand for forces, and 12-month deployments returned. Boots-on-the-ground in relation to dwell-time-at-home-station (BOG:Dwell) has improved from an average of 1:0.08 in 2008 to 1:1.5 by the end of Fiscal Year 2009 (FY 2009). The Army's goal is to restore a 1:2 BOG:Dwell by FY 2011.

In FY 2009, the Army executed a plan to restore a balance that was founded on four imperatives: Sustain its Soldiers, families, and civilians; 2) continue to prepare forces for success in the current conflict; 3) reset returning units to rebuild the readiness consumed in operations and to prepare for future deployments and contingencies; and 4) transform to meet the demands of the 21st century. At the time, the Army acknowledged that implementing these imperatives would require several years, considerable resources, and sustained national commitment. Efforts to restore balance

Soldiers laying concertina wire to improve Forward Operating Base Baylough security. Deh Chopan district, Zabul Province.

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



are continuing, and, by FY 2011, the Army expects to establish acceptable balance between deployments and time spent at home; achieve substantial progress in modular transformation and rebalancing initiatives; complete base realignment and closure and associated restationing; and fully implement its force-generation model, all while sustaining the all-volunteer force and setting conditions for the future.

Mission and Organization of the Army

The Army's mission is to support the National Military Strategy by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission has remained constant throughout the 234-year life of the Army; however, the environment and nature of conflict have changed dramatically over that same time, especially in the context of today's overseas contingency operations (OCO). New adversaries, and the growth in asymmetric warfare, have compelled the Army to transform how it trains and equips its Soldiers, how those Soldiers are organized, and how they fight.

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

The Army is a large and complex organization, with more than 553,000 active duty Soldiers and approximately 255,000 AC and Reserve Component (RC) Soldiers deployed or forward-stationed in nearly 80 countries. They are supported by nearly 273,000 Army civilians, who are critical members of the institution at every level.

The Army is organized with the primary objective to support and sustain the mobilization, training, and deployment of its Soldiers anywhere in the world. The Headquarters, Department of the Army (HQDA) (Figure 1), under the

direction of the Secretary of the Army and the Army Chief of Staff, leads and manages the entire Army.

The Army's organizational structure consists of two interdependent pieces: the warfighting, operating force; and the generating force, which supports the operational force by providing the training, facilities and equipment necessary to prepare and sustain Soldiers.

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

Viewed by its constituent elements, the Army can be separated into the AC and RC. The AC consists of full-time Soldiers assigned to the operational and institutional organizations that perform day-to-day Army missions. The Congress annually reviews and mandates the number of Soldiers that the Army may maintain. The RC consists of the Army National Guard (ARNG) and the U.S. Army Reserve (USAR).

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

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

Performance Goals, Objectives and Results

The Army is in the midst of a long war—the third longest in our nation's history—and the longest ever fought by its all-volunteer force. More than one million of our country's men and women have deployed to combat; more than 5,200 have sacrificed their lives, and more than 35,700 have been wounded. Our Army continues to be the leader in this war, protecting our national interests while helping others to secure their freedom. After eight years of continuous combat, our Army remains out of balance,

President Barack Obama visits Camp Victory, Iraq. "You have performed brilliantly in every mission that has been given to you." *White House photo by Pete Souza* straining its ability to sustain the all-volunteer force and maintain strategic depth. The stress on the Army did not ease in FY 2009 as the demand on its forces remained high. In FY 2009, the Army made significant progress to restore balance, but it still has several challenging years ahead to achieve this vital goal.

The lack of balance the Army is experiencing poses a risk to the all-volunteer force, as well as to the Army's ability to respond quickly to other contingencies. To mitigate near-term risk, the Army's senior leadership established a plan to restore balance based on four imperatives:

(1) Sustain the Army's Soldiers, families, and civilians;

(2) Prepare Soldiers for success in current operations;

(3) Reset units to restore readiness and depth for future operations; and

(4) Transform the Army into the force the nation needs today and in the future.

These are not easy tasks, and they require the full support of the Congress and the American people. While the Army has achieved much, more remains to be done. The goal of these imperatives is to restore balance by FY 2011.

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

In FY 2009, the Army updated the cost of the doctrinal Army (doctrinal cost) model. It did so using improved and refined methods, and the latest force structure associated with accomplishing the missions assigned by Office of the Secretary of Defense. The doctrinal cost estimate is performed annually and is independent of the standard planning, programming, budgeting, and execution process (PPBE). This estimate is what it should cost the Army, when fully staffed and equipped, to operate in accordance with established Army doctrine. The Army has found these top-down cost estimates valuable when compared to the bottom-up PPBE results. The doctrinal cost model identifies

Burst of flames leaves the muzzle of a 240B machine gun as a Soldier conducts a test fire from a moving aircraft on the outskirts of Baghdad, Iraq.

Table 1. Quality – Percent Tier 1 Educational Credential Holders (AC)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Tier 1 Goal	90%	90%	90%	90%	90%
Tier 1 Actual	87%	83%	79%	83%	95%

Table 2. Recruiting

	FY 2006 Actual	FY 2007 Actual	FY 2008 Goal	FY 2008 Actual	FY 2009 Goal	FY 2009 Actual
Active Army	80,635	80,407	80,000	80,517	65,000	70,045
Army Reserve	25,378	27,004	26,500	26,945	22,500	23,684
Army National Guard	69,042	62,914	60,600	62,397	52,698	52,014

the steady-state Army force structure, and associated equipment and facilities, then depreciates them to account for the annual investment required to renew or replace the assets. The estimate uses only peacetime costs, excluding the cost of OCOs. The result is a doctrinal cost annual estimate of $176.2 billion. The Army will continue to refine its methodology and resourcing strategy to produce the leanest possible estimate, while accurately articulating its cost and doctrinal capabilities to the Congress and the American people.

The costs associated with full implementation of the President's temporary end-strength increase of up to 22,000 AC Soldiers resulted in an annual estimate of $1.0 billion in FY 2010, and $2.2 billion in FY 2011.

The following sections discuss the four imperatives, goals, and program performance results.

Sustain

To sustain Soldiers, families and Army civilians in an era of persistent conflict, the Army must maintain the quality and viability of the all-volunteer force and the many capabilities it provides the nation. Sustain ensures that Soldiers and their families have the quality of life they deserve, which helps to improve retention rates.

Manning the Force – Recruiting and Retaining Soldiers

While the recruiting environment is challenging, the Army remains committed to bringing only the very best into its ranks. The goal is for Tier 1 educational credential holders e.g., those with high school diplomas or above, to comprise no less than 90 percent of new recruits. Typically, Tier 1 recruits are a lower risk for attrition and, therefore, are the most desirable group from which to draw. The Army achieved 95 percent Tier 1 recruits in FY 2009, which is a 12 percent increase over FY 2008, and a nearly 16 percent increase from FY 2007. While the overall first-term attrition declined considerably in recent years, the rate has remained unchanged since September 2008. The static rate and overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force.

The Army was able to meet its recruiting mission in all components. The Army continued several implemented initiatives, such as the Active First Recruiting Program, the Army Preparatory School, and the Army Advantage Fund, which helped the Army achieve its goals. The expected FY 2010 economy is also expected to yield high-quality recruits.

Due to OCOs, several special skills are in high demand. To fill them, it has been necessary to augment recruiting and retention incentives. The Army instituted a Critical Skills Retention and Accession Bonus (CSRB) to attract and to retain personnel in specific skills areas, including Special Forces, Criminal Investigations, Military Intelligence, and Field Artillery. Further, medical-related CSRBs were offered to critical specialties including clinical psychologists, physician's assistants and maxillofacial/oral surgeons.

When the President declares a state of national emergency, end-strength limits may be waivered. The Army is trying to grow as fast as possible to relieve stress on the force and increase time between deployments. The Army is increasing its operational end strength in order to man the modular force. In July 2009, the Secretary of Defense authorized the Army a temporary end-strength increase of 22,000 Soldiers

Table 3. Active Component (AC) End Strength

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

Performance Measure: The number of Soldiers on active duty at the end of the year. Items are as of EOM September 2009.

Table 4. RC End Strength Within 2%

	FY 2006	FY 2007	FY 2008	FY 2009
Goal	555,000	550,000	556,300	563,200
Actual	536,263	542,589	557,375	563,688
% Delta	-3.5%	-1.4%	+0.2%	+0.1%

Performance Measure: The number of Soldiers in the ARNG and the USAR at the EOM September 2009

Table 5. AC and RC Retention

	FY 2006 Actual	FY 2007 Actual	FY 2008 Goal	FY 2008 Actual	FY 2009 Goal	FY 2009 Actual
Active Army	67,307	62,200	65,000	73,913	55,000	68,387
Army National Guard	41,083	37,578	31,889	29,618	34,593	36,672
Army Reserve	18,223	16,571	14,946	16,523	11,619	11,163

Performance Measure: Measures the number of Soldiers reenlisted during a given fiscal year against the published goals. The AC and ARNG have achieved their retention mission for FY 2009 as of EOM September. The USAR is considered successful as they have exceeded their end-strength requirements. The overall success of recruiting and retention goals prompted the Army to adjust the original retention mission of 65,500 to 55,000 to slow production.

for the AC for up to three years, which increased the AC authorization from 547,400 to 569,400.

The Army had a maximum reenlistment bonus of $27,000 for high-demand specialties. These bonuses, which are a vital tool in keeping Soldiers who possess valuable combat experience, have helped the Army to exceed its retention goal for FY 2009. Careful and deliberate adjustments to bonuses, including which critical skills are targeted, were made to retain the correct Soldiers.

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

Improving the Quality of Life for Soldiers and Their Families

To retain Soldiers and meet the needs of their families, the Army must care for them by providing exceptional programs and services that support their well-being. The Army and its senior leadership is committed to improving the quality of life for AC, ARNG and USAR Soldiers and their families that is equal to the quality of their service. Since the inception of the Army Family Covenant[1] and the Soldier-

[1] *On October 8, 2007, the Army unveiled the Army Family Covenant, which institutionalizes the Army's commitment to provide Soldiers and their families a quality of life equaling their level of service and sacrifice to the nation. Taken from http://www.myarmyonesource.com/cmsresources/ArmyOneSource/Media/PDFs/Communities and Marketplace/ARMY FAMILY Covenant on October 26, 2009.*

family action[2], the Army continues to demonstrate this commitment. In FY 2009, the Army fully resourced child and youth programs to meet Department of Defense (DoD) standards of 80 percent and 35 percent demand, respectively. Other improvements include using training products to strengthen resilience in military children, increasing staff for the New Parent Support Program[3], providing additional funding for respite care, implementing Soldier and Family Assistance Centers (SFACs) and placing thousands of spouses in jobs through the Army Spouse Employment Program.

With the continued maturation of the Army's Warrior Care and Transition Program[4], wounded, ill, and injured Soldiers and their families are receiving the care management and support they both need and deserve. The Warrior Transition Command (WTC) was established to ensure focused and effective management of all aspects of the Warrior Care and Transition Program. This command brings together U.S. Army Medical Command, the Army Wounded Warrior Program, and the former Warrior Care and Transition Office to provide the necessary leadership and coordination to ensure the ongoing success and enhancement of this program. The WTC operates 32 properly-resourced warrior transition units (WTUs) and 9 regionally-located community-based WTUs.

The Army is making great progress toward funding and constructing warrior transition complexes to provide wounded, ill and injured Soldiers and their families modern and accessible barracks, SFACs and WTU headquarters and administrative facilities conveniently located near installation military treatment facilities. Each Soldier and family is assisted by a multi-disciplinary team to develop a comprehensive transition plan that lays out in realistic terms, a recovery plan for each wounded, ill and injured Soldier, and doing so in a manner consistent with their individual goals and within the realities of their ability to recover.

Improving Soldier and Family Housing

The Army's commitment and congressional support for housing programs continue to demonstrate the Army's pledge to provide a quality of life for Soldiers and their families commensurate with their service. In concert with the private sector, the Army continues to focus a considerable amount of effort on the Residential Communities Initiative and the Barracks Modernization Program (BMP). At the end of FY 2009, the Army's inventory of inadequate family housing was eliminated at enduring[5] U.S. locations through privatization, conventional military construction, demolition and divestiture of uneconomical and excess units. At most enduring foreign locations, inadequate family housing was eliminated through military construction, demolition and returning excess housing to host nations. However, at one enduring foreign location (Baumholder, Germany), funding to modernize the remaining inadequate government-controlled family housing inventory will continue through FY 2015.

In FY 2009, the Army privatized and conveyed 4,735 homes—1,411 at Fort Sill (November 2008), 1,628 at Fort Wainwright (April 2009), 126 at Fort Greely (April 2009), 1,365 at Fort Huachuca (April 2009) and 205 at Yuma Proving Grounds (April 2009). This brings the total number of installations privatized to 43, with an end-state inventory of 86,092 homes out of a total program goal of 44 installations and end-state of 86,464 homes.

The Army strategy is on track to eliminate inadequate housing and complete the permanent-party, single-Soldier portion of its BMP by FY 2013, with availability to occupy in FY 2015. As of FY 2009, the Army has 150,769 of the 169,977 adequate spaces.

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[2] The roadmap by which the Army will fulfill its commitment to Soldiers and families. Addendum H: Soldier and Family Action Paper, 2008 Army Posture Statement. Taken from http://www.army.mil/aps/08/addenda/addenda_h.html on October 26, 2009.

[3] The New Parent Support Program was established by federal law to help build strong, health military families. Taken from http://www.militaryhomefront.dod.mil/tf/newparentsupport, on October 26, 2009.

[4] Details of this program are in Addendum I: Warrior Care and Transition, 2008 Army Posture Statement. Taken from http://www.army.mil/aps/08/addenda/addenda_I.html, found on October 26, 2009.

[5] Enduring in this instance refers to locations where a long-term presence is planned; locations that are not expected to be closed by base realignment and closure (BRAC) or global defense posture realignment (GDPR).

The Army's strategy to eliminate inadequate training barracks under the BMP remains on course for completion in FY 2015, with availability to occupy in FY 2017. The goal is to construct new barracks to eliminate the deficit of Soldier spaces, and to complete restoration and modernization of 115,413 spaces for Soldiers attending basic training, one-station unit training, advanced individual training, and advanced skill training. As of FY 2009, 50,329 spaces have been completed.

The Army executed a limited unaccompanied personnel housing privatization initiative for staff sergeants and above at Forts Irwin, Drum, Bragg, Bliss, and Stewart. Together, these facilities will provide 1,396 apartments (1,804 bedrooms) in areas that have limited available rental properties for Soldiers in these grades.

Prepare

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

Providing Support for Operational Requirements

The pace of operations in the new security environment presents a number of significant force management challenges to the Army. As a result of the Army's global commitments, approximately 255,000 Soldiers are deployed or forward-stationed in nearly 80 countries. As of September 2009, approximately 553,000 personnel were serving in the AC, and approximately 29,800 RC Soldiers were on mobilization orders.

Repeated deployments affect recruiting and retention, and have a very real impact on the Army's ability to care for Soldiers and their families. The Army is pursuing numerous initiatives that will reduce force-management risk to meet today's challenges, and to position troops better for the future. By developing the Army modular force, the Army will significantly increase the pool of rotating units, and, by employing the Army Force Generation (ARFORGEN) model, it will reduce the stress on the force. The results will be greater stability, unit cohesion and readiness, and less uncertainty for families.

The ARFORGEN[6] process leverages modular unit designs and the operational cycle to create a sustainable deployment posture with units that are ready in predictable patterns and the capacity to surge combat power for major operations. When fully operational, ARFORGEN will enable the Army to schedule effectively and efficiently fully-ready units for deployment, which will, in turn:

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

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

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

(4) Enable the Army to surge additional BCTs augmented by all required supporting organizations when given appropriate mobilization authority.

Civilian Contributions to Generating Force and Resourcing Challenges

Department of the Army civilians are assuming increased responsibilities in the generating force, and the Army is identifying funding sources to allow it to increase their numbers commensurate with the workload associated with a larger operational force. About 52 percent of the Army civilian workforce is within the discretionary control of the Army. The remaining 48 percent are subject to various statutory constraints or funding sources external to the Army and fall into the following categories: 1) 11.6 percent are paid through the working capital fund (pursuant to 10 USC 2208); 2) 9.5 percent are foreign nationals who are employed through country specific international agreements;

[6] *"The Army Force Generation (ARFORGEN) process is the Army's method for effectively and efficiently generating trained and ready forces for combatant commanders on a sustainable, rotational basis. As such, it synchronizes the Army's primary Title systems: manning, equipping, training, resourcing, sustaining, and modernizing - used to generate forces." 2009 Army Posture Statement, found at http://www.army.mil/aps/09/information_papers/army_force_generation_process.html on November 4, 2009.*

Table 6. Individual Training

	Basic Combat Training (BCT)	One Station Unit Training	Advanced Individual Training	Basic Officer Leader Course	Officer Candidate School	Warrant Officer Entry Course	Initial Entry Rotary Wing
2008 Trained (reported)	65,262	21,252	74,041	13,594	1,518	2,606	653
2008 Trained (actual)	81,274	32,132	96,557	16,930	1,953	2,769	993
2009 Trained (interim)	**62,994**	**22,330**	**80,537**	**14,734**	**1,848**	**2,351**	**665**

NOTES: These data represent AC Army, ARNG and USAR students graduating from active component schools. All data are based on start date (i.e., if a class starts in FY 2008 and graduates in FY 2009 it is counted in the FY 2008 data). For example, the initial basic training class that started in July 2009, but graduated after October 1, 2009 counts as a FY 2009 trained Soldier and is not part of the numbers in the shown table Soldier and is not incorporated in the table data.

2008 Trained (reported) data as of October 15, 2009.
2008 Trained (actual) data as of September 25, 2009.
2009 Trained (interim) data as of September 25, 2009.

3) 13.2 percent are military technicians; and 4) 13.9 percent are externally funded (to include Defense health programs, special operations, intelligence, foreign military sales, and counterdrug programs). In addition, there are 22,232 employees separately funded by the Civil Works and Cemetary appropriations.

Since September 11, 2001, the civilian workforce has increased from 222,000 to 273,434 at the end of FY 2009. The increase is in response to OCOs, military-to-civilian conversions, military technician increases, Defense health program increases and in-sourcing contracts associated with inherently governmental functions. In-sourcing is pursuant to 10 USC 2330a (as amended by section 807 of the National Defense Authorization Act for Fiscal Year 2008) and 10 USC 2463, as enacted by section 324 of the National Defense Authorization Act for Fiscal Year 2008. Future civilian employee growth is critical to supporting current plans to grow the Army to 73 BCTs and associated combat support and combat service support units by FY 2011. The civilian workforce provides 51 percent of the capability in the Army's generating force, which is critical to the Army's training, manning, power projection, equipping, medical support, reset, support to Soldiers and families, base support, acquisition, and management functions.

The Army currently faces challenges to identify enduring funding sources for these increased missions that are being absorbed by civilian employees, which is reflected by 26,967 over-hires as of the end of FY 2009. Some of this will be mitigated through increased authorizations in FY 2010. As a result of the corrective actions identified in the Army's 10 USC 129 certification for calendar year 2008, the Assistant Secretary of the Army (Manpower & Reserve Affairs) requested that the Army Auditor General review the management controls for over-hires within the Army. The intent is to institute management controls on the hiring process to align enduring missions and funds better with the hiring of permanent positions and to restrict other hiring to term or temporary employment.

Training Soldiers

Initial entry training develops the Soldier's war fighting capability through individual warrior tasks and battle drills. Every six months, the Army reviews and updates these tasks and drills to ensure that training is relevant to today's environment. The Army's training centers and schools increased student inputs in FY 2009 by 5.1 percent compared to FY 2008. This increase was tied to the Grow the Army initiative to achieve AC end strength of 547,400.

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

In FY 2009, the Army continued to provide foreign language training for all four Services and other DoD activities conducting basic qualification, intermediate, and advance language training.[7] The Defense Language Institute Foreign Language Center continued to execute the Proficiency Enhancement Program which enabled students

[7] *The Army serves as the executive agent for the Defense Language Institute Foreign Language Center.*

A mass airborne operation involving more than 1,000 Soldiers of the 75th Ranger Regiment begins the biennial Ranger Rendezvous at Fort Benning, GA.

Table 7. Ground and Air Operational Tempo (OPTEMPO)

	FY 2006	FY 2007	FY 2008	FY 2009 Goal	FY 2009 Actual
AC Ground OPTEMPO (Mileage)	666	729	500	547	561
AC Air OPTEMPO (Flight Hours)	12.6	12.8	12.4	12.3	10.0
ARNG Ground OPTEMPO	139	127	150	120	120
ARNG Air OPTEMPO	4.7	10.1	9.7	6.6	9.4
USAR Ground OPTEMPO	169	138	152	137	137
USAR Air OPTEMPO	8.7	9.7	8.1	6.6	5.0

NOTE: FY 2006 through FY 2008 reflects home-station execution only. FY 2009 amounts are estimates based on execution as of September 2009.

Table 8. MILCON Range Projects

	FY 2006	FY 2007	FY 2008	FY 2009
Range MILCON Projects	30	37	26	17

to achieve higher levels of language proficiency through smaller instructor-to-student ratios in the classroom. The Army is also using its foreign language training detachments to assist its professional military education institutions. Culture topics have been imbedded into training throughout Army schools.

Training Units

In FY 2009, the Army provided trained and ready forces to commanders around the globe in addition to meeting critical homeland defense missions. To make sure Soldiers were combat-ready in FY 2009, the Army engaged in an appropriate mix of live, virtual and constructive training. The AC and RC executed a focused and demanding ground and air training plan, which included actual miles driven and hours flown, as well as virtual miles and hours associated with the use of simulators. In FY 2009, home-station training miles and hours executed were impacted by the limited dwell times between rotations, the impacts of equipment reset requirements and un-programmed changes in unit deployment schedules into theater.

Training Support Systems

The Army's training support systems (TSS) enable the execution of training at home stations, Combat Training Centers (CTCs) and at Training and Doctrine Command (TRADOC) schools by creating realistic conditions that reflect the operational environment. These critical training enablers include ranges and targets; live, virtual, constructive, and gaming training aids; devices; simulations and simulators; instrumentation systems; training facilities; and training support operations.

The Army continues to adapt its TSS to support ARFORGEN training requirements and lessons-learned from current operations. At home stations, training must expose Soldiers, leaders, and units to the full spectrum of possible conflict under realistic conditions. Ranges are being modernized to integrate digital systems that allow crews and platoons to train as they fight. New ranges are being built to support gunnery requirements in accordance with the Army Campaign Plan[8] and urban operations training facilities are being constructed and fielded to provide units a complex urban-area training capability. This live training environment will be further enhanced with a home-station instrumentation training system that links ranges, urban complexes, and training areas.

New and improved live, virtual, constructive, and gaming training aids, devices, simulations and simulators are being fielded to augment training against improvised explosive devices (IEDs). Virtual simulators, IED simulators, gaming simulations, and convoy live-fire systems provide a complete

[8] *"The Army Campaign Plan provides direction for detailed planning, preparation and execution of the full range of tasks necessary … while maintaining the quality of the all-volunteer force." Found at http://www.army.mil/thewayahead/acp.html on October 26, 2009.*

Table 9. Professional Development (AC Schools Only)

	Warrior Leader Course	Advanced Leader Course	Senior Leader Course	Sergeants Major Course Resident/DL	Intermediate Level Education Resident/ Common Core	Senior Service College Resident/DL
2008 Trained (reported)	26,457	10,817	9,792	0/779	0/508	609/474
2008 Trained (actual)	27,272	12,087	10,242	592/780	957/739	443/389
2009 Trained (interim)	**26,100**	**11,514**	**10,368**	**0/466**	**0/595**	**444/389**

NOTES: These data represent AC Army, ARNG and USAR students graduating from AC schools. The 2009 resident Sergeants Major Course does not graduate (545 inputs) until May 2010. The 2009 Resident ILE classes do not graduate (1,108 inputs) until December 2009 and June 2010. All data are based on start date (i.e., if a class startes in FY 2008 and graduates in FY 2009 it is counted in the FY 2008 data). Distance learning training is represented by DL in the table.

2008 Trained (reported) data as of October 15, 2008.
2008 Trained (actual) data as of September 25, 2009.
2009 Trained (interim) data as of September 25, 2009.

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

—General George Casey, Chief of Staff of the Army

package for battle drills, learning tactical techniques and procedures, and generally raising IED situational awareness.

The Army also is modernizing its battle command training centers (BCTCs) and training simulations to increase leader and battle-staff training and to improve mission-rehearsal capabilities for deploying units. The BCTCs provide units the ability to train and to sustain critical individual, operator, and battle-staff skills on digital command, control, communications, computer, intelligence, and surveillance and reconnaissance systems. The BCTCs will also network with other installations and simulations to support joint training exercises.

Army training modernization must continue to keep pace with equipment modernization and Army transformation to meet expeditionary readiness requirements.

Adapting Training

The Army conducted 24 rotations at CTCs in FY 2009. The CTCs provide realistic joint- and combined-arms training that approximates actual combat in accordance with Army and Joint doctrine. The CTCs are at the core of the Army's collective training strategy and have dedicated resources beyond those available at home-station training sites. Training is specifically tailored to prepare units for the conditions in the theater to which they will deploy. While the CTCs have retained the capability for high-intensity unit training needed for other potential theaters of war, the current training focus is counter-insurgency operations and lessons from combat in Iraq and Afghanistan. The CTC training environment emphasizes rapid change and adaptation to current activities. This is accomplished by using improved facilities, civilians on the battlefield, and realistic scenarios. The complex, event-driven scenarios challenge the BCTs to execute multiple, simultaneous missions that include integrated enablers from the Army and the joint community.

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

Table 10. Civilian Professional Development

	Senior Service College	The Industrial College of the Armed Forces (ICAF)	Civilian Education System
2009 Inputs	12	9	11,066

Growing Adaptive Leaders

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

(1) Incorporate cultural awareness training and education into all levels of professional military education (PME);

(2) Develop expertise in irregular warfare and full-spectrum operations for Soldiers and leaders from the tactical to strategic level, emphasizing multinational, interagency, and Joint operations; and

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

Due to the current high operational demand, many of the Army's leaders are unable to attend their PME at the optimal time in their careers. As a result, the Army has a large backlog at nearly all educational levels in both the AC and RC. The Army employs mobile training teams for Noncommissioned Officer Education System courses, and has increased the use of distributed learning in order to conduct PME within the constraints of ARFORGEN to slow the growth of the backlog. As mission requirements change, the Army expects the availability of leaders to attend PME to increase sufficiently to begin reducing the backlog.

The Civilian Education System (CES) will meet the Secretary of the Army's mandate that leaders of tomorrow be adaptable and multi-skilled. This requires a new paradigm and a centralized development program for training and educating the Army's future leaders, who will serve in both operational and institutional capacities in order to operate, and win, in this new environment.

The Army is keenly aware of the valuable contributions of its Civilian Corps[9] in supporting the National Military Strategy. The Army must provide its civilians training, education and operational experiences to develop leader competencies and enhance their ability to support Soldiers, the Army, and the nation. To accomplish this, the Civilian Leader Development Program has been revamped into a system that is similar to the military leader development program.

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

In October 2009, CES will complete its second full year. The training is producing adaptive, multi-skilled and innovative leaders, who are proficient in all disciplines—not just those disciplines in which they specialize. Looking toward FY 2010 and beyond, CES will provide the training and education underpinnings of the new holistic Enterprise Civilian Human Capital Lifecycle Management System, which will manage the workforce across the life cycle from an enterprise perspective to meet national security and enterprise needs efficiently.

Modernizing and Equipping the Army to Increase Strategic Depth

The Army's Soldiers and commanders rely on, and deserve, the very best equipment that can be provided, and they

[9] *Established June 10, 2006, additional information available at http://cpol.army.mil/library/general/acc-memo.html. Found on October 26, 2009.*

play a large role in setting Army requirements. Since FY 2002, the Army has shifted resources in response to the many lessons learned from Operations Iraqi Freedom and Enduring Freedom. Force protection, communications, surveillance and weapon systems programs were accelerated to meet Soldiers' urgent needs. To modernize the force, the Army invested in a variety of new equipment to replace outdated and expensive-to-maintain equipment, including trucks and aircraft. For example, the Army expects to divest its 2.5-ton M35-series trucks by the end of FY 2011, replacing them with both armored and unarmored variants from the family of medium tactical vehicles.

The Army also has accelerated the fielding of the M4 Carbine, enhanced night vision devices, and continued efforts to provide Soldiers the very best body armor. To address a unique operational requirement, the Army invested in the Mine Resistant Ambush Protected (MRAP) vehicle. The Army's aviation fleet was significantly modernized through procurements of UH-60M Black Hawk, CH-47F Chinook, and AH-64D Apache helicopters. In FY 2009, the Army ended the Future Combat System (FCS) program and began devising a modernization strategy made up of separate programs to give today's Soldiers the most advanced systems possible. The Army is pursuing many of the technologies developed under FCS—such as unmanned air and ground vehicles, but, those efforts will now be called Army BCT modernization. There is also the new ground combat vehicle (GCV) program. The GCV effort will initiate the modernization of the Army's fighting vehicles.

The Rapid Fielding Initiative (RFI) continues to enhance warfighting capabilities by using commercial-off-the-shelf (COTS) technology, rather than waiting for acquisition programs, to address Soldier requirements and shortfalls. Twenty-four BCTs and numerous other OCO deploying units in the ARFORGEN operating cycle comprising 248,542 Soldiers were fielded RFI equipment during FY 2009.

The rapid equipping force (REF) rapidly provides capabilities to Army forces employed globally through current and emerging technologies to improve Soldier operational effectiveness. The REF's priority is at the deployed brigade and BCT level, focusing on COTS and government-off-the-shelf solutions to increase effectiveness and reduce risk. The REF maintains forward-deployed teams in Iraq and Afghanistan to interact with deployed units to identify, equip and evaluate their requirements and capability shortfalls. The REF has introduced over 785 different types of equipment and provided more than 80,000 individual equipment items to deployed Soldiers and units.

The Army continues to invest in the ARNG and USAR to enhance their mission capabilities and to ready forces entering the ARFORGEN cycle for deployment. The fleet age[10] of trucks, combat vehicles, communications systems, and Soldier weapons continues to decline as new equipment is fielded to the RC. Army National Guard and USAR forces preparing to deploy are fielded with the very best modernized equipment, reducing the disparity in modernization between the AC and RC—a critical goal in the effort to create strategic depth and operationalize the RC.

Reset

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

Reset and Repair Army Units and Equipment

In FY 2009, the reset phase was highly successful despite a dynamic strategic environment. For the fiscal year, the Army received $13.5 billion in OCO funding from the Congress for reset. The Army aggressively executed this funding to restore units' equipment readiness. The Army obligates the majority of procurement funding within 90 days of receipt, while Army Operation and Maintenance appropriation obligations occur throughout the fiscal year as the equipment returns. The Army completed the reset of

[10] *Fleet age refers to the average age for each equipment type mentioned.*

29 brigades' worth of equipment during the fiscal year, and began the reset of 17 more brigades' worth of equipment as surge forces started to return.

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

Enhancing Logistics Readiness

The Army's logistics information technology (IT) transformation objectives are paramount to modernizing the force and supporting the warfighter. The Army also must ensure that logistics information systems seamlessly interoperate with associated systems in other functional areas, such as finance, personnel, medical, transportation, and command and control. The Army has a three-tiered strategy: 1) continue support to legacy systems still in the field; 2) replace legacy systems with modernized bridging systems[11], as required; and 3) implement enterprise resource planning solutions, the Logistics Modernization Program (LMP), the Global Combat Support System—Army (GCSS-Army) and Product Lifecycle Management Plus.

Key FY 2009 accomplishments:

(1) The GCSS-Army completed a successful operational assessment of the supply module at the National Training Center and is working towards an assessment of release 1.1 in July 2010.

(2) The Aviation and Missile Life Cycle Management Command, Corpus Christi Army Depot (CCAD), and Letterkenny Army Depot deployed LMP.

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

(4) Bridging systems were fielded to 90 percent of the total Army and are on track to complete fielding by the end of FY 2010.

[11] Bridging systems are interim solutions used as the Army moves toward a single logistics enterprise.

Soldiers equip their Common Remotely Operated Weapon Station II with an M2 .50 Caliber Machine Gun as they familiar themselves with the new weapon system during their training.

Together, these initiatives provide more effective support for Soldiers on the front lines of OCOs, put logistics management practices in line with world-class businesses, and provide the Army the tools necessary to manage one of the most valuable and complex logistics systems in the world.

In FY 2009, more than 87,000 items were repaired at depot-level facilities. This includes more than 2,700 tracked vehicles (e.g., Abrams tanks, Bradley fighting vehicles, M88 recovery vehicles), more than 2,500 tactical wheeled vehicles (e.g., HMMWVs, medium and heavy tactical vehicles), and more than 22,000 individual and crew served weapons (e.g., rifles, pistols and machine guns). Meanwhile, Army special repair teams brought additional depot-level expertise to the field, completing the repair of over 150,000 items including small arms, night vision devices and communications electronics, as well as chemical and biological gear. The Army's aviation special technical inspection and repair program restored more than 400 fixed- and rotary-wing aircraft to combat capability.

Transform

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

Growing and Modularizing the Army

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

The Army modular force reorganizes the operational Army into Army service component commands, theater support structures, corps and division headquarters, BCTs and multi-functional and functional support brigades, all based on standardized organizational designs across the AC and RC. The intent of this transformation is to:

(1) Increase the number of available BCTs to meet operational requirements;

(2) Create brigade-size combat support and combat service support formations of common organizational designs; and

(3) Redesign organizations to perform as integral parts of the joint force, making them more effective across the range of military operations and enhancing their ability to contribute to Joint, interagency, and multinational efforts.

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

General George Casey, Chief of Staff of the Army

The Army is increasing its operational end-strength in order to man the modular force. In 2009, the Congress authorized the Army a temporary end-strength increase of 22,000 Soldiers, growing the AC authorization from 547,400 to 569,400.

Of the 44 AC maneuver brigades programmed for the end FY 2009, the Army converted 39 to the modular design and was in the process of converting another 3. The conversion process can take up to 12 months for an AC heavy BCT and infantry BCT, and as long as 24 months for a Stryker BCT.

The ARNG began transforming in FY 2005 with an accelerated plan allowing early reorganization, manning, and training under the new BCT designs. Transformation for an ARNG BCT can take as long as 48 months. At the end of FY 2009, the ARNG was in the process of transforming 21 BCTs. The ARNG fully converted seven BCTs in FY 2009 and will complete another seven by the end of FY 2010.

The overall transformation plan is on track to achieve a combined total of 73 BCTs—45 in the AC and 28 in the ARNG. The initial transformation covers training, manning, and organization only; equipment transformation will occur over time. Table 11 provides a summary of BCT transformation.

Table 11. BCT Transformation Summary

	FY 2007	FY 2008	FY 2009
AC Transformed	35	38	39
ARNG Transformed	0	0	7
Total Transformed	35	38	46
AC Transforming	4	2	3
ARNG Transforming	26	28	21
Total Transforming	30	30	24
Total Transformation	65	68	70

Transformed means the unit has completed its initial reorganization and re-equipping to a modular design within resource constraints, is participating in the ARFORGEN process and may be used against a requirement.

Transforming means the unit is still undergoing initial reorganization and re-equipping to a modular design within resource constraints.

Army's Modernization Strategy

The Army's modernization strategy incorporates the lessons learned from eight years of war. The Army accelerated the fielding of capability packages from the former FCS program to all 73 BCTs; halted the development and procurement of FCS manned ground vehicles; canceled the development and procurement of the non-line of sight cannon; started development of a new GCV; and provided an incremental delivery of the BCT network. The Army's goal is to build a versatile mix of tailorable and networked organizations, operating on a rotational cycle, to provide a sustained flow of trained and ready forces for full spectrum operations, and to hedge against unexpected contingencies at a sustainable tempo for our all-volunteer force.

LandWarNet Operational Capabilities

To support an expeditionary Army, the Army is fundamentally changing and adapting our institutions—including LandWarNet (LWN)—the Army's portion of the global information grid. Over the next three years, using the global network enterprise construct (GNEC), the Army will transform LWN to a centralized, more secure, operationalized and sustainable network capable of supporting an expeditionary Army in this era of persistent conflict. The GNEC is the focused, timed-phased, prioritized, resource sensitive, Army-wide strategy to transition LWN from many loosely-affiliated independent networks into a truly global capability that is designed, deployed, and managed as a single integrated enterprise. A fundamental issue in transforming LWN is to improve the ability to provide assured and available battle command network capabilities for the maneuver formations whether they are located in the continental United States (CONUS) or as reach back in support of expeditionary operations abroad. Transforming LWN to an enterprise activity requires globally aggregating Army networks and synchronizing LWN activities with other Army processes like ARFORGEN, Base Realignment and Closure (BRAC), Global Defense Posture Realignment (GDPR), and the Pacific transformation.

Developing the Global Network Infrastructure

The foundation for the global network is the capability of a network service center (NSC). The Army started deploying NSCs by theater with Europe in FY 2009, with plans for CONUS and Southwest Asia in FY 2010, and completing Western Pacific NSC deployments in FY 2011. The NSC deployment in FY 2009 was on schedule. A major component of NSCs is the fixed regional hub node fielded to support inter- and intra-theater communication requirements and to provide failover[12] and global continuity of operations programs. The recent NSC operational validation done during Austere Challenge[13] successfully demonstrated that NSCs can host battle command applications out of area processing centers (APCs) on behalf of a brigade-level organization, enabling fight-upon-arrival capabilities and enhanced continuity of operations. The Army intends to consolidate IT services APCs at the enterprise level that include data, applications and IT hardware with the goal of reducing the total cost of ownership across LWN. The end-state includes a mixture of acquired managed services and Army-owned APCs, with up to six APCs. In FY 2009, the Army started a critical step in the centralized management of IT resources and network defense improvements with the re-alignment of information management organizations. The Army made an initial investment in network operations (NetOps) capabilities in FY 2009. This investment provided significant resources to close computer network defense gaps in the CONUS network and standardize critical network management tools to facilitate the further federation and consolidation of the LWN. The Army will continue to support the procurement and deployment of command and control NetOps capabilities in FY 2010.

Developing Force Generation Platforms in Support of ARFORGEN

Two deployment infrastructure projects were executed in FY 2009 both projects support the flagships of readiness[14] concept using grow the Army funding. The first project, a railhead improvement project at Fort Lewis, improves rail out-loading of vehicles, ammunition, and other cargo. The upgrade at the rail interchange yard increases throughput of Army equipment and cargo from 180 railcars to 240 railcars per day. This growth facilitates meeting deployment timelines to Europe, Africa, and the Middle East when ship loading occurs at Norfolk, Virginia, Fort Lewis' designated secondary seaport of embarkation. This project, a carry-over from FY 2008, was completed in October 2009.

The second project, a rail line bypass project at Fort Riley, was initiated in August 2009 and is 20 percent complete. This project provides a mainline bypass for commercial trains so that commercial rail traffic does not interfere with rail operations at Fort Riley. Commercial rail traffic has increased in recent years due to increased shipments of coal from the west, and the increase in commercial trains interferes with the ability of Fort Riley to move railcars for loading and train building operations, thereby decreasing rail out-loading. This project is expected to improve rail out-loading from the current 157 railcars to 400 railcars per day potentially. Project completion is estimated for July 2010.

Implementing BRAC

The intent of BRAC 2005 was to support the Army's transformation by positioning assets to support our missions, Soldiers, civilians and their families better. The BRAC 2005 also accommodates the rebasing of overseas units within the GDPR basing strategy, and divests an accumulation of installations that are either no longer relevant or are less effective in supporting a joint and expeditionary Army.

In partnership with its sister services, the Army is using BRAC 2005 to transform RC infrastructure to create more operational opportunities for joint training and deployment. This transformation will create efficiencies in core Army business processes.

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

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[12] "The ability to switch automatically, without human intervention, to a redundant or standby computer server or system upon the failure or abnormal termination of the previously active application, server, or system." Definition provided by Army CIO/G-6 on November 4, 2009.

[13] Austere Challenge is an annual joint exercise that enables U.S. European Command service components to plan and execute full spectrum operations as a joint task force headquarters. Found at http://www.army.mil/standto/archive/2009/05/22/ on November 10, 2009.

[14] Installations serve as flagships of readiness supporting Soldiers where they live, work, train, mobilize and deploy. Found at http://www.army.mil/institution/leaders/modplan/2007/AMP07 AnnexF.pdf on October 26, 2009


A Soldier checks equipment on a CH-47 Chinook helicopter at Entebbe airfield.

The BRAC 2005 is more than three-times larger than the four previous Army BRAC rounds combined. The Army is in the fourth year of the six-year BRAC 2005 execution window and continues to implement its $18 billion portion (53 percent) of the overall DoD BRAC program aggressively. The Army developed 102 business plans to define the BRAC 2005 Commission recommendations, further including more than 1,100 actions. These actions represent the requirements to achieve full implementation. A majority of the BRAC 2005 actions are dependent on construction at gaining installations, with 75 percent of the total resources dedicated to funding 324 major construction projects valued at $14 billion. In FY 2009, the Army awarded 88 construction projects valued at $3.7 billion, adding to the 150 projects already awarded in FY 2006 through FY 2008. To date, the Army has completed 57 of these projects. The Army also completed 175 National Environmental Policy Act actions, closed 4 active installations and 22 USAR centers and disposed of 1,160 excess acres from BRAC 2005 properties.

The program is on track to meet the September 2011 deadline. With over 250 construction projects still to be completed, and over 800 unit or activity moves remaining, successful execution of BRAC 2005 remains an Army leadership priority.

In-sourcing program

According to the accounting system, contracted services comprise a growing proportion of the Army's top line, growing from about $20 billion in constant dollars prior to the September 11 attacks, to over $60 billion in FY 2009 constant dollars today. There is a consensus at the strategic level that the Army's reliance on contractors is out of balance. Specifically, there are concerns that the Army may have contracted inherently-governmental functions and that it has eroded organic intellectual capital required for proper oversight of contracted work.

In response to this challenge, the Army established a contractor inventory review process—to identify appropriate in-sourcing candidates—that was endorsed by the Congress and which set the standard for other DoD components. To date, this process has identified about 41,000 positions performing tasks closely associated with inherently-governmental functions. In FY 2009, the Army saved $41 million by in-sourcing more than 900 core-governmental functions to Army civilians. The Army plans to in-source 7,162 positions in FY 2010, and is programmed to in-source 11,084 positions from FY 2011 through FY 2015. Most of these functions are closely associated with inherently-governmental functions, and 3,988 are acquisition related. This exceeds the Secretary of Defense's goals for all years from FY 2010 through FY 2015.

Implementing Business Transformation Initiatives

The Army actively advanced along its business transformation path in FY 2009. The spearhead for business transformation is the Army's Enterprise Task Force (ETF). The ETF was formed to ensure strategic alignment, continuity of effort, and enterprise prioritization and to facilitate institutional adaptation. The ETF is charged with achieving three objectives through institutional adaptation: 1) Improvement of the ARFORGEN process; 2) Adoption of an enterprise approach by creating a unified set of functionally aligned and inclusive senior collaborative forums, embedding *best for the Army* thinking, creating a cost and performance culture and implementing an enhanced assessment capability to support our most senior decision makers; and 3) Reform of requirements and resource processes. As an important step forward, in FY 2009 the generating force began aligning functionally into four core enterprises, each with its own senior coordination and advisory forum. This alignment is intended to improve the management and synchronization of Title 10 functions.

The Army is reviewing every one of its core business processes to support its forces better, to reduce waste, and to improve quality in every aspect of its activities. The Army is using the Lean Six Sigma (LSS) approach to achieve these aims. The ultimate goal is to take a holistic view of leadership, problem-solving and decision-making mechanisms, synchronize them to better align processes, procedures and organizations, resulting in maximized efficiency and effectiveness across the entire Army.

In FY 2008, the ETF took over management of the Army's ongoing LSS program as part of its overall responsibility to transform the generating force through institutional adaptation. The Army chose LSS as its continuous process improvement (CPI) methodology. Lean focuses on removing waste, while Six Sigma reduces variation and produces a consistently reliable product, thereby increasing quality. The Army selected LSS because its methodology is applicable to the vast majority of Army process-improvement opportunities. It also provides a common business lexicon that both increases the business acumen of the workforce and creates a common framework within which to discuss, report and approach process improvement. This commonality is critical to leveraging and replicating work done by one individual or an entire organization. Progress in FY 2009 validated the Army's approach to CPI.

To this end, in FY 2009 the Army trained 67 Master Black Belts, 540 Black Belts, 1,053 Green Belts[15] and completed 1,326 LSS projects. These projects have resulted in freeing up human capital for more compelling needs, providing better decision making aids for senior leaders, and more efficiently applying constrained resources throughout the force.

Additionally, the Army continues to develop and field modern and efficient system solutions that streamline various business processes including financial, real property, and cost and accounting across the enterprise. The General Fund Enterprise Business System (GFEBS) is the centerpiece of this effort as it transforms business processes to enable better-informed decisions, better resource management, and better support of the warfighter. The GFEBS integrates funding, real property management, financial, cost, and related output and performance data from functions and organizations across the Army. The GFEBS is a Web-based system with real-time visibility of data for the AC, the ARNG, and the USAR. This solution will enable the Army to move to a cost and performance culture. The GFEBS remains on-schedule and on-budget to be completed in FY 2012. During FY 2009, the Army deployed GFEBS functionality to users at Fort Jackson, Fort Stewart, Fort Benning, headquarters (HQ), the Southeast Region of Installation Management Command, and certain users at HQ TRADOC, HQ Forces Command, HQ Department of the Army, and the Defense Finance and Accounting Service.

The Army is also working to establish a cost and performance culture in which leaders understand the full cost of the capabilities they provide better and incorporate cost considerations in their planning and decision making processes. This approach will enable the Army to achieve its readiness and performance objectives more efficiently. To support this effort, the Army is executing aggressive plans to provide new top-notch education and training programs for flag officers and senior civilians to give them the business acumen necessary to lead the Army enterprise.

Conclusion

The Army is involved in a difficult but essential transformation. It is simultaneously and significantly increasing its permanent end strength; accelerating formation of new BCTs; converting the remaining legacy force to modular designs; modernizing equipment, which includes fielding improved weapons systems; and carrying out the most significant restationing in decades. It is doing all this while at war. To support these efforts, the Army's financial managers are balancing resources among a myriad of competing, but critical, demands.

Implementing the Chief of Staff's four imperatives to bring the Army back into balance will take several years, considerable resources and the continued support of the Congress and the American people. The challenge is to establish balance between current readiness and future investments, while keeping risk at moderate levels as the Army supports its global commitments and maintains people programs to improve the quality of life for our Soldiers and their families. The resources and support provided in FY 2010, and beyond, will determine whether the Army can continue to accomplish its mission, maintain the momentum of key programs, accelerate critical aspects of transformation, and prepare Soldiers to deal with whatever they may face today and tomorrow.

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

[15] *The terms Master Black Belt, Black Belt, and Green Belt represent ranks used by the LSS Program.*

Analysis of Financial Statements and Stewardship Information

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

GF Financial Results and Balance Sheet

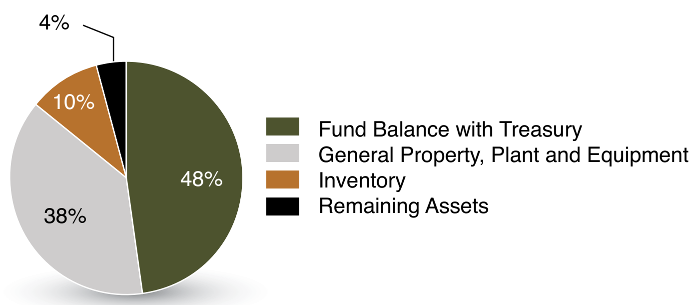
The Army GF balance sheet includes total assets of $338.8 billion. Two asset categories, Fund Balance with Treasury and General Property, Plant and Equipment (GPP&E), comprise 86 percent of total assets, with values of $163.4 billion and $128.9 billion, respectively.

Liabilities primarily consist of $37.4 billion in Environmental Liabilities and $15.8 billion in Accounts Payable.

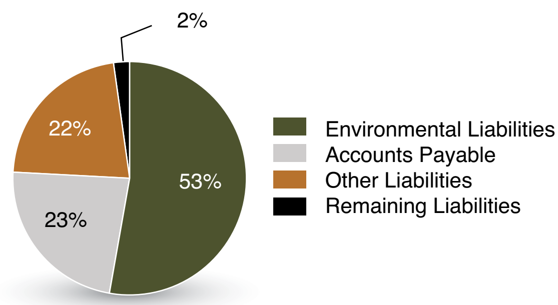
Army WCF Financial Results

The Army WCF activities maintain the Army's combat readiness by providing supplies, equipment, and ordnance necessary to prepare, sustain and reset our forces in the most

Figure 2. Composition of GF Assets and Liabilities



General Fund Assets



General Fund Liabilities

The GPP&E account increased $17.0 billion due to additions of military equipment (e.g., MRAP, HMMV, Stryker vehicles).

Table 12. Select GF Assets and Liabilities

(Amounts in billions)

Asset Type	FY 2009	FY 2008	Change	Percentage of FY 2009 Assets
Fund Balance with Treasury	$163.4	$163.3	$0.1	48%
General Property, Plant and Equipment	128.9	111.9	17.0	38%
Inventory	34.5	40.1	(5.6)	10%
Remaining Assets	12.0	10.5	1.5	4%
Total Assets	**$338.8**	**$325.8**	**$13.0**	**100%**

Liability Type	FY 2009	FY 2008	Change	Percentage of FY 2009 Liabilities
Environmental Liabilities	$37.4	$42.5	($5.1)	53%
Accounts Payable	15.8	14.6	1.2	23%
Other Liabilities	15.5	15.8	(0.3)	22%
Remaining Liabilities	1.3	1.5	(0.2)	2%
Total Liabilities	**$70.0**	**$74.4**	**($4.4)**	**100%**

Amounts may not sum due to rounding.

Table 13. WCF Cash

(Amounts in millions)	FY 2007	FY 2008	FY 2009
Collections	$15,256.7	$16,352.9	$16,676.7
Disbursements	(14,335.0)	15,934.9	17,421.0
Net Outlays	$921.7	$418.0	($744.3)
Appropriations Received	627.8	1,324.4	545.4
Transfers Out	145.7	1,450.0	1,023.0
Net Cash Transactions	$1,403.8	$292.4	($1,221.9)
Cash Balance	$2,279.1	$2,571.4	$1,349.5

Amounts may not sum due to rounding.

Table 14. Net and Accumulated Operating Results by Activity Group

Operating Results

(Amounts in millions)	FY 2007	FY 2008	FY 2009
Industrial Operations NOR	($117.7)	$158.8	($31.6)
Industrial Operations AOR*	$324.7	$481.5	$462.6
Supply Management NOR	$489.3	$411.0	$226.0
Supply Management AOR	$452.6	($56.4)	$169.6

** Includes prior-period AOR adjustments.*

efficient and cost-effective manner possible. In performing this mission, WCF activities are obligated to control and minimize costs. Financial performance is measured through cash management, net operating results (NOR) and accumulated operating results (AOR). Operational performance is measured by carryover, stock availability, and production.

Cash Management

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

Sufficient cash levels should be maintained to support seven-to-ten days of operational disbursements, plus cash adequate cash to meet six months of capital investment program disbursements, plus the amount of any positive accumulative operating results that is to be returned to customers.

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

The WCF ended FY 2009 with a cash balance of $1,349.5 million, $364.8 million above the 10-day cash level of $984.7 million. The WCF cash balance will return to a balance closer to the 10-day level when operations in Iraq and Afghanistan decline, and payments associated with the delivery of replacement stocks and the repairs of spares are higher than inventory sales.

Table 13 shows an overall growth in cash from both operations and direct appropriations offset by transfers out. The WCF received direct appropriations for war reserve materiel, inventory augmentation, replacement of inventory combat losses, and higher fuel costs. Transfers were made to several appropriations in support of urgent, unfunded combat requirements. At some point, part or all of the transfers will require repayment to ensure that the fund has sufficient cash on hand.

NOR and AOR

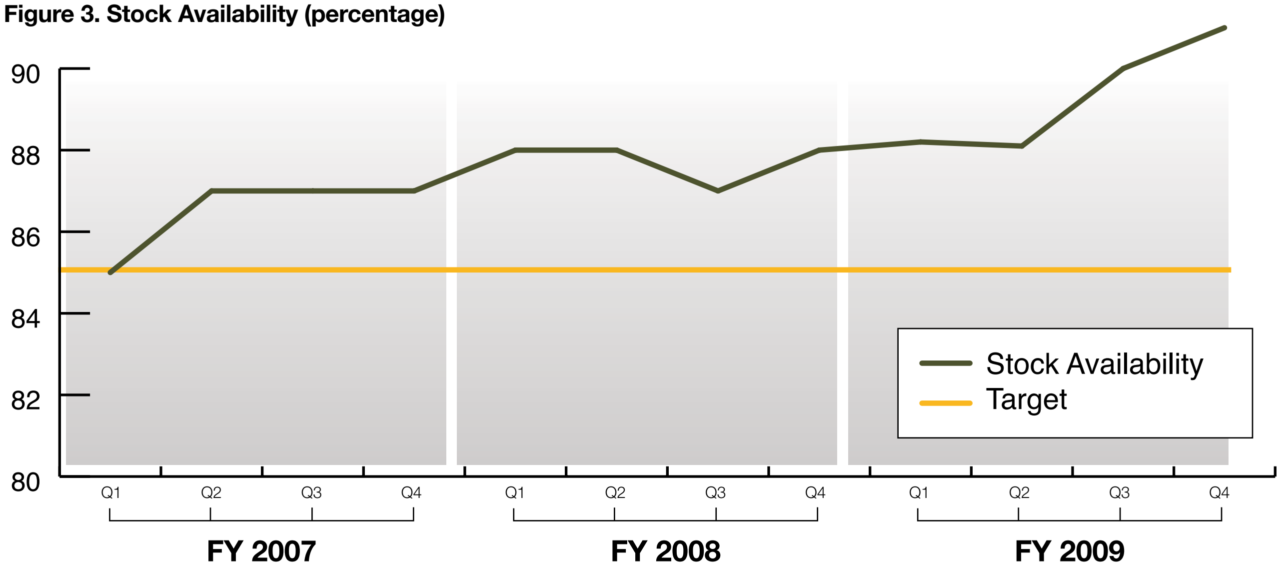
The NOR represents the difference between revenues and costs within a fiscal year. The AOR represents the aggregate of all recoverable net earnings, including prior-year adjustments, since inception of the WCF. The goal of the WCF is to establish rates that will bring the AOR to zero in

Table 15. Army WCF Carryover

(Amounts in millions)	FY 2007	FY 2008	FY 2009
New Orders	$6,850.3	$6,990.6	$6,393.1
Allowable Carryover	$2,752.4	$3,653.7	*
Carryover	$3,029.5	$2,862.1	*

** Amounts not available at time of printing.*

Figure 3. Stock Availability (percentage)



**4th Quarter FY 2009 percentage not available at time of printing.*

Table 16. Annual Production Throughput*

	Pre-War	FY 2007	FY 2008	FY 2009
Aircraft	4	66	82	70
Helicopter Engines	<200	>750	781	817
Bradleys	144	>850	1,038	1,384
HMMWVs	<100	9,344	9,471	9,813
Firefinder Radars	<1	49	50	30
Track Shoes	120,000	141,000	250,660	110,293

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

Aircraft and radar decreases in FY 2009 are due to fewer production requirements. Track shoe production levels have decreased from FY 2008 to FY 2009 due to a decrease in expected operational levels in Theater for the M1 and Bradley Fighting Vehicles. This is a result of the customer decreasing the requirements and is not related to any production issues.

the fiscal year. An activity group's financial performance is measured by comparing actual results to the budget's NOR and AOR.

Carryover

Carryover is the dollar amount of orders accepted from customers that have not been completed by the end of a fiscal year. It is a normal part of doing business; these orders enable the industrial workforce to maintain continuity in production operations. The Army expects carryover for FY 2009 to be less than the maximum allowable amount.

Stock Availability

Stock availability measures the percentage of requisitions filled within established timeframes. The DoD and Army have set a target of 85 percent stock availability. Since FY 2005, stock availability has remained high due to sufficient hardware funding levels, more accurate customer-demand forecasts, and inventory levels built to support combat operations.

Production

Although the industrial operations activity group is comprised of 13 activities, the preponderance of workload is performed at the five *hard-iron* maintenance depots. Major operations in Iraq and Afghanistan are placing tremendous demands on equipment. As a result of higher operating tempo, rough desert environments, and limited depot maintenance available in theater, operational fleets are aging at a far greater pace than expected. To counter this, the Army established a reset program designed to reverse the effects of combat stress on equipment and to prepare equipment for future missions. Industrial operations received $2.6 billion in reset orders, representing approximately 40 percent of FY 2009 new orders.

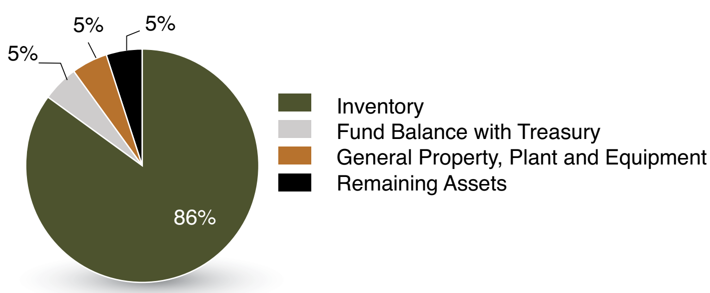
The Army's depots and their efforts to partner with industry are critical to the entire reset effort. These repair programs must continue through the end of the current conflict and for at least an additional three years to reconstitute equipment completely. Due to actions taken in support of wartime requirements, the industrial operations activity group has dramatically increased depot production over pre-war levels, as illustrated in Table 16.

The aircraft and radar decreases shown in FY 2009 of Table 16 are due to fewer production requirements. Track shoe production levels decreased from FY 2008 to FY 2009 due to a decrease in expected operational levels for the M1 and Bradley fighting vehicles. The drop in production is a result of the customer decreasing the requirements and is not related to any production issues.

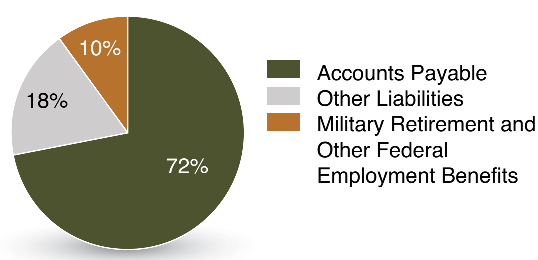
AWCF Balance Sheet

The AWCF balance sheet shows assets exceeding $27.0 billion, primarily in Inventory and Fund Balance with Treasury. Liabilities consist of Accounts Payable and Other Liabilities, which includes payroll, benefits, accrued annual leave, and workman's compensation.

Figure 4. AWCF Assets and Liabilities



Army Working Capital Fund Assets



Army Working Capital Fund Liabilities

Table 17. AWCF Assets and Liabilities

(Amounts in millions)

Asset Type	FY 2009	FY 2008	Change	Percentage of FY 2009 Assets
Inventory	$23,164.3	$20,279.7	$2,884.6	86%
Fund Balance with Treasury	1,349.5	2,571.4	(1,221.9)	5%
General Property, Plant and Equipment	1,260.2	1,097.7	162.5	5%
Remaining Assets	1,278.1	876.2	401.9	5%
Total Assets	**$27,052.2**	**$24,825.0**	**$2,227.2**	**100%**

Liability Type	FY 2009	FY 2008	Change	Percentage of FY 2009 Liabilities
Accounts Payable	$1,690.9	$1,031.5	$659.4	72%
Other Liabilities	422.1	443.0	(20.9)	18%
Military Retirement and Other Federal Employee Benefits	231.2	254.5	(23.3)	10%
Total Liabilities	**$2,344.2**	**$1,729.0**	**$615.2**	**100%**

Amounts may not sum due to rounding.

Required Supplementary Stewardship Information (RSSI) and Required Supplementary Information (RSI)

Stewardship information relates to expenditures involving a substantial investment by the Army for the benefit of the nation. When made, these expenditures are treated as expenses in the financial statements. Since these expenses are intended to provide long-term benefits to the public, they are reported as supplemental information in the financial statements.[16] There are four areas on which the Army reports stewardship information: 1) nonfederal physical property; 2) investments in research and development; 3) deferred maintenance; and 4) heritage assets and stewardship land.

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

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

Stewardship information is also comprised of deferred maintenance on real property and military equipment. Real property deferred maintenance relates to maintenance needed on Army facilities that has not been funded. At the end of FY 2009, the Army reported $32.0 million in deferred real property maintenance on facilities with a replacement value of $205.0 million. Real property deferred maintenance totals approximately 16 percent of estimated replacement value of the facilities requiring maintenance. The nine major categories of military equipment deferred maintenance totaled approximately $1,544.1 million at the end of FY 2009. Combat vehicles represented the largest category of deferred equipment maintenance at approximately $428.3 million.

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

Detailed information concerning most stewardship information may be found in the RSSI and the RSI sections of this report. Heritage assets and stewardship land are no longer reported in the RSI; they are now required to be reported in a note to the financial statements.[17] Additional information on heritage assets and stewardship land may be found in Note 10 of the Army General Fund statements.

[16] Federal Accounting Standards Advisory Board. Statement of Federal Financial Accounting Concepts and Standards (June 30, 2008). Statement of Federal Financial Accounting Standards 8: Supplementary Stewardship Reporting, page 740. Found at http://www.fasab.gov/pdffiles/codification_report2008.pdf on November 6, 2009.

[17] ibid. Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land, page 1149 and Technical Release 9: Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land, page 1544. Found at http://www.fasab.gov/pdffiles/sffas_29.pdf on November 9, 2009.

Limitations

Limitations of the Financial Statements

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

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

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

Department of Defense - Department of the Army

CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008 (Amounts in thousands)		2009 Consolidated		Restated 2008 Consolidated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	163,425,416	$	163,322,471
Investments (Note 4)		3,241		3,532
Accounts Receivable (Note 5)		530,847		499,668
Other Assets (Note 6)		1,401,723		430,932
Total Intragovernmental Assets	$	165,361,227	$	164,256,603
Cash and Other Monetary Assets (Note 7)		1,965,004		2,418,049
Accounts Receivable,Net (Note 5)		635,509		619,471
Loans Receivable (Note 8)		93		0
Inventory and Related Property,Net (Note 9)		34,497,598		40,134,982
General Property, Plant and Equipment,Net (Note 10)		128,946,696		111,908,995
Other Assets (Note 6)		7,439,337		6,495,961
TOTAL ASSETS	$	338,845,464	$	325,834,061
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	1,717,109	$	1,563,994
Debt (Note 13)		1,060		833
Other Liabilities (Note 15 & 16)		2,988,874		3,647,103
Total Intragovernmental Liabilities	$	4,707,043	$	5,211,930
Accounts Payable (Note 12)		14,116,803		13,022,675
Military Retirement and Other Federal Employment Benefits (Note 17)		1,325,170		1,472,383
Environmental and Disposal Liabilities (Note 14)		37,374,583		42,475,466
Loan Guarantee Liability (Note 8)		2,436		2,337
Other Liabilities (Note 15 and Note 16)		12,550,320		12,240,852
TOTAL LIABILITIES	$	70,076,355	$	74,425,643
NET POSITION				
Unexpended Appropriations - Other Funds		150,540,142		152,794,482
Cumulative Results of Operations - Earmarked Funds		57,671		52,946
Cumulative Results of Operations - Other Funds		118,171,296		98,560,990
TOTAL NET POSITION	$	268,769,109	$	251,408,418
TOTAL LIABILITIES AND NET POSITION	$	338,845,464	$	325,834,061

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

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2009 and 2008 (Amounts in thousands)	2009 Consolidated	Restated 2008 Consolidated
Program Costs		
Gross Costs	$ 218,783,106	$ 201,494,224
(Less: Earned Revenue)	(12,397,729)	(9,927,425)
Net Program Costs	$ 206,385,377	$ 191,566,799
Net Cost of Operations	$ 206,385,377	$ 191,566,799

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2009 and 2008 *(Amounts in thousands)*	2009 Earmarked Funds	2009 All Other Funds	2009 Eliminations	2009 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 52,946	$ 98,560,990	$ 0	$ 98,613,936
Beginning balances, as adjusted	$ 52,946	$ 98,560,990	$ 0	$ 98,613,936
Budgetary Financing Sources:				
Other adjustments (rescissions, etc.)	$ 0	$ 0	$ 0	$ 0
Appropriations used	0	229,618,909	0	229,618,909
Nonexchange revenue	12,308	0	0	12,308
Donations and forfeitures of cash and cash equivalents	6,426	0	0	6,426
Transfers-in/out without reimbursement	0	1,023,000	0	1,023,000
Other budgetary financing sources	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	(2,462,951)	0	(2,462,951)
Imputed financing from costs absorbed by others	0	1,067,410	0	1,067,410
Other (+/-)	(1,114)	(3,263,580)	0	(3,264,694)
Total Financing Sources	$ 17,620	$ 225,982,788	$ 0	$ 226,000,408
Net Cost of Operations (+/-)	12,895	206,372,482	0	206,385,377
Net Change	$ 4,725	$ 19,610,306	$ 0	$ 19,615,031
Cumulative Results of Operations	$ 57,671	$ 118,171,296	$ 0	$ 118,228,967
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 153,860,352	$ 0	$ 153,860,352
Correction of Errors	0	(1,065,870)	0	(1,065,870)
Beginning balances, as adjusted	$ 0	$ 152,794,482	$ 0	$ 152,794,482
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 228,203,093	$ 0	$ 228,203,093
Appropriations transferred-in/out	0	4,052,068	0	4,052,068
Other adjustments (rescissions, etc)	0	(4,890,592)	0	(4,890,592)
Appropriations used	0	(229,618,909)	0	(229,618,909)
Total Budgetary Financing Sources	$ 0	$ (2,254,340)	$ 0	$ (2,254,340)
Unexpended Appropriations	0	150,540,142	0	150,540,142
Net Position	$ 57,671	$ 268,711,438	$ 0	$ 268,769,109

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2009 and 2008 (Amounts in thousands)	2008 Earmarked Funds	Restated 2008 All Other Funds	2008 Eliminations	Restated 2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 24,621	$ 68,459,488	$ 0	$ 68,484,109
Beginning balances, as adjusted	$ 24,621	$ 68,459,488	$ 0	$ 68,484,109
Budgetary Financing Sources:				
Other adjustments (rescissions, etc.)	$ 0	$ 0	$ 0	$ 0
Appropriations used	0	214,010,532	0	214,010,532
Nonexchange revenue	10,843	0	0	10,843
Donations and forfeitures of cash and cash equivalents	7,325	0	0	7,325
Transfers-in/out without reimbursement	0	1,450,000	0	1,450,000
Other budgetary financing sources	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	2,578,457	0	2,578,457
Imputed financing from costs absorbed by others	0	948,408	0	948,408
Other (+/-)	26,346	2,664,715	0	2,691,061
Total Financing Sources	$ 44,514	$ 221,652,112	$ 0	$ 221,696,626
Net Cost of Operations (+/-)	16,189	191,550,610	0	191,566,799
Net Change	$ 28,325	$ 30,101,502	$ 0	$ 30,129,827
Cumulative Results of Operations	$ 52,946	$ 98,560,990	$ 0	$ 98,613,936
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 124,485,255	$ 0	$ 124,485,255
Correction of Errors	0	0	0	0
Beginning balances, as adjusted	$ 0	$ 124,485,255	$ 0	$ 124,485,255
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 231,149,155	$ 0	$ 231,149,155
Appropriations transferred-in/out	0	14,645,498	0	14,645,498
Other adjustments (rescissions, etc)	0	(3,474,894)	0	(3,474,894)
Appropriations used	0	(214,010,532)	0	(214,010,532)
Total Budgetary Financing Sources	$ 0	$ 28,309,227	$ 0	$ 28,309,227
Unexpended Appropriations	0	152,794,482	0	152,794,482
Net Position	$ 52,946	$ 251,355,472	$ 0	$ 251,408,418

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2009 and 2008 (Amounts in thousands)	Budgetary Financing Accounts 2009 Combined	Budgetary Financing Accounts 2008 Combined	Non-Budgetary Financing Accounts 2009 Combined	Non-Budgetary Financing Accounts 2008 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	$ 40,552,960	$ 32,258,188	$ 318	$ 590
Recoveries of prior year unpaid obligations	24,785,208	16,325,368	0	0
Budget authority				
Appropriation	228,221,133	231,167,292	0	0
Borrowing authority	0	0	193	590
Spending authority from offsetting collections				
Earned				
Collected	25,547,587	22,642,208	18	27,256
Change in receivables from Federal sources	834,250	90,385	0	0
Change in unfilled customer orders				
Advance received	170,291	246,196	0	0
Without advance from Federal sources	194,781	2,836,858	0	0
Subtotal	$ 254,968,042	$ 256,982,939	$ 211	$ 27,846
Nonexpenditure transfers, net, anticipated and actual	5,075,068	16,095,498	0	0
Permanently not available	(4,890,592)	(3,474,895)	0	(26,628)
Total Budgetary Resources	$ 320,490,686	$ 318,187,098	$ 529	$ 1,808
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 248,582,438	$ 249,952,967	$ 239	$ 1,491
Reimbursable	29,042,670	27,681,171	0	0
Subtotal	$ 277,625,108	$ 277,634,138	$ 239	$ 1,491
Unobligated balance:				
Apportioned	38,032,024	36,283,194	290	318
Exempt from apportionment	54,216	125	0	0
Subtotal	$ 38,086,240	$ 36,283,319	$ 290	$ 318
Unobligated balance not available	4,779,338	4,269,641	0	(1)
Total status of budgetary resources	$ 320,490,686	$ 318,187,098	$ 529	$ 1,808
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 144,392,278	$ 116,374,290	$ 0	$ 0
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(22,571,944)	(19,644,699)	0	0
Total unpaid obligated balance	$ 121,820,334	$ 96,729,590	$ 0	$ 0
Obligations incurred net (+/-)	277,625,108	277,634,138	239	1,491
Less: Gross outlays	(253,549,483)	(233,290,781)	(239)	(1,491)
Less: Recoveries of prior year unpaid obligations, actual	(24,785,208)	(16,325,368)	0	0
Change in uncollected customer payments from Federal sources (+/-)	(1,029,031)	(2,927,244)	0	0
Obligated balance, net, end of period				
Unpaid obligations	$ 143,682,695	$ 144,392,278	$ 0	$ 0
Less: Uncollected customer payments from Federal sources (-)	(23,600,975)	(22,571,943)	0	0
Total, unpaid obligated balance, net, end of period	$ 120,081,720	$ 121,820,335	$ 0	$ 0
Net Outlays:				
Gross outlays	253,549,483	233,290,781	239	1,491
Less: Offsetting collections	(25,717,878)	(22,888,403)	(18)	(27,257)
Less: Distributed Offsetting receipts	(416,926)	(674,720)	0	0
Net Outlays	$ 227,414,679	$ 209,727,658	$ 221	$ (25,766)

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

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army General Fund, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Army General Fund in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the Army General Fund is responsible unless otherwise noted.

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

The Army General Fund is unable to fully implement all elements of USGAAP and the OMB Circular A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The Army General Fund derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The Army General Fund continues to implement process and system improvements addressing these limitations.

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

1.B. Mission of the Reporting Entity

The Army mission is to support the National Security and Defense Strategies by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission encompasses the intent of the Congress, as defined in Title 10 of the U.S. Code, to preserve the peace and security, and provide for the defense of the U.S., the Territories, Commonwealths, and Possessions of the U.S., 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 234-year life of the Army, but the environment and nature of conflict have undergone many changes over that same time, especially with the Overseas Contingency Operations. This has required that the Army simultaneously transform the way that it fights, trains, and equips its soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the Nation's domestic and international security obligations today and into the future.

1.C. Appropriations and Funds

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

General funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction. These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at *http://www.defenselink.mil/recovery/*.

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

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

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

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

Additionally, the Army General Fund receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Army General Fund's financial statements: the Executive Office of the President (EOP).

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

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

1.D. Basis of Accounting

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

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

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

1.E. Revenues and Other Financing Sources

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

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminates intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the Army General Fund cannot accurately identify intragovernmental transactions by customer because Army General Fund's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances, and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls to eliminating the need for reconciliations.

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

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Foreign Currency

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

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

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

1.K. Accounts Receivable

Accounts receivable from other federal entities or public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based on the estimate of uncollectible accounts receivable from the public on a percentage of aged receivables by category. The allowance is calculated by using 50% of aged receivables in the 180-day to 2-year category and 100% of aged receivables in the greater than 2-year category. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol/07-03.pdf.

1.L. Direct Loans and Loan Guarantees

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

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

1.M. Inventories and Related Property

The Army General Fund manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in Army General Fund materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Army General Fund holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale" with a completion date of year-end FY 2010 reporting.

Related property includes OM&S and stockpile materiels. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Army General Fund uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, Army General Fund uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2009 and FY 2008, Army General Fund expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

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

The Army General Fund recognizes condemned materiel as "Excess, Obsolete, and Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero.

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

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

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

1.O. General Property, Plant and Equipment

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

The DoD's General Property, Plant and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The Army General Fund has not fully implemented the threshold for real property; therefore, DoD is primarily using the capitalization threshold of $100 thousand for General PP&E, and most real property.

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

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

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

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

1.R. Other Assets

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

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

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

1.S. Contingencies and Other Liabilities

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

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. Beginning with FY 1998, the cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

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

1.W. Unexpended Obligations

The Army General Fund obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations includes both obligations for which goods and services have been delivered (title passed) and a liability recognized, and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources, and is referred to as "Total, unpaid obligated balances, net, end of period."

1.X. Undistributed Disbursements and Collections

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

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

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

1.Y. Significant Events

There are no significant events as of September 30, 2009.

1.Z. Fiduciary Activities

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

Note 2. Nonentity Assets

As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	205,497	$	816,703
B. Accounts Receivable		0		0
C. Total Intragovernmental Assets	$	205,497	$	816,703
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	$	1,965,004	$	2,418,049
B. Accounts Receivable		21,049		14,136
C. Other Assets		0		0
D. Total Nonfederal Assets	$	1,986,053	$	2,432,185
3. Total Nonentity Assets	$	2,191,550	$	3,248,888
4. Total Entity Assets		336,653,914		322,585,173
5. Total Assets	$	338,845,464	$	325,834,061

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

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

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

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

Note 3. Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 163,159,254	$ 162,453,643
B. Revolving Funds	4,292	4,286
C. Trust Funds	1,405	1,674
D. Special Funds	54,968	46,165
E. Other Fund Types	205,497	816,703
F. Total Fund Balances	$ 163,425,416	$ 163,322,471
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 165,844,086	$ 164,616,052
B. Fund Balance per Army	163,425,416	163,322,471
3. Reconciling Amount	$ 2,418,670	$ 1,293,581

Other Fund Types Definition

Other Fund Types consists of deposit funds, clearing accounts, unavailable receipt accounts, Seized Iraqi Cash, and the Development Fund Iraq (DFI). Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Clearing accounts are used as a temporary suspense account until later paid by or refunded into another account or when the Federal Government acts as a banker or agent for others. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. The DFI consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds.

Reconciling Amount

The U.S. Treasury reported an additional $2.4 billion in Fund Balance with Treasury than reported by the Army General Fund. This includes $13.3 million in fiduciary activity, $2.2 billion in canceling year authority, $267.7 million in unavailable receipts and ($48.4) million in net differences due to the U.S. Treasury treatment of allocation transfers.

Status of Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 38,086,530	$ 36,283,637
B. Unavailable	4,779,337	4,269,641
2. Obligated Balance not yet Disbursed	143,682,696	144,392,279
3. Nonbudgetary FBWT	481,037	952,390
4. Non-FBWT Budgetary Accounts	(23,604,184)	(22,575,476)
5. Total	$ 163,425,416	$ 163,322,471

Status of Fund Balance with Treasury Definitions

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

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

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

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

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

Note 4. Investments and Related Interest

As of September 30	2009				
(Amounts in thousands)	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	$ 0		$ 0	$ 0	$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	3,259	effective interest	(50)	3,209	3,215
5. Total Nonmarketable, Market-Based	$ 3,259		$ (50)	$ 3,209	$ 3,215
B. Accrued Interest	32			32	32
C. Total Intragovernmental Securities	$ 3,291		$ (50)	$ 3,241	$ 3,247
2. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

As of September 30	2008				
(Amounts in thousands)	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	$ 0		$ 0	$ 0	$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	3,449	effective interest	51	3,500	3,530
5. Total Nonmarketable, Market-Based	$ 3,449		$ 51	$ 3,500	$ 3,530
B. Accrued Interest	32			32	32
C. Total Intragovernmental Securities	$ 3,481		$ 51	$ 3,532	$ 3,562
4. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

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

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

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

Note 5. Accounts Receivable

As of September 30	2009		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 530,847	N/A	$ 530,847
2. Nonfederal Receivables (From the Public)	801,865	$ (166,356)	635,509
3. Total Accounts Receivable	$ 1,332,712	$ (166,356)	$ 1,166,356

As of September 30	2008		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 499,668	N/A	$ 499,668
2. Nonfederal Receivables (From the Public)	729,785	$ (110,314)	619,471
3. Total Accounts Receivable	$ 1,229,453	$ (110,314)	$ 1,119,139

Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 1,401,723	$ 430,932
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 1,401,723	$ 430,932
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 7,352,077	$ 6,469,032
B. Advances and Prepayments on behalf of Foreign Governments	87,260	26,929
C. Advances and Prepayments	0	0
D. Other Assets (With the Public)	7,439,337	6,495,961
3. Total Other Assets	$ 8,841,060	$ 6,926,893

Other Assets Definitions

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

Outstanding Contract Financing Payments

The Outstanding Contract Financing Payments balance of $7.4 billion is comprised of $7.0 billion in contract financing payments and an additional $398.9 million in estimated future payments that will be paid to the contractor upon future delivery and Federal Government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

Note 7. Cash and Other Monetary Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Cash	$ 573,906	$ 1,088,505
2. Foreign Currency	1,391,098	1,329,544
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,965,004	$ 2,418,049

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

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

Note 8. Direct Loan and Loan Guarantees

As of September 30

Direct Loan and/or Loan Guarantee Programs

The Army General Fund operates a loan guarantee program, the Armament Retooling & Manufacturing Support (ARMS) Initiative Loan Guarantee Program, designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

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

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows:

- Payments by the Army General Fund to cover defaults and delinquencies, interest subsidies, or other payments; offset by
- Payments to the Army General Fund including origination and other fees, penalties, and recoveries.

Armament Retooling and Manufacturing Support Initiative

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

The Army General Fund, by means of ARMS initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army and U.S. Department of Agriculture (USDA) Rural Business-Cooperative Service (RBS) established a memorandum of understanding for the RBS to administer the ARMS initiative loan guarantee program.

Loan Guarantees

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

Summary of Direct Loans and Loan Guarantees

As of September 30	2009	2008
(Amounts in thousands)		
Loans Receivable		
Direct Loans		
1. Foreign Military Loan Liquidating Account	$ 0	$ 0
2. Military Housing Privatization Initiative	0	0
3. Foreign Military Financing Account	0	0
4. Military Debt Reduction Financing Account	0	0
5. Total Direct Loans	$ 0	$ 0
Defaulted Loan Guarantees		
6. A. Foreign Military Financing Account	$ 0	$ 0
B. Military Housing Privatization Initiative	0	0
C. Armament Retooling & Manufacturing Support Initiative	93	0
7. Total Default Loan Guarantees	$ 93	$ 0
8. Total Loans Receivable	$ 93	$ 0
Loan Guarantee Liability		
1. Foreign Military Liquidating Account	$ 0	$ 0
2. Military Housing Privatization Initiative	0	0
3. Armament Retooling & Manufacturing Support Initiative	2,436	2,337
4. Total Loan Guarantee Liability	$ 2,436	$ 2,337

The Loan Guarantee Liability represents the present value of the estimated cash inflows less cash outflows of non-acquired loan guarantees. The $2.4 million in loan guarantee liability represents the estimated long-term cost of the currently performing loans to the U.S. Government for the ARMS Initiative Loan Guarantee Program.

Direct Loans Obligated

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

Total Amount of Direct Loans Disbursed

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

Subsidy Expense for Direct Loan by Program

Not applicable.

Subsidy Rate for Direct Loans by Program

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

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

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

Defaulted Guaranteed Loans

As of September 30	2009	2008
(Amounts in thousands)		
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):		
1. Foreign Military Loan Liquidating Account		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0	$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Loan Losses	0	0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 0	$ 0
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):		
2. Military Housing Privatization Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0	$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	0	0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 0	$ 0
3. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 735	$ 15,142
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	(642)	(15,142)
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 93	$ 0
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 93	$ 0

Guaranteed Loans Outstanding

As of September 30 (Amounts in thousands)	2009 Outstanding Principal of Guaranteed Loans, Face Value	2009 Amount of Outstanding Principal Guaranteed	2008 Outstanding Principal of Guaranteed Loans, Face Value	2008 Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding				
1. Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0
2. Armament Retooling & Manufacturing Support Initiative	2,988	2,429	3,079	2,617
3. Foreign Military Liquidating Account	0	0	0	0
4. Total	$ 2,988	$ 2,429	$ 3,079	$ 2,617
New Guaranteed Loans Disbursed				
1. Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0
2. Armament Retooling & Manufacturing Support Initiative	0	0	0	0
4. Total	$ 0	$ 0	$ 0	$ 0

Guaranteed Loans Outstanding Definition

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

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

Liabilities for Loan Guarantees

As of September 30 (Amounts in thousands)	2009	2008
Liabilities for Losses on Loan Guarantee from Pre 1992 (Allowance for Loss):		
1. Foreign Military Liquidating Account	$ 0	$ 0
2. Total Loan Guarantee Liability (Pre-FY 1992)	$ 0	$ 0
Liabilities for Loan Guarantee from Post 1991 (Present Value):		
3. Military Housing Privatization Initiative	$ 0	$ 0
4. Armament Retooling & Manufacturing Support Initiative	2,436	2,337
5. Total Loan Guarantee Liability (Post-FY 1991)	$ 2,436	$ 2,337
6. Total Loan Guarantee Liability	$ 2,436	$ 2,337

Liabilities for Loan Guarantee Programs Post-FY 1991 represent the present value of the estimated cash inflows less cash outflows of non-acquired loan guarantees. The $2.4 million in loan guarantee liability represents the estimated long-term cost of the currently performing loan to the U. S. Government for the ARMS Initiative Loan Guarantee Program.

Subsidy Expense for Loan Guarantees by Program

As of September 30

(Amounts in thousands)

2009	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

2008	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

2009	Interest Differential	Defaults	Fees	Other	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	93	0	93	93
Total	$ 0	$ 93	$ 0	$ 93	$ 93

2008	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	409	1,651	2,060	2,060
Total	$ 0	$ 409	$ 1,651	$ 2,060	$ 2,060

	2009	2008
5. Total Loan Guarantee:		
Military Housing Privatization Initiative	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	93	2,060
Total	$ 93	$ 2,060

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

Subsidy Rates for Loan Guarantees by Program

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

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

As of September 30	2009	2008
(Amounts in thousands)		
Beginning Balance, Changes, and Ending Balance:		
1. Beginning Balance of the Loan Guarantee Liability	$ 2,337	$ 290
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	$ 0	$ 0
B. Default Costs (Net of Recoveries)	0	0
C. Fees and Other Collections	0	0
D. Other Subsidy Costs	0	0
E. Total of the above Subsidy Expense Components	$ 0	$ 0
3. Adjustments		
A. Loan Guarantee Modifications	$ 0	$ 0
B. Fees Received	0	0
C. Interest Supplements Paid	0	0
D. Foreclosed Property and Loans Acquired	0	746
E. Claim Payments to Lenders	0	(767)
F. Interest Accumulation on the Liability Balance	8	8
G. Other	(2)	0
H. Total of the above Adjustments	$ 6	$ (13)
4. Ending Balance of the Loan Guarantee Liability before Reestimates	$ 2,343	$ 277
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	$ 93	$ 409
B. Technical/default Reestimate	0	1,651
C. Total of the above Reestimate Components	$ 93	$ 2,060
6. Ending Balance of the Loan Guarantee Liability	$ 2,436	$ 2,337

Administrative Expenses

Administrative expense of $16.0 thousand is an annual amount for salary and expense which normally occurs during the last quarter of the fiscal year.

Note 9. Inventory and Related Property

As of September 30	2009	2008
(Amounts in thousands)		
1. Inventory, Net	$ 0	$ 0
2. Operating Materiels & Supplies, Net	34,497,598	40,134,982
3. Stockpile Materiel, Net	0	0
4. Total	$ 34,497,598	40,134,982

Inventory, Net

Not applicable.

Operating Materiel and Supplies, Net

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

As of September 30 *(Amounts in thousands)*	2008 OM&S Gross Value	 Revaluation Allowance	 OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 40,134,982	$ 0	$ 40,134,982	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	737,202	(737,202)	0	NRV
D. Total	$ 40,872,184	$ (737,202)	$ 40,134,982	

Legend for Valuation Methods:

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

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

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

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

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

Stockpile Materiel, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2009					2008
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	$ 519,153	N/A	$ 519,153	$ 522,002
B. Buildings, Structures, and Facilities	S/L	20 or 40	53,909,702	$ (32,113,494)	21,796,208	19,298,602
C. Leasehold Improvements	S/L	lease term	23,896	(19,418)	4,478	3,006
D. Software	S/L	2-5 or 10	501,718	(207,025)	294,693	308,463
E. General Equipment	S/L	5 or 10	3,984,679	(1,834,810)	2,149,869	2,242,940
F. Military Equipment	S/L	various	141,160,620	(45,266,083)	95,894,537	79,623,630
G. Shipbuilding	N/A	N/A	0	0	0	0
H. Assets Under Capital Lease	S/L	lease term	166,617	(160,238)	6,379	8,840
I. Construction-in-Progress	N/A	N/A	8,281,379	N/A	8,281,379	9,881,429
J. Other			0	0	0	20,083
K. Total General PP&E			$ 208,547,764	$ (79,601,068)	$ 128,946,696	$ 111,908,995

Legend for Valuation Methods:

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

Heritage Assets and Stewardship Land

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

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

- Buildings and Structures. Buildings and structures that are listed on, or eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets.
- Archeological Sites. Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Historical Places in accordance with Section 110 National Historical Preservation Act.
- Museum Collection Items. Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

The Army General Fund holds the following quantities of heritage assets at September 30, 2009.

Categories	Measure Quantity	As of September 30, 2008	Additions	Deletions	As of September 30, 2009
Buildings and Structures	Each	3,818	24,783	570	28,031
Archeological Sites	Each	7,201	1,089	89	8,201
Museum Collection Items (Objects, Not Including Fine Art)	Each	553,115	11,703	0	564,818
Museum Collection Items (Objects, Fine Art)	Each	0	0	0	0

In FY 2009, the Army General Fund acquired 24,783 buildings and structures, 1,089 archeological sites, and 11,703 other museum collection items through donation.

The Army General Fund holds the following acres of stewardship land at September 30, 2008.

(Acres in thousands)

Facility Code	Facility Title	As of September 30, 2007	Additions	Deletions	As of September 30, 2008
9110	Government Owned Land	5,191	0	92	5,099
9111	State Owned Land	142	0	140	2
9120	Withdrawn Public land	6,512	0	34	6,478
9130	Licensed and Permitted Land	2,590	0	797	1,793
9140	Public Land	11	0	0	11
9210	Land Easement	219	0	25	194
9220	In-leased Land	592	0	27	565
9230	Foreign Land	169	0	7	162
				Grand Total	14,304
				Total All Other Lands	7,813
				Total Stewardship Lands	6,491

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

Assets Under Capital Lease

As of September 30	2009	2008
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 166,071	$ 166,071
B. Equipment	546	546
C. Accumulated Amortization	(160,238)	(157,777)
D. Total Capital Leases	$ 6,379	$ 8,840

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2009		2008
(Amounts in thousands)				
1. Intragovernmental Liabilities				
A. Accounts Payable	$	0	$	0
B. Debt		0		0
C. Other		450,793		2,804,367
D. Total Intragovernmental Liabilities	$	450,793	$	2,804,367
2. Nonfederal Liabilities				
A. Accounts Payable	$	194,560	$	192,963
B. Military Retirement and Other Federal Employment Benefits		1,325,169		1,472,383
C. Environmental Liabilities		34,679,660		39,702,096
D. Other Liabilities		6,256,400		5,819,091
E. Total Nonfederal Liabilities	$	42,455,789	$	47,186,533
3. Total Liabilities Not Covered by Budgetary Resources	$	42,906,582	$	49,990,900
4. Total Liabilities Covered by Budgetary Resources		27,169,773		24,434,743
5. Total Liabilities	$	70,076,355	$	74,425,643

Intragovernmental Liabilities, Other primarily consists of disbursing officers' custodial liability.

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

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 Federal Employee Compensation Act benefits liability of $1.3 billion. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

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

Liabilities such as Environmental Liabilities and Military Retirement and Other Federal Employment Benefits are not covered by budgetary resources due to being classified as noncurrent. Congressional action will not be taken to cover these liabilities until classified as current.

Other Intragovernmental Liabilities include liabilities for nonentity assets, such as disbursing officers' cash that are held in the Army General Fund to be transferred to other entities and therefore not covered by budgetary resources. Unfunded annual leave is leave an employee is entitled to upon separation and funded with future years' appropriations and thus not covered by budgetary resources in the current fiscal year.

Note 12. Accounts Payable

As of September 30 *(Amounts in thousands)*	2009 Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 1,717,109	$ N/A	$ 1,717,109
2. Nonfederal Payables (to the Public)	14,110,609	6,194	14,116,803
3. Total	$ 15,827,718	$ 6,194	$ 15,833,912

As of September 30 *(Amounts in thousands)*	2008 Restated Accounts Payable	Interest, Penalties, and Administrative Fees	Restated Total
1. Intragovernmental Payables	$ 1,563,994	$ N/A	$ 1,563,994
2. Nonfederal Payables (to the Public)	13,022,675	0	13,022,675
3. Total	$ 14,586,669	$ 0	$ 14,586,669

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

Note 13. Debt

As of September 30	2009			2008	
(Amounts in thousands)	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	$ 833	$ 227	$ 1,060	$ (25,873)	$ 833
B. Debt to the Federal Financing Bank	0	0	0	0	0
C. Total Agency Debt	$ 833	$ 227	$ 1,060	$ (25,873)	$ 833
2. Total Debt	$ 833	$ 227	$ 1,060	$ (25,873)	$ 833

The Army General Fund, by means of Armament Retooling and Manufacturing Support (ARMS) initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. When a borrower defaults on a guaranteed loan, the Army General Fund executes borrowing authority with the U.S. Treasury to pay the lender the guaranteed outstanding principal resulting in a debt with the U.S. Treasury. The total debt of $1.1 million consists of interest and principal payments due to the U.S. Treasury for ARMS loan defaults.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2009	2008
(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)	$ 2,181,086	$ 2,667,869
2. Active Installations—Military Munitions Response Program (MMRP)	2,653,805	2,742,646
3. Formerly Used Defense Sites—IRP and BD/DR	3,452,907	3,233,179
4. Formerly Used Defense Sites--MMRP	13,545,816	14,859,040
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	356,897	400,741
2. Environmental Closure Requirements	353,625	96,847
3. Environmental Response at Operational Ranges	144,469	163,744
4. Asbestos	247,537	0
5. Non-Military Equipment	0	0
6. Other	96,456	33,874
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	690,977	769,237
2. Military Munitions Response Program	951,853	941,159
3. Environmental Corrective Action / Closure Requirements	295,327	296,204
4. Asbestos	0	0
5. Non-Military Equipment	0	0
6. Other	0	0
D. Environmental Disposal for Military Equipment / Weapons Programs		
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0	0
2. Non-Nuclear Powered Military Equipment	0	0
3. Other National Defense Weapons Systems	0	0
4. Other	0	0
E. Chemical Weapons Disposal Program		
1. Chemical Agents and Munitions Destruction (CAMD)	6,955,981	10,636,653
2. CAMD Assembled Chemical Weapons Assessment (ACWA)	5,447,847	5,634,273
3. Other	0	0
2. Total Environmental Liabilities	$ 37,374,583	$ 42,475,466

Applicable Laws and Regulations

The Army General Fund is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activity. This cleanup requirement applies to releases of from hazardous substances and wastes that created a public health or environmental risk, and prior to FY 2003 from unexploded ordnance (UXO), discarded military munitions, and munitions constituents at other than operational ranges. This is required by the Defense Environmental Restoration Program (DERP), established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code 2701. The Army General Fund is also required to clean up contamination resulting from waste disposal practices, leaks, spills, and other activity at overseas locations in accordance with DoD policy as prescribed in DoD Instruction 4715.8, *Environmental Remediation for DoD Activities Overseas* under the Army Compliance Cleanup Program.

The Federal Accounting Standards Advisory Board (FASAB) published Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, which clarifies reporting of liabilities arising from asbestos-related cleanup.

The Army General Fund is required to destroy the chemical stockpile and nonstockpile as part of the Chemical Demilitarization Program. The 1986 Defense Authorization Act (Public Law (PL) 99-145, as amended by subsequent acts) directed the DoD to destroy the unitary chemical stockpile while providing for maximum protection of the environment, public, and personnel involved in the destruction effort. The 1993 Defense Authorization Act (PL 102-484) required the establishment of the Nonstockpile Chemical Material Project to safely dispose of all nonstockpile chemical material. The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations.

Applicable laws are as follows for the DERP, NonDERP, Low Level Radioactive Waste, and the Base Realignment and Closure (BRAC) programs:

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

Types of Environmental Liabilities and Disposal Liabilities Identified

The Army General Fund has environmental cleanup requirements for DERP sites at active installations, BRAC installations, Formerly Used Defense Sites (FUDS), NonDERP sites at active installations, weapon systems programs, and chemical weapons disposal programs. The DERP and NonDERP sites are required to clean up contamination in coordination with regulatory agencies, other responsible parties, and current property owners. Environmental disposal for weapons systems programs consists of chemical weapons disposal, including the destruction of the entire United States' stockpile of chemical agents and munitions and disposal of nonstockpile chemical material. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations, and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance, and disposal. All clean-up is done in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Army General Fund uses engineering estimates and independently validated models to estimate environmental liabilities. The models are contained within the Remedial Action Cost Engineering Requirements and the Normalization of Data System. The Army General Fund validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site inspection. The Army General Fund primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility study phase of the environmental project.

Once the environmental cost estimates are complete, Army General Fund complies with accounting standards to assign costs to current operating periods. Army General Fund has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then Army General Fund expensed that portion of the asset that has passed since General PP&E was placed into service and is systematically recognizing the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Army General Fund expenses the associated environmental costs systematically over the life of the asset. Army General Fund expenses the full cost to clean up contamination for stewardship PP&E at the time the asset is placed into service.

Army General Fund uses two methods for systematic recognition: physical capacity for operating landfills, and life expectancy in years for all other assets.

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

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

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

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

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

The Army General Fund has a liability to take environmental restoration/corrective action for buried chemical munitions and agents, which it is unable to estimate at this time because the extent of the buried chemical munitions and agents is unknown. The Army General Fund has ongoing studies and will update its estimate as additional liabilities are identified. In addition, not all components of the Army General Fund recognize environmental liabilities associated with General PP&E due to process and system limitations.

Army GF has reported asbestos survey costs but estimating the amount of non-friable asbestos removal at the time of building renovation or demolition, per FASAB TB 2006-1, presents too much uncertainty to recognize on the balance sheet. If recent experience holds true, asbestos-related costs including survey costs could be $2.54/SF or $1.8 billion.

In addition to the liabilities reported above, the Army General Fund is uncertain regarding the extent of the liabilities at installations that are realigning or closing as a result of the FY 2005 BRAC round. The Army General Fund is in the process of determining the extent of environmental liabilities at bases due to realign or close; in particular those liabilities associated with unexploded ordnance on training ranges that are due to realign or close.

The Army General Fund is also uncertain regarding the extent of environmental closure liabilities at Active installations. The Army General Fund is in the process of determining the extent of environmental liabilities associated with NonDERP closure requirements.

In addition, the Army General Fund reports the costs for restoration initiatives in conjunction with returning overseas military facilities to host nations. The Army General Fund is currently unable to provide a reasonable estimate because the extent of restoration required is not known.

Other Accrued Environmental Liabilities – Non-BRAC, Other consists of Low Level Radioactive Waste.

The Army General Fund is unable to systematically report and gather the unrecognized portion of the estimated total cleanup costs associated with General Property, Plant and Equipment. The Army General Fund will continue coordination with the Office of the Under Secretary of Defense (Comptroller) to address these deficiencies.

Note 15. Other Liabilities

As of September 30	2009			2008
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	$ 88,608	$ 0	$ 88,608	$ 67,973
B. Deposit Funds and Suspense Account Liabilities	339,861	0	339,861	673,433
C. Disbursing Officer Cash	1,968,492	0	1,968,492	2,419,223
D. Judgment Fund Liabilities	0	0	0	0
E. FECA Reimbursement to the Department of Labor	119,415	158,121	277,536	277,913
F. Custodial Liabilities	10,051	7,510	17,561	7,066
G. Employer Contribution and Payroll Taxes Payable	122,643	0	122,643	100,481
H. Other Liabilities	174,173	0	174,173	101,014
I. Total Intragovernmental Other Liabilities	$ 2,823,243	$ 165,631	$ 2,988,874	$ 3,647,103
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 3,157,681	$ 0	$ 3,157,681	$ 2,619,264
B. Advances from Others	1,773,694	0	1,773,694	1,740,233
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	141,176	0	141,176	279,248
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	2,072,316	2,072,316	2,042,986
G. Accrued Unfunded Annual Leave	3,673,059	0	3,673,059	3,342,808
H. Capital Lease Liability	4,021	7,040	11,061	14,855
I. Contract Holdbacks	332,204	0	332,204	201,343
J. Employer Contribution and Payroll Taxes Payable	390,612	0	390,612	1,036,996
K. Contingent Liabilities	90,104	907,344	997,448	961,075
L. Other Liabilities	1,069	0	1,069	2,044
M. Total Nonfederal Other Liabilities	$ 9,563,620	$ 2,986,700	$ 12,550,320	$ 12,240,852
3. Total Other Liabilities	$ 12,386,863	$ 3,152,331	$ 15,539,194	$ 15,887,955

Intragovernmental Other Liabilities Composition

Intragovernmental Other Liabilities consists of unemployment compensation liability.

Nonfederal Other Liabilities Composition

Nonfederal Other Liabilities, other consists of miscellaneous liabilities submitted by the U.S. Army Corps of Engineers.

Estimated Future Contract Financing Payments

Contingent liabilities includes $398.9 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Army General Fund is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Army General Fund has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

Capital Lease Liability

As of September 30	2009				2008
	Asset Category				
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2009	$ 5,376	$ 0	$ 0	$ 5,376	$ 5,469
B. 2010	4,510	0	0	4,510	5,376
C. 2011	2,413	0	0	2,413	4,510
D. 2012	1,612	0	0	1,612	2,413
E. 2013	148	0	0	148	1,612
F. After 5 Years	0	0	0	0	148
G. Total Future Lease Payments Due	$ 14,059	$ 0	$ 0	$ 14,059	$ 19,528
H. Less: Imputed Interest Executory Costs	2,996	0	0	2,996	4,672
I. Net Capital Lease Liability	$ 11,063	$ 0	$ 0	$ 11,063	$ 14,856
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 9,500	$ 11,146
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 1,562	$ 3,708

Note 16. Commitments and Contingencies

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

The Army General Fund has accrued contingent liabilities for legal actions 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 Federal Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Army General Fund records Judgment Fund liabilities in Note 12, Accounts Payable, and Note 15, Other Liabilities.

Nature of Contingency

The FY 2009 Army Legal Representation Letter outlines claims against the Army General Fund totaling $2.3 trillion for which the Army OGC is unable to express an opinion. The historical payout percentage for these cases is less than 1%. To determine the historical payout, the Army OGC divides the total amount reported as a payout in the fiscal year by the total amount claimed in the Army Legal Representation Letter.

The Army General Fund has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army General Fund's financial statements nor reported in the FY 2009 Army Legal Representation Letter. As of September 30, 2009, the Army General Fund had $639.5 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Estimates for litigations, claims and assessments are required to be fully supported. Additionally, the Army General Fund has coordinated with Army OGC to ensure that estimates agree with the legal representation letters and management summary schedule.

(Amounts in thousands)

Type of Contingent Liabilities	Estimate
Army Environmental Law Division	$256,004
Army Contract Appeals	227,815
U.S. Army Claims Service	107,531
Litigation Division	48,128
Total	$639,478

Other Information Pertaining to Commitments

The Army General Fund has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations, undelivered orders, and cancelled accounts payable. The amount of contractual commitments for 4th Quarter, FY 2009 is presented in the following schedule.

(Amounts in thousands)

Type of Contractual Commitments	
Long-term lease obligations	$7,040
Undelivered orders	$130,477,922
Cancelled accounts payable	$4,236

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

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

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009				2008
(Amounts in thousands)	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	Liabilities
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	$ 0		$ 0	$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0	$ 0
2. Other Actuarial Benefits					
A. FECA	$ 1,325,170	4.223	$ 0	$ 1,325,170	$ 1,472,383
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. Total Other Actuarial Benefits	$ 1,325,170		$ 0	$ 1,325,170	$ 1,472,383
3. Other Federal Employment Benefits	0		0	0	0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 1,325,170		$ 0	$ 1,325,170	$ 1,472,383

Federal Employees Compensation Act

The Army's actuarial liability for Workers' Compensation benefits is developed by the Department of Labor and provided to the Army General Fund each fiscal year end. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

Actuarial Cost Method

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

Assumptions

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

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

Intragovernmental Costs and Exchange Revenue

As of September 30		2009		Restated 2008
(Amounts in thousands)				
1. Intragovernmental Costs	$	55,453,482	$	51,475,585
2. Public Costs		163,329,624		150,018,639
3. Total Costs	$	218,783,106	$	201,494,224
4. Intragovernmental Earned Revenue	$	(10,252,879)	$	(8,204,813)
5. Public Earned Revenue		(2,144,850)		(1,722,612)
6. Total Earned Revenue	$	(12,397,729)	$	(9,927,425)
7. Net Cost of Operations	$	206,385,377	$	191,566,799

Definitions

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

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

Other Information Regarding Costs

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

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

Additional Disclosures

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

The Army General Fund accounting system does not capture information relative to heritage assets separately and distinctly from normal operations. The Army General Fund is not able to separately identify the costs of acquiring, constructing, improving, reconstructing or renovating heritage assets. The Army Financial Improvement Plan outlines tasks to separately identify and report costs associated with Heritage Assets by 1st Quarter, FY 2012.

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

Restatements

Army General Fund does not have any restatements.

Other Financing Sources, Other

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

Appropriations Received

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with the Appropriations Received on the Statement of Budgetary Resources (SBR). The total difference is $18.0 million and is due to additional resources included in the Appropriation Received on the SBR. Refer to Note 20, Disclosures Related to the SBR, for additional details.

Eliminations

In the SCNP, all offsetting balances (i.e. transfers-in and transfers-out, revenues, and expenses) for intradepartment activity between earmarked and other (nonearmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line, except for intraentity imputed financing costs.

Earmarked

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

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	Restated 2008
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 131,300,235	$ 131,983,627
2. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

Undelivered Orders

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

Reporting of Appropriations Received

Appropriations received on the SBR do not agree with appropriations received on the Statements of Changes in Net Position because of differences between proprietary and budgetary accounting concepts and reporting requirements. These differences, totaling $18.0 million, are made up of the recording of receipts for special and trust funds and the appropriations anticipated indefinite accounts, $11.8 million and $6.2 million respectively.

Presentation of Statement of Budgetary Resources

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

Breakdown of Apportionment Categories

Office of Management and Budget Circular A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment.

Budgetary	Direct	Reimbursable
Category A	$177.2 billion	$37.7 million
Category B	$71.4 billion	$29.0 billion
Exempt from Apportionment	$13.4 million	$0
Total	**$248.6 billion**	**$29.0 billion**
Non-Budgetary		
Category A	$238.6 thousand	$0

This disclosure agrees with the aggregate of the related information as reported on the Budgetary Execution Report and Obligations Incurred on the SBR.

Terms of Borrowing Authority

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

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

Available Borrowing Authority as of September 30, 2009, is $33.6 thousand.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2009	Restated 2008
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 277,625,347	$ 277,635,629
2. Less: Spending authority from offsetting collections and recoveries (-)	(51,532,135)	(42,168,271)
3. Obligations net of offsetting collections and recoveries	$ 226,093,212	$ 235,467,358
4. Less: Offsetting receipts (-)	(416,926)	(674,720)
5. Net obligations	$ 225,676,286	$ 234,792,638
Other Resources:		
6. Donations and forfeitures of property	$ 0	$ 0
7. Transfers in/out without reimbursement (+/-)	(2,462,951)	2,578,457
8. Imputed financing from costs absorbed by others	1,067,410	948,408
9. Other (+/-)	(3,264,694)	2,691,061
10. Net other resources used to finance activities	$ (4,660,235)	$ 6,217,926
11. Total resources used to finance activities	$ 221,016,051	$ 241,010,564
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	$ 1,749,262	$ (23,602,938)
12b. Unfilled Customer Orders	365,072	3,083,054
13. Resources that fund expenses recognized in prior Periods (-)	(5,251,214)	(3,492,658)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	416,944	701,976
15. Resources that finance the acquisition of assets (-)	(26,767,400)	(30,240,386)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0	0
16b. Other (+/-)	4,661,775	(5,269,518)
17. Total resources used to finance items not part of the Net Cost of Operations	$ (24,825,561)	$ (58,820,470)
18. Total resources used to finance the Net Cost of Operations	$ 196,190,490	$ 182,190,094

As of September 30		2009		Restated 2008
(Amounts in thousands)				
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
19. Increase in annual leave liability	$	328,097	$	319,243
20. Increase in environmental and disposal liability		0		0
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		0		0
23. Other (+/-)		185,903		874,211
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	514,000	$	1,193,454
Components not Requiring or Generating Resources:				
25. Depreciation and amortization	$	9,637,151	$	10,787,640
26. Revaluation of assets or liabilities (+/-)		0		30
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		0		0
27c. Operating Material and Supplies Used		0		0
27d. Other		43,736		(2,604,419)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$	9,680,887	$	8,183,251
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$	10,194,887	$	9,376,705
30. Net Cost of Operations	$	206,385,377	$	191,566,799

Required Disclosures

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

The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost totaled $10.8 million and was reported in the category of Other Components Not Requiring of Generating Resource.

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 due to intraagency budgetary transactions not being eliminated:

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

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

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

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

Note 22. Disclosures Related to Incidental Custodial Collections

Army General Fund does not collect incidental custodial revenues.

Note 23. Earmarked Funds

BALANCE SHEET As of September 30 *(Amounts in thousands)*	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	$ 0	$ 56,662	$ 0	$ 56,662
Investments	0	0	3,241	0	3,241
Accounts and Interest Receivable	0	0	2,849	(2,756)	93
Other Assets	0	0	0	0	0
Total Assets	$ 0	$ 0	$ 62,752	$ (2,756)	$ 59,996
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	$ 0	$ 0	$ 0	$ 0	$ 0
Other Liabilities	0	0	5,081	(211)	4,870
Total Liabilities	$ 0	$ 0	$ 5,081	$ (211)	$ 4,870
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	57,671	0	57,671
Total Liabilities and Net Position	$ 0	$ 0	$ 62,752	$ (211)	$ 62,541

STATEMENT OF NET COST For the period ended September 30					
Program Costs	$ 0	$ 0	$ 12,293	$ 0	$ 12,293
Less Earned Revenue	0	0	602	0	602
Net Program Costs	$ 0	$ 0	$ 12,895	$ 0	$ 12,895
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	$ 0	$ 12,895	$ 0	$ 12,895

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30					
Net Position Beginning of the Period	$ 0	$ 0	$ 52,946	$ 0	$ 52,946
Net Cost of Operations	0	0	12,895	0	12,895
Budgetary Financing Sources	0	0	18,734	0	18,734
Other Financing Sources	0	0	(1,114)	0	(1,114)
Change in Net Position	$ 0	$ 0	$ 4,725	$ 0	$ 4,725
Net Position End of Period	$ 0	$ 0	$ 57,671	$ 0	$ 57,671

BALANCE SHEET As of September 30 *(Amounts in thousands)*	2008 Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	$ 0	$ 48,123	$ 0	$ 48,123
Investments	0	0	2,597	0	2,597
Accounts and Interest Receivable	0	0	2,886	(2,886)	0
Other Assets	0	0	935	0	935
Total Assets	$ 0	$ 0	$ 54,541	$ (2,886)	$ 51,655
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	$ 0	$ 0	$ 0	$ 0	$ 0
Other Liabilities	0	0	1,595	0	1,595
Total Liabilities	$ 0	$ 0	$ 1,595	$ 0	$ 1,595
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	52,946	0	52,946
Total Liabilities and Net Position	$ 0	$ 0	$ 54,541	$ 0	$ 54,541
STATEMENT OF NET COST For the period ended September 30					
Program Costs	$ 0	$ 0	$ 17,405	$ 0	$ 17,405
Less Earned Revenue	0	0	(1,216)	0	(1,216)
Net Program Costs	$ 0	$ 0	$ 16,189	$ 0	$ 16,189
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	$ 0	$ 16,189	$ 0	$ 16,189
STATEMENT OF CHANGES IN NET POSITION For the period ended September 30					
Net Position Beginning of the Period	$ 0	$ 0	$ 24,621	$ 0	$ 24,621
Net Cost of Operations	0	0	16,189	0	16,189
Budgetary Financing Sources	0	0	18,168	0	18,168
Other Financing Sources	0	0	26,346	0	26,346
Change in Net Position	$ 0	$ 0	$ 28,325	$ 0	$ 28,325
Net Position End of Period	$ 0	$ 0	$ 52,946	$ 0	$ 52,946

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

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

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

- Royalties for Use of DoD-Military Insignia and Trademarks. Funds are received from the sale of commemorative memorabilia, trademarks, and licensing activities. The funds are used to replenish inventory stock for such items and other related Commemorative Program expenses. The authority to create expenditures originates from PL 102 484, Section 378.
- Forest and Wildlife Conservation, Military Reservations. These funds are produced from the sale of forest products that are in excess of operation and maintenance expenses at fiscal year-end for the payment of entitlements to states. The authority and directive for this fund originates from Title 10, USC 2665.
- National Science Center. Funds received from the collection of fees for the use of the National Science Center and use for the operation and maintenance of the National Science Center as authorized under PL 99-145, Defense Authorization Act, 1986, Section 1459.
- Department of the Army General Gift Fund. Funds are received from private parties and estates and used for various purposes. Title 10, USC 2601 establishes the authority governing the use of this fund.

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

Note 24. Fiduciary Activities

Schedule of Fiduciary Activity

As of September 30		2009
(Amounts in thousands)		
1. Fiduciary net assets, beginning of year	$	128,313
2. Fiduciary revenues	$	0
3. Contributions		188,004
4. Investment earnings		12,615
5. Gain (Loss) on disposition of investments, net		0
6. Administrative and other expenses		0
7. Distributions to and on behalf of beneficiaries		(193,688)
8. Increase/(Decrease) in fiduciary net assets	$	6,931
9. Fiduciary net assets, end of period	$	135,244

Schedule of Fiduciary Net Assets

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

Fiduciary activities are those Federal Government activities that relate to the collection or receipt, and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which nonfederal individuals or entities have an ownership interest that the federal government must uphold. The DoD has a fiduciary duty to the Savings Deposit Program, of which the Army General Fund participates. Public Law 89538 authorizes DoD, through the Savings Deposit Program, to collect a voluntary allotment from the current pay of members of the Armed Forces deployed outside the United States or its possessions in designated areas. The Army General Fund collects the savings and allotments of soldiers, and the collections and accrued earned interest are transferred to the program's executive agent, the Navy General Fund. These fiduciary assets are not assets of the Army General Fund and are not recognized on the Army General Fund's balance sheet.

Note 25. Other Disclosures

	2009			
As of September 30	Asset Category			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
1. ENTITY AS LESSEE-Operating Leases				
Future Payments Due				
Fiscal Year				
2010	$ 2,118	$ 0	$ 0	$ 2,118
2011	67	0	0	67
2012	67	0	0	67
2013	67	0	0	67
2014	67	0	0	67
After 5 Years	15,284	0	0	15,284
Total Future Lease Payments Due	$ 17,670	$ 0	$ 0	$ 17,670

Note 26. Restatements

During 4th Quarter, FY 2009, an accounting error was discovered. As a result, prior year changes have been made retrospectively in accordance with generally accepted accounting principles (GAAP).

Correction of an Accounting Error

In September 2008, values for Accounts Payable were understated due to accruals not being posted for undistributed disbursements in FY 2008. During a review of the financial statements, the Office of the Under Secretary of Defense Comptroller, OUSD(C) discovered that the Accounts Payable was understated for FY 2008. OUSD(C) determined that the Army General Fund would need to correct their records to reflect the correct balance for Accounts Payable for FY 2008.

Per OMB Circular A-136 Section II.4.5.4, errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. Prior period financial statements should be restated for corrections of errors that would have caused any statements presented to be materially misstated, consistent with Statement of Federal Financial Accounting Standards No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles."

Consolidated Balance Sheet	
Accounts Payable	$1,065,869,989.02
Cumulative Result of Operations	$1,065,869,989.02
Statement of Budgetary Resources	
Delivered Orders Obligations Unpaid	$1,065,869,989.02
Undelivered Orders Obligations Unpaid	($1,065,869,989.02)
Statement of Changes in Net Position	
Cumulative Result of Operations	$1,065,869,989.02

The adjustment to correct the Accounts Payable increases Cumulative Results of Operations, Expended Appropriations, and Delivered Orders Obligations Unpaid. A comparative account adjustment has been prepared in 4th Quarter, FY 2009 to correct the FY 2008 Accounts Payable and Delivered Orders Obligations Unpaid accounts.

To prevent the reoccurrence of this error, accruals are being posted for undistributed disbursements.

FY 2008 Required Supplementary Stewardship Information (RSSI)

The following summarizes Nonfederal Physical Property. Investments in Non-federal Physical Property refers to those expenses incurred by the Army for the purchase, construction, or major renovation of physical property owned by State and Local Governments, including major additions, alterations and replacements; the purchase of major equipment; and the purchase of improvement of other physical assets. A schedule of estimated investments value of state-owned properties that are used by the Federal Government is shown below.

Non-federal Physical Property
Yearly Investment in State and Local Governments
For Fiscal Years FY 2005 through FY 2009
(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	**FY 2009**	**FY 2008**	**FY 2007**	**FY 2006**	**FY 2005**
Transferred Assets:					
1. National Defense Mission Related	$26.7	$34.2	$23.0	$66.5	$70.7
Funded Assets:					
2. National Defense Mission Related	0	0	0	0	0
Total	$26.7	$34.2	$23.0	$66.5	$70.7

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

Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current Department accounting systems are unable to capture and summarize costs in accordance with federal accounting standards.

The following summarizes Basic Research, Applied Research, and Development Investments and provides examples of each.

Investments in Research and Development
Yearly Investment in Research and Development
For Fiscal Years FY 2005 through FY 2009
(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	**FY 2009**	**FY 2008**	**FY 2007**	**FY 2006**	**FY 2005**
Basic Research	$392.7	$345.9	$348.9	$355.4	$360.0
Applied Research	1,191.1	1,147.4	1,115.2	1,006.8	995.1
Development					
Advanced Technology Development	1,341.8	1,336.5	1,576.2	1,369.3	1,185.8
Advanced Component Development and Prototypes	1,023.8	719.8	585.3	659.7	830.3
Systems Development and Demonstration	4,883.9	4,981.4	5,026.1	4,963.5	4,309.4
Research, Development, Test and Evaluation Management Support	1,387.1	1,317.1	1,336.7	1,287.5	1,157.3
Operational Systems Development	1,700.9	1,459.2	1,380.5	1,218.7	1,156.7
Total	$11,921.4	$11,307.3	$11,368.9	$10,860.9	$9,994.6

Narrative Statement:

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

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

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

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

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

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

The following are two representative program examples for this category:

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

Combat Vehicle and Automotive Technology (PE 0602601A): This program researches, investigates, and applies combat vehicle and automotive component technologies that enhance survivability, mobility, sustainability, and maintainability of Army ground combat and tactical vehicles. As combat vehicle systems become smaller and lighter, and tactical vehicles are more often exposed to combat conditions, one of the greatest technological and operational challenges is providing adequate crew protection without reliance on heavy passive armor. This challenge will be met using a layered approach, including long-range situational awareness, advanced lightweight opaque and transparent armors, Active Protection Systems (APS), and multi-spectral signature reduction. This program focuses on designing, fabricating, and evaluating performance of integrated and add-on lightweight armor packages needed to provide lightweight combat vehicles protection against Chemical Energy (CE) and Kinetic Energy (KE) threats with less than one fourth the weight of conventional heavy armor. This program also designs, fabricates, and evaluates structural and add-on armors for tactical vehicles. This program funds the National Automotive Center (NAC). The goal of the NAC is to leverage large commercial investments in automotive technology, research, and development by pursuing automotive-oriented technology programs that have potential benefit to military ground vehicles. This program researches and investigates a variety of enabling technologies in the areas of hybrid electric propulsion, mobility, thermal management, intelligent systems, vehicle diagnostics, fuels/lubricants, and water purification. Future Force vehicles and new tactical vehicles are being designed with hybrid electric architectures, advanced high power density engines, and auxiliary power units that provide power for propulsion, control systems, communications, life support systems, electromagnetic (EM) armor, Soldier battery charging, and export to other systems.

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

1. **Advanced Technology Development:** is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and productibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.

2. **Advanced Component Development and Prototypes (ACD&P)** evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

3. **System Development and Demonstration** concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

4. **Research, Development, Test & Evaluation Management Support** is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

5. **Operational Systems Development** is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are five representative program examples of development:

Electronic Warfare Advanced Technology (PE 0603008A): The goal of this program is to provide enabling technologies for a secure, mobile, wireless network that will operate reliably in diverse and complex terrain, in all environments for the Army's Future Force and, where feasible, exploit opportunities to enhance Current Force capabilities. Technologies will be matured and demonstrated to address this challenge with distributed, mobile, secure, self-organizing communications networks. A key objective is to demonstrate seamlessly integrated communications technologies across all network tiers, ranging from unattended networks and sensors through maneuver elements and airborne/space assets. To accomplish the goal this program will investigate and leverage external communication technologies and combine technology options in a series of Command, Control, Communications, and Computers Intelligence, Surveillance, and Reconnaissance (C4ISR) On-The-Move (OTM) experiments to measure the battlefield effectiveness for the Future Force. This program also provides: protection technologies for tactical wireless networks against modern network attacks; smart communication technologies to network and control unmanned systems anywhere on the battlefield enabling timely sensor-decider-engagement linkage to defeat critical targets; advanced antenna technologies for greater communications mobility, range and throughput; and automated network management aids.

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

Patriot/MEADS Combined Aggregate Program (CAP) (PE 0604869A): The Medium Extended Air Defense System (MEADS) program is a tri-national co-development program between 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 NATO MEADS Management Agency (NAMEADSMA) is the NATO contracting authority providing management of the MEADS program on behalf of the participating nations and is responsible for managing the system acquisition. Within the Patriot/MEADS CAP there are two synergistic efforts: an international MEADS development effort managed by NAMEADSMA, and a U.S. effort to inject U.S.-specific capability requirements into the MEADS Major End Items.

MEADS will provide joint and coalition forces, 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 missile has been accepted as the baseline missile for MEADS. It is being developed by the U.S. for Patriot to meet U.S. operational requirements. MSE will provide a more agile and lethal interceptor that increases the engagement envelope/defended area of Patriot and the MEADS systems. The PAC-3 MSE improves upon the current PAC-3 missile capability with a higher performance solid rocket motor, modified lethality enhancer, more responsive control surfaces, upgraded guidance software, and insensitive munitions improvements.

Army Test Ranges and Facilities (0605601A): This program funds the indirect test costs associated with rapidly testing field systems and equipment needed in support of the Global War on Terrorism such as individual soldier protection equipment and Counter Measures for Improvised Explosive Devices 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 such as: up-armoring vehicle ballistic protection on the Buffalo, Cougar, Family of Medium Tactical Vehicles Long Term Armor Strategy, and Joint Light Tactical Vehicle; Stryker upgrades; armor gun shields for tactical vehicles; reactive and active armor on the Stryker; Personnel Screening Systems; the Mine Resistant Ambush Protected Vehicles; Intelligence Surveillance and Reconnaissance; Electronic Countermeasure Devices; body armor; High Mobility Multipurpose Wheeled Vehicle; Aviation Transformation; aviation protection systems; missile defense; and Unmanned Systems. Capabilities are also required to support System-of-Systems and network centric systems to include Future Combat System (FCS) testing.

This project provides the institutional funding required to operate the developmental test activities required by Department of Defense (DoD) Program Executive Officers, Program and Product Managers, and Research, Development, and Engineering Centers. This project provides resources to operate four DoD Major Range and Test Facility Bases: White Sands Missile Range, NM; Aberdeen Test Center, MD; Electronic Proving Ground, AZ; and Yuma Proving Ground, AZ (to include management of Army natural environmental testing at Cold Regions Test Center, Fort Greely and Fort Wainwright, AK, and Tropic Regions Test Center at various locations). This project also funds the Army's developmental test capability at Aviation Technical Test Center, AL; and Redstone Technical Test Center, AL. Test planning and safety verification at Headquarters, U.S. Army Developmental Test Command (DTC), MD is also supported by this program.

Information Systems Security Program (0303140A): The Communications Security Equipment Program develops Information Systems Security (ISS) equipment and techniques required to combat threat Signal Intelligence capabilities and to insure the integrity of data networks. The Army's RDTE ISS program objective is to implement National Security Agency (NSA) developed security technology in Army information systems. Communications Security Equipment (COMSEC) technology ensures total signal and data security for all Army information systems to include any operational enhancement and specialized Army configurations.

National Defense Property, Plant, and Equipment

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

FY 2009 Required Supplementary Information (RSI)

General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts
For Fiscal Year Ended September 30, 2009
(Amounts in thousands)

	Current Fiscal Year		
Property Type	**1. Plant Replacement Value**	**2. Required Work (deferred maintenance)**	**3. Percentage**
Category 1	$176,819	$24,685	14%
Category 2	$27,011	$7,327	27%
Category 3	$1,199	$0	0%

Narrative Statement:

The deferred maintenance estimates are based on the facility Q-ratings found in the Army's real property inventory. For FY 2009, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

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

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

The business rule Q-rating assignment of 85 for facilities between 5 and 15 years old and the business rules for non-functional facilities are new for the 2009 report.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission including multi-use Heritage Assets

- Category 2: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets

- Category 3: Buildings, Structures, and Utilities that are Heritage Assets

Military Equipment Deferred Maintenance
For Fiscal Year Ended September 30, 2009
(Amounts in thousands)

Major Categories		
1.	Aircraft	$392,902
2.	Automotive Equipment	7,864
3.	Communication-Electronics	417,128
4.	Missiles	133,415
5.	Combat Vehicles	428,322
6.	Construction	18,205
7.	General Purpose Equipment	41,909
8.	Ordnance Weapons and Munitions	38,051
9.	Other Weapons Systems	66,315
	Total	$1,544,111

The Op-30 from the FY2009 President Budget was used to compile the deferred depot level maintenance. Depot Maintenance Operations and Planning System (DMOPS). DMOPS is the automated system for capturing depot-level deferred maintenance data. The data is for SAG 123, all active components.

Heritage Assets and Stewardship Land Condition Information
For Fiscal Year Ended September 30, 2009

The conditions of archeological sites across the Army remain varied from poor to excellent based on a number of factors including the environmental setting, the type of 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 of Historic Places, the installation's Installation Cultural Resource Management Plan (ICRMP) contains provisions for how the installation would proceed to mitigate those impacts. The ICRMP is the plan that installations use to manage their cultural resources including archeological sites in compliance with federal requirements. These plans provide for site protection, site conditions monitoring, and mitigation procedures for adverse impacts to sites. Overall, the conditions of sites on Army installations are fair based on the Army's cultural resource management procedures.

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

November 8, 2009

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

SUBJECT: Independent Auditor's Report on the Army General Fund FY 2009 and FY 2008 Basic Financial Statements (Report No. D 2010 010)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army General Fund Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Army General Fund FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army General Fund FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Army financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended[1] to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Army has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information

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

contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

OMB Circular A-136, "Financial Reporting Requirements," states that prior-period financial statements should be restated for corrections of errors that would have caused any statements presented to be materially misstated. In September 2008, the Army General Fund understated values for Accounts Payable caused by accruals not being posted for undistributed disbursements in FY 2008. As a result of this error, the Army General Fund had a prior-period adjustment to increase Accounts Payable by $1.1 billion. This is discussed in detail in Note 26.

Summary of Internal Control

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

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

- Financial Management Systems
- Fund Balance with Treasury
- Inventory and Related Property
- General Property, Plant, and Equipment
- Environmental Liabilities
- Intragovernmental Eliminations
- Accounting Adjustments
- Statement of Net Cost
- Abnormal Account Balances
- Accounts Receivable
- Accounts Payable
- Statement of Budgetary Resources

[2] *The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.*

- Reconciliation of Net Cost of Operations to Budget
- Contingency Payment Audit Trails

A material weakness is a significant deficiency, or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[3]

A significant deficiency is a control deficiency,[4] or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected. One previously identified significant deficiency, the legal representation process, continued to exist.

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

The Army reported the above weaknesses in its FY 2009 Statement of Assurance.

Summary of Compliance with Laws and Regulations

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

[3] The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

[4] A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Management's Responsibilities

Management is responsible for:

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

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

Patricia A. Marsh

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

Attachment:
As stated

Report on Internal Control and Compliance with Laws and Regulations

Internal Control

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

Previously Identified Material Weaknesses

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

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

The Army acknowledges that its financial management systems are unable to provide adequate evidence supporting various material amounts on the financial statements and do not comply with the Federal financial management systems requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Until the Army's systems and processes are updated to comply with U.S. GAAP, the Army's financial data will be based on budgetary, nonfinancial feeder system transactions and adjustments for known accruals of major items. The Army derives its reported values and information for major asset and liability accounts from nonfinancial feeder systems, such as inventory and logistics systems. (Major assets include General Property, Plant, and Equipment, and Inventory and Related Property.) In addition, budgetary transactions are recorded in line items such as Fund Balance with Treasury, Accounts Receivable, Accounts Payable, Gross Costs, and Earned Revenue.

Fund Balance With Treasury
DOD and its Components, including the Army, have had long-standing problems with reconciling transaction activity in their Fund Balance with Treasury accounts. Appropriation balances recorded in the accounting records do not agree with balances held at the Department of the Treasury.

Inventory and Related Property
Army systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." Army systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement of Federal Financial Accounting Standards No. 3 states that Operating Materials and Supplies must be expensed when the items are consumed. However, the Army has acknowledged that a significant portion of Operating Materials and Supplies is expensed when purchased, instead of when consumed.

General Property, Plant, and Equipment
Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires that all General Property, Plant, and Equipment be recorded at cost, and that depreciation expense be recognized on all General Property, Plant, and Equipment. For the Army General Fund, real property and military equipment are not recorded at

acquisition or historical cost and do not include all costs needed to bring real property to a form suitable for the intended use. Also, the Army cannot support the reported cost of Military Equipment in accordance with Statement of Federal Financial Accounting Standards No. 6. The Army also lacks financial accountability systems that comply with the Federal Financial Management Improvement Act of 1996 for all of its Military Table of Equipment unit property books.

Environmental Liabilities

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

Intragovernmental Eliminations

DOD is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified. This is primarily because of systems limitations, as the majority of the systems currently used within DOD do not allow for the capture of buyer-side information for use in reconciliations and eliminations. DOD and Army accounting systems are unable to capture trading partner data at the transaction level in a manner that facilitates required trading partner eliminations, and DOD guidance does not require adequate support for eliminations. In addition, DOD procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. Therefore, Defense Finance and Accounting Service (DFAS), Indianapolis made $15.7 billion in unsupported adjustments to intragovernmental accounts to force the accounts to agree with the records of Army's trading partners.

Accounting Adjustments

Because of inadequate financial management systems and processes, DFAS, Indianapolis uses journal voucher adjustments and data calls to prepare the Army General Fund financial statements. DFAS, Indianapolis did not adequately support $311.3 billion in journal voucher adjustments used to prepare the Army General Fund financial statements. Specifically, DFAS, Indianapolis made the following unsupported adjustments:

- $125.6 billion to force amounts to agree with other sources of information and records or financial statement lines,
- $15.7 billion to force intragovernmental accounts to agree with the records of the Army's trading partners,
- $115.5 billion to correct errors and reclassify amounts to other accounts, and
- $54.4 billion to force the general ledger account to agree with status of appropriations data (or ending balance adjustments) without reconciling the differences or determining which data source was correct.

Statement of Net Cost

The financial information contained in the Statement of Net Cost is not presented by program, in alignment with major goals and outputs described in the DOD strategic and performance plans, as required by the Government Performance and Results Act. Because financial processes and systems do not correlate costs with performance measures, revenues and expenses are reported by appropriation category. Army systems do not always record transactions on an accrual basis, as required by U.S. GAAP, and the amounts presented in the Statement of Net Cost are based on funding, obligation, and disbursing transactions. To capture all cost and financing sources for the

Army, the information presented also includes data from nonfinancial feeder systems. In FY 2009, DFAS, Indianapolis prepared $42.9 billion in unsupported adjustments that affected general ledger accounts used in the Statement of Net Cost.

Abnormal Account Balances
DFAS, Indianapolis did not detect or take action to eliminate abnormal balances included in the Army General Fund accounting records. The FY 2009 trial balance data for the Army General Fund included 123 general ledger accounts, with $30.6 billion of unresolved abnormal balances for proprietary accounts used by DFAS, Indianapolis as part of the compilation of the Army General Fund financial statements. The FY 2009 trial balance data for the Army General Fund included an additional $34.3 billion of abnormal balances in 41 budgetary general ledger accounts that were not used to compile the Army General Fund financial statements. DFAS, Indianapolis considers this budgetary data so unreliable that the trial balance for budgetary accounts must be constructed from other budgetary reports.

Accounts Receivable
The Army has acknowledged weaknesses in its accounts receivable management. The weaknesses are considered to be DOD-wide and apply to both public and intragovernmental receivables at the Army General Fund level. Weaknesses include:

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

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

Statement of Budgetary Resources
Army accounting systems do not provide or capture data needed for obligations incurred or prior-year obligations recovered, as required by OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget Requirements." Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined. The Army uses budget execution data to prepare the monthly Standard Form (SF) 133 and to populate the quarterly Federal Agencies Centralized Trial Balance System (FACTS) II budgetary general ledger accounts. DFAS, Indianapolis personnel then used the Federal Agencies Centralized Trial Balance System II data, rather than general ledger data, to prepare the Statement of Budgetary Resources. Because the SF 133 and the Statement of Budgetary Resources were prepared using the same budget execution data, a true reconciliation between the two reports cannot be performed. According to OMB Circular No. A-136, "Financial Reporting Requirements," the Statement of Budgetary Resources should be predominantly derived from an entity's budgetary general ledger, instead of being based on budget execution data. In FY 2009, DFAS, Indianapolis prepared $2.7 billion in unsupported adjustments that affected general ledger accounts used in the Statement of Budgetary Resources.

DFAS, Indianapolis reported budget execution data to the Department of the Treasury that did not agree with the data reported on the Army financial statements. The differences between the amounts reported on the SF 133 provided to OMB and the Army General Fund Statement of Budgetary Resources (and its related footnote) totaled $1.4 billion for third quarter FY 2009. This difference occurred because DFAS, Indianapolis did not perform an effective reconciliation among FACTS II data, the Army General Fund Statement of Budgetary Resources, and the Army SF 133. As a result, DFAS, Indianapolis used one set of budget execution data to manage Army funds, but provided the Department of the Treasury a different set of budget execution data for OMB's use. Also, DFAS, Indianapolis reported inaccurate and misleading budget execution data on the Army SF 133, Army Statement of Budgetary Resources and related footnote, and to the Department of the Treasury for the OMB SF 133. In addition, DFAS, Indianapolis will perpetuate the material differences in the newly fielded accounting systems if the differences are not corrected.

Reconciliation of Net Cost of Operations to Budget
The Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. During FY 2007, OMB rescinded the requirement to report this reconciliation as a Statement of Financing and now requires the disclosure of the information as a note to the financial statements. The Army acknowledged that it is unable to accurately represent the relationship between budgetary obligations incurred and its Statement of Net Costs without making unsupported adjustments.

Contingency Payment Audit Trails
DOD Office of the Inspector General Report No. D-2008-098, "Internal Controls Over Payments Made in Iraq, Kuwait, and Egypt," May 22, 2008, determined that the Army made $1.4 billion in commercial payments that lacked the minimum supporting documentation and information for a valid payment, such as certified vouchers, proper receiving reports, and invoices. Payments that are not properly supported do not provide the necessary assurance that funds were used as intended. In addition, we estimated that $6.3 billion of commercial payments contained the minimum supporting documentation but did not comply with other statutory and regulatory requirements. The Army closed this material weakness in its FY 2009 Army Statement of Assurance as corrected. The U.S. Army Audit Agency recommended that the Contingency Payment Audit Trails material weakness be restructured following a series of audits performed by that agency. Based on Army Audit Agency report, A-2009-0173-ALL, "Audit of Controls Over Vendor Payments – Kuwait," July 29, 2009, the Army continues to have deficiencies in the maintenance of supporting documents, creating significant challenges in tracing audit trails for support of financial statements.

Previously Identified Significant Deficiencies

As part of our financial-related audits, we noted the following significant deficiency that continued to exist.

Legal Representation Process
The Army legal representation process did not provide meaningful assessments of potential liabilities and was not linked to the Army process for reporting and disclosing contingent legal liabilities on the financial statements. The legal representation letter from the Army Office of General Counsel and the Army management schedule did not corroborate either the $508.4 million reported on the Balance Sheet as part of Non-Federal Other Liabilities or the $639.5 million disclosed as contingent legal liabilities on Note 16 in the FY 2009 Army General Fund Financial Statements.

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

Compliance With Laws and Regulations

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

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Army did not fully comply with FFMIA. The Army acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Government Performance and Results Act

Congress enacted the Government Performance and Results Act of 1993 (GPRA) to establish strategic planning and performance measurement in the Federal Government. Strategic plans, annual performance plans, and annual program performance reports comprise the main elements of GPRA. The Army did not comply with GPRA because it did not have cost accounting systems in place to collect, process, and report operating costs. This resulted in the Army being unable to present cost-of-operations data on the Army General Fund Statement of Net Cost that were consistent with the GPRA goals and measures.

Antideficiency Act

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

of actions taken. During FY 2009, the Army General Fund reported four cases of violation of the ADA. Therefore, the Army did not comply with 31 U.S.C. § 1341, 31 U.S.C. § 1351, and 31 U.S.C. § 1517.

DOD internal guidance limits the time from identification to reporting of ADA violations to 12 months. Our review of the Army General Fund ADA investigations of potential violations showed that the Army did not process three of the four ADA violation cases within 12 months.

Audit Disclosures

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us on March 19, 2009, that the Army financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act of 1996), Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, Prompt Payment Act, and the Improper Payment Act.

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

Limitations

Limitations of the Financial Statements

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

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

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

Department of Defense - Army Working Capital Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008 (Amounts in thousands)	2009 Consolidated		2008 Consolidated	
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	1,349,591	$	2,571,441
Accounts Receivable (Note 5)		343,430		297,458
Other Assets (Note 6)		0		1,879
Total Intragovernmental Assets	$	1,693,021	$	2,870,778
Cash and Other Monetary Assets (Note 7)		0		0
Accounts Receivable,Net (Note 5)		49,624		16,972
Loans Receivable (Note 8)		0		0
Inventory and Related Property,Net (Note 9)		23,164,252		20,279,681
General Property, Plant and Equipment,Net (Note 10)		1,260,198		1,097,692
Investments (Note 4)		0		0
Other Assets (Note 6)		885,062		559,932
TOTAL ASSETS	$	27,052,157	$	24,825,055
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	84,576	$	85,510
Other Liabilities (Note 15 & 16)		82,570		60,493
Total Intragovernmental Liabilities	$	167,146	$	146,003
Accounts Payable (Note 12)		1,606,340		946,005
Military Retirement and Other Federal Employment Benefits (Note 17)		231,234		254,518
Other Liabilities (Note 15 and Note 16)		342,716		382,465
TOTAL LIABILITIES	$	2,347,436	$	1,728,991
NET POSITION				
Unexpended Appropriations - Other Funds	$	440,722	$	719,900
Cumulative Results of Operations - Other Funds		24,263,999		22,376,164
TOTAL NET POSITION	$	24,704,721	$	23,096,064
TOTAL LIABILITIES AND NET POSITION	$	27,052,157	$	24,825,055

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

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2009 and 2008 (Amounts in thousands)	2009 Consolidated		2008 Consolidated	
Program Costs				
Gross Costs	$	30,247,547	$	19,466,040
(Less: Earned Revenue)		(29,560,443)		(20,370,296)
Net Program Costs	$	687,104	$	(904,256)
Net Cost of Operations	$	687,104	$	(904,256)

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2009 and 2008 (Amounts in thousands)	**2009 Earmarked Funds**	**2009 All Other Funds**	**2009 Eliminations**	**2009 Consolidated**
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 0	$ 22,376,164	$ 0	$ 22,376,164
Prior Period Adjustments:				
Changes in accounting principles (+/-)	0	1,689,600	0	1,689,600
Beginning balances, as adjusted	$ 0	$ 24,065,764	$ 0	$ 24,065,764
Budgetary Financing Sources:				
Appropriations used	$ 0	$ 824,578	$ 0	$ 824,578
Transfers-in/out without reimbursement	0	(1,023,000)	0	(1,023,000)
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	0	(119,665)	0	(119,665)
Imputed financing from costs absorbed by others	0	174,567	0	174,567
Other (+/-)	0	1,028,859	0	1,028,859
Total Financing Sources	$ 0	$ 885,339	$ 0	$ 885,339
Net Cost of Operations (+/-)	0	687,104	0	687,104
Net Change	$ 0	$ 198,235	$ 0	$ 198,235
Cumulative Results of Operations	$ 0	$ 24,263,999	$ 0	$ 24,263,999
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 719,900	$ 0	$ 719,900
Beginning balances, as adjusted	$ 0	$ 719,900	$ 0	$ 719,900
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 545,400	$ 0	$ 545,400
Appropriations transferred-in/out	0	0	0	0
Other adjustments (rescissions, etc)	0	0	0	0
Appropriations used	0	(824,578)	0	(824,578)
Total Budgetary Financing Sources	$ 0	$ (279,178)	$ 0	$ (279,178)
Unexpended Appropriations	0	440,722	0	440,722
Net Position	$ 0	$ 24,704,721	$ 0	$ 24,704,721

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2009 and 2008 (Amounts in thousands)	2008 Earmarked Funds	2008 All Other Funds	2008 Eliminations	2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 0	$ 21,893,734	$ 0	$ 21,893,734
Prior Period Adjustments:				
Changes in accounting principles (+/-)	0	0	0	0
Beginning balances, as adjusted	$ 0	$ 21,893,734	$ 0	$ 21,893,734
Budgetary Financing Sources:				
Appropriations used	$ 0	$ 604,496	$ 0	$ 604,496
Transfers-in/out without reimbursement	0	(1,450,000)	0	(1,450,000)
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	0	(272,573)	0	(272,573)
Imputed financing from costs absorbed by others	0	155,381	0	155,381
Other (+/-)	0	540,870	0	540,870
Total Financing Sources	$ 0	$ (421,826)	$ 0	$ (421,826)
Net Cost of Operations (+/-)	0	(904,256)	0	(904,256)
Net Change	$ 0	$ 482,430	$ 0	$ 482,430
Cumulative Results of Operations	$ 0	$ 22,376,164	$ 0	$ 22,376,164
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 0	$ 0	$ 0	$ 0
Beginning balances, as adjusted	$ 0	$ 0	$ 0	$ 0
Budgetary Financing Sources:				
Appropriations received	$ 0	$ 1,375,471	$ 0	$ 1,375,471
Appropriations transferred-in/out	0	0	0	0
Other adjustments (rescissions, etc)	0	(51,075)	0	(51,075)
Appropriations used	0	(604,496)	0	(604,496)
Total Budgetary Financing Sources	$ 0	$ 719,900	$ 0	$ 719,900
Unexpended Appropriations	0	719,900	0	719,900
Net Position	$ 0	$ 23,096,064	$ 0	$ 23,096,064

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
As of September 30, 2009 and 2008 (Amounts in thousands)	2009 Combined	2008 Combined	2009 Combined	2008 Combined
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1	$ 3,359,578	$ 2,516,314	$ 0	$ 0
Recoveries of prior year unpaid obligations	708,538	800,094	0	0
Budget authority				
Appropriation	545,400	1,375,471	0	0
Contract authority	9,779,733	12,348,540	0	0
Spending authority from offsetting collections				
Earned				
Collected	16,681,563	16,375,333	0	0
Change in receivables from Federal sources	99,300	8,923	0	0
Change in unfilled customer orders				
Advance received	(4,834)	(22,477)	0	0
Without advance from Federal sources	(158,236)	390,797	0	0
Subtotal	$ 26,942,926	$ 30,476,587	$ 0	$ 0
Nonexpenditure transfers, net, anticipated and actual	(1,023,000)	(1,450,000)	0	0
Permanently not available	(11,269,622)	(10,164,456)	0	0
Total Budgetary Resources	$ 18,718,420	$ 22,178,539	$ 0	$ 0
Status of Budgetary Resources:				
Obligations incurred:				
Reimbursable	$ 16,895,570	$ 18,818,961	$ 0	$ 0
Subtotal	$ 16,895,570	$ 18,818,961	$ 0	$ 0
Unobligated balance:				
Apportioned	1,822,850	3,359,578	0	0
Subtotal	$ 1,822,850	$ 3,359,578	$ 0	$ 0
Total status of budgetary resources	$ 18,718,420	$ 22,178,539	$ 0	$ 0
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 12,938,885	$ 10,854,914	$ 0	$ 0
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(5,937,173)	(5,537,453)	0	0
Total unpaid obligated balance	$ 7,001,712	$ 5,317,461	$ 0	$ 0
Obligations incurred net (+/-)	16,895,570	18,818,961	0	0
Less: Gross outlays	(17,420,981)	(15,934,896)	0	0
Less: Recoveries of prior year unpaid obligations, actual	(708,538)	(800,094)	0	0
Change in uncollected customer payments from Federal sources (+/-)	58,938	(399,720)	0	0
Obligated balance, net, end of period				
Unpaid obligations	$ 11,704,936	$ 12,938,885	$ 0	$ 0
Less: Uncollected customer payments from Federal sources (-)	(5,878,237)	(5,937,173)	0	0
Total, unpaid obligated balance, net, end of period	$ 5,826,699	$ 7,001,712	$ 0	$ 0
Net Outlays:				
Gross outlays	$ 17,420,981	$ 15,934,896	$ 0	$ 0
Less: Offsetting collections	(16,676,731)	(16,352,856)	0	0
Net Outlays	$ 744,250	$ (417,960)	$ 0	$ 0

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

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army Working Capital Fund (AWCF), 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 AWCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the AWCF is responsible unless otherwise noted.

The AWCF is unable to fully implement all elements of USGAAP and the OMB Circular A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The AWCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The AWCF continues to implement process and system improvements addressing these limitations.

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

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

In second quarter 2008, AWCF received $719.9 million in a three-year appropriation. The AWCF uses these appropriations and funds to execute its missions and subsequently report on resource usage.

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

1.D. Basis of Accounting

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

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

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the United States Standard General Ledger (USSGL). At this time, not all AWCF accounting systems are USSGL compliant. However, the Army has implemented the Logistics Modernization Program (LMP) at Tobyhanna Army Depot, Communications Electronics Life Cycle Management Command, Corpus Christi Army Depot, Letterkenny Army Depot, Aviation and Missile Life Cycle Management Command, and other Army Materiel Command activities. The LMP is substantially compliant with the Federal Financial Management Improvement Act (FFMIA) as determined by the Army Audit Agency (AAA). Until LMP is fully implemented and all of the processes are updated to collect and report financial information as required by USGAAP, AWCF's financial data will be derived from a combination of proprietary systems, cost systems, and feeder systems.

1.E. Revenues and Other Financing Sources

The AWCF Industrial Operations activities recognize revenue according to the percentage-of-completion method. Supply Management activities recognize revenue when an inventory item is sold. Prices set for products and services offered through the AWCF are intended to recover the full costs (cost plus administrative fees) incurred by these activities. Unearned revenue is recorded as deferred revenue until earned.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminates intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the AWCF cannot accurately identiFY intragovernmental transactions by customer because AWCF's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls to eliminate the need for reconciliations.

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

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of past collection experiences. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The AWCF values approximately 65% of resale inventory using the moving average cost method. The AWCF reports the remaining 35% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). The AWCF is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Some transitioned balances, however, were not baselined to auditable historical cost and may be noncompliant with SFFAS No. 3.

The AWCF manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in AWCF materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The AWCF holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale" with a completion date of year end FY 2010 reporting.

Inventory held for repair and future resale is now "inventory held for remanufacture." Inventory held for remanufacture capitalizes repair and rebuild costs, values unrepaired carcasses at cost, and provides for exchange pricing concepts for customer returns. AWCF is unable to comply with the accounting requirements for remanufacturing until such time as LMP is fully implemented and all inventory related tasks in the Army Financial Improvement Plan have been addressed, to include logistics interfaces.

The AWCF recognizes condemned materiel as "Excess, Obsolete, or Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero.

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

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

Not applicable.

1.O. General Property, Plant and Equipment

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

The AWCF capitalizes all General PP&E used in the performance of their mission. These capitalized assets are categorized as General PP&E, whether or not it meets the definition of any other General PP&E categories.

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

Not applicable.

1.R. Other Assets

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

The AWCF 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, AWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The AWCF has fully implemented this policy for recording contract financing payments as Other Assets.

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

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The AWCF 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 AWCF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

1.T. Accrued Leave

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

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. Beginning with FY 1998, the cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Unexpended Obligations

The AWCF obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations includes both obligations for which goods and services have been delivered (title passed) and a liability recognized, and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources, and is referred to as "Total, unpaid obligated balances, net, end of period."

1.X. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

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

1.Y. Significant Events

During 3rd Quarter, FY 2009, AWCF changed the inventory accounting method from latest acquisition cost (LAC) to moving average cost (MAC) for one of its major commands. This was a business process change from a value-based to a quantity-based unit-of-measure accounting system in LMP. The process change has led to differences which can occur on purchase requisitions and purchase orders for repair and maintenance of inventory items. As a result, contract dollar values are not properly adjusted to reflect unit cost in LMP resulting in misstated inventory values, accounts payable, and undelivered orders. At this time, we are unable to determine the monetary impact to the financial statements and Notes 9, 12, 18, and 20.

1.Z. Fiduciary Activities

Not applicable.

Note 2. Nonentity Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0	$ 0
B. Accounts Receivable	0	0
C. Total Intragovernmental Assets	$ 0	$ 0
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 0	$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Nonfederal Assets	$ 0	$ 0
3. Total Nonentity Assets	$ 0	$ 0
4. Total Entity Assets	$ 27,052,157	$ 24,825,055
5. Total Assets	$ 27,052,157	$ 24,825,055

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

Note 3. Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 232,023	$ 719,900
B. Revolving Funds	1,117,568	1,851,541
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	$ 1,349,591	$ 2,571,441
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 1,349,591	$ 2,571,441
B. Fund Balance per Agency	1,349,591	2,571,441
3. Reconciling Amount	$ 0	$ 0

Status of Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 1,822,850	$ 3,359,578
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	11,704,936	12,938,885
3. Nonbudgetary FBWT	0	0
4. Non-FBWT Budgetary Accounts	(12,178,195)	(13,727,022)
5. Total	$ 1,349,591	$ 2,571,441

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations.

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

NonFBWT Budgetary Accounts reduces the Status of FBWT. NonFBWT Budgetary Accounts consists of unfilled orders, reimbursements earned and contract authority.

Note 4. Investments and Related Interest

Not applicable.

Note 5. Accounts Receivable

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

As of September 30	2008		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 297,458	N/A	$ 297,458
2. Nonfederal Receivables (From the Public)	21,346	$ (4,374)	16,972
3. Total Accounts Receivable	$ 318,804	$ (4,374)	$ 314,403

Note 6. Other Assets

As of September 30	2009		2008	
(Amounts in thousands)				
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	0	$	1,879
B. Other Assets		0		0
C. Total Intragovernmental Other Assets	$	0	$	1,879
2. Nonfederal Other Assets				
A. Outstanding Contract Financing Payments	$	483,135	$	555,275
B. Advances and Prepayments		397,991		719
C. Other Assets (With the Public)		3,936		3,938
D. Total Nonfederal Other Assets	$	885,062	$	559,932
3. Total Other Assets	$	885,062	$	561,811

Other Assets (With the Public) consists of travel advances and prepaid expenses.

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

The Contract Financing Payment balance of $483.1 million is comprised of $447.5 million in contract financing payments and an additional $35.6 million in estimated future payments that will be paid to the contractor upon future delivery and Federal Government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

Note 7. Cash and Other Monetary Assets

Not applicable.

Note 8. Direct Loan and Loan Guarantees

Not applicable.

Note 9. Inventory and Related Property

As of September 30	2009		2008	
(Amounts in thousands)				
1. Inventory, Net	$	23,164,252	$	20,279,681
2. Operating Materiel & Supplies, Net		0		0
3. Stockpile Materiel, Net		0		0
4. Total	$	23,164,252	$	20,279,681

Inventory, Net

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

As of September 30 *(Amounts in thousands)*	2008 Inventory, Gross Value	2008 Revaluation Allowance	2008 Inventory, Net	Valuation Method
1. Inventory Categories				
A. Available and Purchased for Resale	$ 24,260,857	$ (7,796,050)	$ 16,464,807	LAC, MAC
B. Held for Repair	5,569,787	(2,025,250)	3,544,537	LAC, MAC
C. Excess, Obsolete, and Unserviceable	546,527	(546,527)	0	NRV
D. Raw Materiel	103,529	0	103,529	MAC, SP, LAC
E. Work in Process	166,808	0	166,808	AC
F. Total	$ 30,647,508	$ (10,367,827)	$ 20,279,681	

Legend for Valuation Methods:

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

Restrictions of Inventory Use, Sale, or Disposition

There are restrictions on the use, sale, and disposition of inventory classified as war reserve materiels of $779.3 million which includes petroleum products, subsistence items, spare parts, and medical materiels.

Other Information

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

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

During 3rd Quarter, FY 2009, AWCF changed the inventory accounting method from latest acquisition cost (LAC) to moving average cost (MAC) for one of its major commands. This migration and revaluation resulted in a $2.7 billion increase in the net inventory values for the Aviation and Missile Life Cycle Management Command activities involved with the second deployment of the Logistic Modernization Program (LMP). This adjustment included a $2.8 billion decrease in gross inventory due to baselining inventory to MAC and a $5.5 billion increase associated with the write-off of the holding gains and losses allowance accounts.

Operating Materiel and Supplies, Net

Not applicable.

Stockpile Materiel, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2009					2008
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	$ 0	N/A	$ 0	$ 0
B. Buildings, Structures, and Facilities	S/L	20 or 40	1,630,407	$ (1,280,520)	349,887	422,260
C. Leasehold Improvements	S/L	lease term	96,629	(86,308)	10,321	12,545
D. Software	S/L	2-5 or 10	740,838	(298,888)	441,950	294,182
E. General Equipment	S/L	5 or 10	1,595,058	(1,222,694)	372,364	320,758
F. Military Equipment	S/L	various	0	0	0	0
G. Shipbuilding	N/A	N/A	0	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0	0
I. Construction-in-Progress	N/A	N/A	85,676	N/A	85,676	47,947
J. Other			0	0	0	0
K. Total General PP&E			$ 4,148,608	$ (2,888,410)	$ 1,260,198	$ 1,097,692

[1]Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Assets Under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	46,378	47,102
D. Total Intragovernmental Liabilities	$ 46,378	$ 47,102
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement and Other Federal Employment Benefits	231,234	254,518
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	$ 231,234	$ 254,518
3. Total Liabilities Not Covered by Budgetary Resources	$ 277,612	$ 301,620
4. Total Liabilities Covered by Budgetary Resources	2,069,824	1,427,371
5. Total Liabilities	$ 2,347,436	$ 1,728,991

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

Intragovernmental Other Liabilities represents future funded Federal Employees Compensation Act (FECA) liabilities billed to AWCF by the Department of Labor (DOL) for payments made by DOL to Army's beneficiaries. The current portion of this bill, $20.6 million, is due in FY 2010 and the remainder is due in the following fiscal years.

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

Note 12. Accounts Payable

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

As of September 30	2008		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	$ 85,510	$ N/A	$ 85,510
2. Nonfederal Payables (to the Public)	946,005	0	946,005
3. Total	$ 1,031,515	$ 0	$ 1,031,515

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

Note 13. Debt

Not applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

Not applicable.

Note 15. Other Liabilities

As of September 30	**2009**			**2008**
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	$ 20,548	$ 0	$ 20,548	$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0	0
C. Disbursing Officer Cash	0	0	0	0
D. Judgment Fund Liabilities	0	0	0	0
E. FECA Reimbursement to the Department of Labor	20,612	25,766	46,378	47,101
F. Custodial Liabilities	0	0	0	0
G. Employer Contribution and Payroll Taxes Payable	15,644	0	15,644	13,392
H. Other Liabilities	0	0	0	0
I. Total Intragovernmental Other Liabilities	$ 56,804	$ 25,766	$ 82,570	$ 60,493
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 126,331	$ 0	$ 126,331	$ 104,104
B. Advances from Others	83,704	0	83,704	105,491
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	(20,703)	0	(20,703)	(41,154)
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
G. Accrued Unfunded Annual Leave	86,455	0	86,455	96,446
H. Capital Lease Liability	0	0	0	0
I. Contract Holdbacks	4,595	0	4,595	48,274
J. Employer Contribution and Payroll Taxes Payable	23,471	0	23,471	22,139
K. Contingent Liabilities	3,225	35,638	38,863	47,165
L. Other Liabilities	0	0	0	0
M. Total Nonfederal Other Liabilities	$ 307,078	$ 35,638	$ 342,716	$ 382,465
3. Total Other Liabilities	$ 363,882	$ 61,404	$ 425,286	$ 442,958

Capital Lease Liability

Noncurrent Contingent Liabilities includes $35.6 million related to contracts authorizing Progress Payments Based on Cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

Current Contingent Liabilities represent $3.2 million in contractor claims considered both measurable and probable.

Note 16. Commitments and Contingencies

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

The AWCF 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 AWCF records Judgment Fund liabilities in Note 12, Accounts Payable, and Note 15, Other Liabilities.

The FY 2009 Legal Representation Letter for the Army Working Capital Fund outlines three claims against AWCF totaling $498.3 million for which the Army Office of General Counsel is unable to express an opinion.

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

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

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009				2008
(Amounts in thousands)	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	Liabilities
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	$ 0		$ 0	$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Actuarial Benefits	$ 0		$ 0	$ 0	$ 0
2. Other Actuarial Benefits					
A. FECA	$ 231,234	4.223	$ 0	$ 231,234	$ 254,518
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. Total Other Actuarial Benefits	$ 231,234		$ 0	$ 231,234	$ 254,518
3. Other Federal Employment Benefits	0		0	0	0
4. Total Military Retirement and Other Federal Employment Benefits:	$ 231,234		$ 0	$ 231,234	$ 254,518

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

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

Actuarial liabilities are computed for employee compensation benefits as mandated by the Federal Employment Compensation Act (FECA). The Office of Personnel Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year.

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

Intragovernmental Costs and Exchange Revenue

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Costs	$ 4,290,257	$ 3,787,660
2. Public Costs	25,957,290	15,678,380
3. Total Costs	$ 30,247,547	$ 19,466,040
4. Intragovernmental Earned Revenue	$ (13,645,957)	$ (13,880,795)
5. Public Earned Revenue	(15,914,486)	(6,489,501)
6. Total Earned Revenue	$ (29,560,443)	$ (20,370,296)
7. Net Cost of Operations	$ 687,104	$ (904,256)

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

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

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

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 Department's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The Department is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation".

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

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

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

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 10,597,722	$ 12,237,211
2. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

All AWCF obligations represent reimbursable obligations in apportionment category B.

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

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

The Army Working Capital Fund received $545.4 million in appropriations to purchase war reserve secondary items and spares for Army Prepositioned Stocks.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30		2009		2008
(Amounts in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
1. Obligations incurred	$	16,895,570	$	18,818,961
2. Less: Spending authority from offsetting collections and recoveries (-)		(17,326,331)		(17,552,670)
3. Obligations net of offsetting collections and recoveries	$	(430,761)	$	1,266,291
4. Less: Offsetting receipts (-)		0		0
5. Net obligations	$	(430,761)	$	1,266,291
Other Resources:				
6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		(119,665)		(272,573)
8. Imputed financing from costs absorbed by others		174,567		155,381
9. Other (+/-)		1,028,859		540,870
10. Net other resources used to finance activities	$	1,083,761	$	423,678
11. Total resources used to finance activities	$	653,000	$	1,689,969
Resources Used to Finance Items not Part of the Net Cost of Operations:				
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
12a. Undelivered Orders (-)	$	1,639,490	$	(2,286,461)
12b. Unfilled Customer Orders		(163,069)		368,319
13. Resources that fund expenses recognized in prior Periods (-)		(44,670)		(13,886)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		0		0
15. Resources that finance the acquisition of assets (-)		(8,617,214)		(8,176,389)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)		0		0
16b. Other (+/-)		(909,197)		(268,298)
17. Total resources used to finance items not part of the Net Cost of Operations	$	(8,094,660)	$	(10,376,715)
18. Total resources used to finance the Net Cost of Operations	$	(7,441,660)	$	(8,686,746)

As of September 30	2009	2008
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 10,672	$ 9,697
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	0	13,096
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 10,672	$ 22,793
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 61,493	$ 61,145
26. Revaluation of assets or liabilities (+/-)	(8,977)	2,433,172
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	10,684,562	6,126,441
27c. Operating Material and Supplies Used	0	0
27d. Other	(2,618,985)	(861,061)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 8,118,093	$ 7,759,697
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 8,128,765	$ 7,782,490
30. Net Cost of Operations	$ 687,105	$ (904,256)

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

Resources that Finance the Acquisition of Assets were adjusted by $540.1 million to bring the note schedule into agreement with the Statement of Net Cost.

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated due to interagency budgetary transactions not being eliminated:

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

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 and the correction of prior period adjustments that did not meet the materiality thresholds.

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

Components Requiring or Generating Resources in a Future Period, Other consists of the unfunded Federal Employee Compensation Act (FECA) expense and the change in the related actuarial liability.

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

Note 22. Disclosures Related to Incidental Custodial Collections

Not applicable.

Note 23. Earmarked Funds

Not applicable.

Note 24. Fiduciary Activities

Not applicable.

Note 25. Other Disclosures

Not applicable.

Note 26. Restatements

Not applicable.

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

November 08, 2009

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

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund FY 2009 and FY 2008 Basic Financial Statements (Report No. D 2010 009)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army Working Capital Fund Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Army Working Capital Fund FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations (Report). This Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army Working Capital Fund FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Army financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended[1] to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Army has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain

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

information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

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

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

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

We identified the following additional material weakness in FY 2009.

- Statement of Budgetary Resources

[2] *The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information.*

A material weakness is a significant deficiency,[3] or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[4]

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

We identified the Statement of Budgetary Resources as a material weakness that the Army has not disclosed in its FY 2009 Statement of Assurance. The Army should consider reporting the Statement of Budgetary Resources as a material weakness because the Army Working Capital Fund will not have the ability to populate the statement using budgetary general ledger accounts until the full implementation of the Logistics Modernization Program system in FY 2011.

Summary of Compliance With Laws and Regulations

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

[3] A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

[4] The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

Management's Responsibilities

Management is responsible for:

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

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

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

Attachment:
As stated

Report on Internal Control and Compliance With Laws and Regulations

Internal Control

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

Previously Identified Material Weaknesses

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

Financial Management Systems
Army Working Capital Fund systems do not meet the requirements for full accrual accounting. The systems do not collect and record financial information as required by U.S. GAAP. Financial and nonfinancial feeder systems do not contain the required system integration to provide a transaction-level audit trail for the amounts reported in the proprietary and budgetary general ledger accounts. The Army derives a portion of its financial information for the Army Working Capital Fund from budgetary transactions and data from nonfinancial feeder systems, such as the Commodity Command Standard System and the Standard Industrial Fund System.

In FY 2003, the Army began deploying the Logistics Modernization Program system as the core financial management system for the Army Working Capital Fund. However, implementation problems at the initially deployed field locations and the system's inability to produce auditable outputs and achieve compliance with the Federal Financial Management Improvement Act of 1996 prevented further system deployment. The Government Accountability Office and DOD Office of Inspector General continue to issue audit reports that identify data integrity and system integration problems, questioning whether the Logistics Modernization Program system will record transaction-level data correctly to support the financial statements. The Army deployed the Logistics Modernization Program system to the Aviation and Missile Life Cycle Management Command and subordinate organizations in May 2009. The Army plans to accomplish its final deployment of the Logistics Modernization Program system in October 2010.

Inventory
The inventory valuation method used for some of the Army Working Capital Fund inventory does not produce an auditable approximation of historical cost. In FY 2009, the Army reported that the Army Working Capital Fund can only value 65 percent of its inventory at moving average cost. The Army continues to use the latest acquisition cost method of valuing some inventories because the Army designed legacy systems for materiel management, rather than for accounting in conformance with U.S. GAAP. The systems provide accountability and visibility for inventory items but do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards (SSFAS) No. 3, "Accounting for Inventory and Related Property." In addition, the legacy systems are unable to produce financial transactions using the U.S. Government Standard General Ledger accounts, and neither the Defense Finance and Accounting Service (DFAS) nor the Army reconciled all differences between the accounting records and the logistical records. Instead, they accepted the data from the logistical records and adjusted the accounting records by $1.4 billion. The Army does not expect to correctly report its inventory valuation until FY 2015.

General Property, Plant, and Equipment
The reported value of Army Working Capital Fund General Property, Plant, and Equipment is unreliable because the Army continues to lack the documentation needed to support the historical acquisition costs of its assets. The Army has not completely established and implemented a methodology to baseline acquisition costs for all property, plant, and equipment. The Army Working Capital Fund activities sometimes recorded the acquisition data and cost incorrectly or received incorrect information from the feeder systems. During FY 2009, the Army took steps to implement the $20,000 capitalization threshold for real property. Beginning in FY 2011, the DOD Financial Management Regulation, volume 4, chapter 6, annex 4, requires that the DOD entity funding the acquisition of real property assets record the acquisition value and associated depreciation on its financial statements. Entities that use these assets must recognize their share of the asset use by either reimbursing the entity who recorded the asset on its financial statements or by recording the imputed financing and imputed costs incurred. The Army needs to take action to identify how it will implement this change in accounting procedure during the next fiscal year.

DOD Inspector General Report No. D 2009 084, "Controls over Army Working Capital Fund Real Property," May 29, 2009, determined that the $10 million reported as leasehold improvements on the FY 2009 financial statements was erroneous. The value recorded simply represents the original acquisition costs and depreciation of 96 Navy buildings and other structures at Corpus Christi Army Depot primarily used by the Army Working Capital Fund activity. The Army was required to report these assets used by the Army Working Capital Fund under the DOD preponderance of use policy. Under the DOD policy, the Army should report these assets as buildings and other structures in Note 10 until the Army becomes compliant with the new DOD Financial Management Regulation requirements in FY 2011.

As a result of our audit, the Assistant Chief of Staff for Installation Management directed that Army Working Capital Fund activities conduct a 100-percent inventory of real property and establish auditable documentation using the methodology established in the Real Property Audit Readiness Handbook. As of September 30, 2009, the Office of Assistant Chief of Staff for Installation Management reported that it had completed 14 of 26 asset existence validation assistance visits at Army Working Capital Fund activities. In addition that office had completed file assembly assistance visits at 2 of 26 Army Working Capital Fund activities to develop supportable costs for each asset inventoried. The Army plans to have its real property validations completed in the first quarter of FY 2013. However, the reported value of General Property, Plant, and Equipment may continue to be unreliable until the Army fully implements the requirements of DOD Financial Management Regulation, volume 4, chapter 6, annex 4.

Intragovernmental Eliminations
DOD is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that are not verifiable. DOD and Army Working Capital Fund systems do not capture the trading partner financial data at the transaction level needed to facilitate reconciling and eliminating intragovementral transactions. DOD procedures require that the Army adjust its buyer-side transaction data to agree with seller-side transaction data from other Government entities without the entities performing proper reconciliations. As a result, DFAS Indianapolis made $12.9 billion in adjustments to Army Working Capital Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners.

Other Accounting Entries
DFAS Indianapolis and Columbus did not adequately support $10.8 billion in journal vouchers used to prepare the Army Working Capital Fund financial statements. DFAS Indianapolis and Columbus made unsupported adjustments to force amounts to agree with other sources of information and records used in preparing the FY 2009 Army Working Capital Fund Financial Statements. In addition, DFAS Indianapolis and Columbus did not always follow the established minimum requirements to document the analytical process used to develop the journal vouchers and support adjusting accounting entries made to the general ledger accounts. The resulting unsupported accounting adjustments presented a material uncertainty regarding the line item balances on the FY 2009 Army Working Capital Fund Financial Statements.

The conversion to the Logistics Modernization Program system has required the creation of the 9000 series of general ledger accounts to temporarily store proprietary values of $73.8 billion for many of the line items reported in the Balance Sheet. The

Treasury Financial Manual states that the 9000 series of accounts are available for agencies to record and maintain agency-specific statistical and/or memorandum data. The Army has not adequately disclosed its use of these accounts to populate the Army Working Capital Fund Balance Sheet and other statements.

Abnormal Account Balances
In FY 2009, the Army Working Capital Fund Industrial Operations and Supply Management activities (limit-level) reported 61 abnormal account balances, valued at $2.6 billion. Twenty-six of the 61 abnormal account balances, valued at $1.2 billion, were reported by activities using the Logistics Modernization Program system. Fourteen of the 16 installations, where the Army has fielded the Logistics Modernization Program system, reported at least one abnormal account balance for FY 2009. The Army and DFAS Indianapolis used the 61 abnormal balances to compute the amounts reported on the Balance Sheet for such items as Accounts Receivable, Inventory, Accounts Payable, Other Assets, and Other Liabilities.

Statement of Net Cost
The Army does not present the Army Working Capital Fund's Statement of Net Cost by responsibility segments as required by OMB Circular No. A-136, "Financial Reporting Requirements," June 10, 2009. Accounting systems did not accurately capture costs for Army Working Capital Fund programs or properly account for intragovernmental transactions and related eliminations. In addition, the Army used budgetary obligations, collections, and disbursement data to present some of the information reported on the Army Working Capital Fund's Statement of Net Cost.

Accounts Payable
DFAS Indianapolis adjusted Accounts Payable balances to derive the reported balances. It adjusted Accounts Payable with the Public downward by $142.6 million for undistributed disbursements. Also, the Army Working Capital Fund systems cannot reconcile Accounts Payable with corresponding Intragovernmental Accounts Receivable that generated the payables. As a result, DFAS Indianapolis made $502.2 million in unsupported adjustments to decrease Intragovernmental Accounts Payable to force the amounts to agree with Army Working Capital Fund trading partners. In addition, the Supply Management, Army Activity does not establish accounts payable in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," which requires the Army to establish an Account Payable when it accepts title to goods or services.

Reconciliation of Net Cost of Operations to Budget
SSFAS No. 7, "Revenues and Other Financing Sources," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. The Army could not reconcile the Army Working Capital Fund Note 21 with the Army Working Capital Fund's Statement of Net Cost without preparing $928 million in unsupported adjustments to the general ledger accounts to force costs to match obligation information.

Material Weakness Identified During FY 2009

Because of our review during FY 2009, we now consider the previously reported significant deficiency regarding the Statement of Budgetary Resources to be material. OMB Circular No. A 136 states that the entity should develop the Statement of Budgetary Resources predominantly from the general ledger accounts, not from budget execution data. The Army did not use data received from Army Working Capital Fund budgetary general ledger accounts reported by the Logistics Modernization Program system to populate the Statement of Budgetary Resources. Instead, DFAS Indianapolis continues to use budget execution data contained in status reports.

Correcting the weakness relies on the implementation and use of the correct budgetary general ledger account within the Logistics Modernization Program system. For example, the Logistics Modernization Program system does not currently have the ability to track the transaction-level information for five budgetary accounts related to contract authority. In addition, DFAS Indianapolis made $328.1 million in adjustments to the budgetary accounts because none of the accounting systems correctly recorded the budgetary transactions related to Advances and Prepayments.

Compliance With Laws and Regulations

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

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Army did not fully comply with Federal Financial Management Improvement Act of 1996. The Army acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341) limits the Army and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Army or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. According to 31 U.S.C. § 1351, if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. DOD internal guidance limits the time from identification to reporting of ADA violations to 12 months. During FY 2009, the Army reported one case of a potential violation of the ADA within the Army Working Capital Fund. The Blue Grass Army Depot had reported the potential ADA violation promptly to Army management. The Army has conducted a preliminary review, and the Deputy Assistant Secretary of the Army (Financial Operations) has initiated a formal investigation as of June 4, 2009, which was ongoing during our audit. Therefore, we cannot yet determine whether the Army has complied with 31 U.S.C. § 1341 and 31 U.S.C. § 1351 until the investigation is completed.

Audit Disclosures

The Deputy Assistant Secretary of the Army (Financial Operations) acknowledged to us on March 19, 2009, that the Army financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Federal Credit Reform Act of 1990, Government Performance and Results Act, Pay and Allowance System for Civilian Employees, Prompt Payment Act, Improper Payment Act, and Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act of 1996).

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

The Soldier's Creed

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

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

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

I am an expert and I am a professional.

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

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

I am an American Soldier.

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