

# DEPARTMENT OF THE ARMY

## FISCAL YEAR 1996

### ANNUAL FINANCIAL REPORT

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FISCAL YEAR 1996  
ANNUAL FINANCIAL REPORT**

**The Army Vision**

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**Army Financial Highlights**

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## ***The Army Vision***

The world's best Army's, full spectrum force, trained and ready for victory. A total force of quality soldiers and civilians:

- A values-based organization
- An integral part of the Joint Team
- Equipped with the most modern weapons and equipment the country can provide
- Able to respond to our Nation's needs
- Changing to meet the challenges of today... tomorrow... and the 21st century

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The audited Department of the Army Fiscal Year 1999 Annual Financial Report was prepared jointly by the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) and the Defense Finance and Accounting Service - Indianapolis Center. It is the culmination of the efforts of many dedicated personnel of the Department of Defense.

This report was prepared in accordance with the Chief Financial Officers Act of 1990, as amended, and subsequent guidance.

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## SECRETARY OF THE ARMY WASHINGTON

February 1997



### Message from the Secretary of the Army

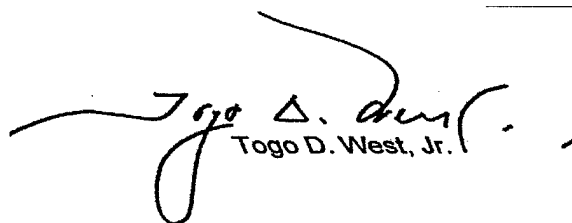
For 221 years, the United States Army has served the nation's interest at home and abroad. The Army continues that tradition of service today, preparing to meet the challenges of the 21st Century, ensuring regional stability in Bosnia, deterring aggression on the Korean Peninsula, and working with new democratic allies to promote peace throughout the world. As always, the Army stands ready to assist civilian agencies and local governments in times of domestic emergency or natural disaster.

In all these endeavors, our Army relies on its most cherished asset: its soldiers. Our soldiers require and deserve modern equipment, realistic training, and imaginative leadership. These imperatives deliver a highly disciplined, combat-ready United States Army -- the best land combat force in the world.

To be the best costs money. By spending our resources carefully, we earn a reputation for wise financial stewardship. More importantly, we reap the profits of sound financial management; new and better equipment for our combat units; increased efficiency in our recruiting efforts; enhanced performance in our support operations; and improved quality of life for our soldiers and their families.

This Annual Financial Report captures our successful effort to manage all of our resources in an integrated, efficient manner. The Army has made great strides in financial management reform, and we take pride in our ability to implement business practices in a unique organization, one entrusted with the nation's defense.

We will continue our work to improve our successful management of resources and to amplify the United States Army's reputation as a financial management leader in the Department of Defense. Our soldiers, and our nation, deserve nothing less.



Togo D. West, Jr.

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# AMERICA'S ARMY

## The Force of Decision for Today, Tomorrow, and the 21st Century

### Introduction

The primary mission of U.S. military forces has always been-and will continue to be-to protect the nation and its interests from direct threats and to deter, and if necessary, to fight and win the nation's wars. In conjunction with other Armed Forces, America's Army is the nation's force of decision, trained and ready to succeed across the full spectrum of military operations-from humanitarian assistance to peace operations to fighting and winning major regional conflicts. Whether conducting operations in support of national policy or participating in joint and multinational training exercises at home or abroad, American soldiers are the nation's standard-bearers throughout the world. The world recognizes the presence of America's Army as the most emphatic demonstration of strength and determination that the United States can make.

#### ARMY MISSIONS

- **PRESERVE THE PEACE AND SECURITY, AND PROVIDE FOR THE DEFENSE OF THE UNITED STATES, THE TERRITORIES, COMMONWEALTHS, AND POSSESSIONS, AND ANY AREAS OCCUPIED BY THE UNITED STATES.**
- **SUPPORT NATIONAL POLICIES.**
- **IMPLEMENT NATIONAL OBJECTIVES.**
- **OVERCOME ANY NATION RESPONSIBLE FOR AGGRESSIVE ACTS THAT IMPERIL THE PEACE AND SECURITY OF THE UNITED STATES.**

Consistent with the Government Performance and Results Act (GPRA) of 1993,

the Department of the Army has established the following six corporate-level goals that are critical to meeting the Administration's National Security Strategy:

- providing flexible, ready, and sustainable military forces capable of executing the National Security Strategy;
- recruiting and retaining well-qualified military and civilian personnel;

- sustaining and adapting security alliances and defense relationships;
- maintaining United States defense technological superiority;
- working closely and effectively with other United States government agencies, Congress, and the private sector; and
- employing modern management tools to eliminate unnecessary expenditures.

How has America's Army accomplished its mission and served the nation during the past fiscal year (FY)? This financial report describes the Army's missions and supporting structure, significant events of FY 1996, and the financial condition of the Army.

### America's Army Today

From FY 1989 through FY 1996, the Army's buying power declined 39 percent in constant dollars. The Army's share of the Defense Department budget decreased from 26.9 percent to 24.8 percent. The active Army decreased in size from 18 divisions to 10; it is now only the eighth largest in the world. The reserve component decreased from 10 divisions to 8. Military personnel reductions total 448,000 (275,000 soldiers from the active Army, and 173,000 soldiers from the reserve component). During the same time period, the Army closed 89 bases in the United States and is in the final phase of closing 662 overseas.

Although smaller now than at any time since before World War II, today's Army is not just a smaller version of the "Cold War" Army. It is a power projection force, based primarily in the United States but capable of responding rapidly to threats against national interests virtually anywhere in the world.

Today's Army is being called upon for an increasing number, and increasing variety, of missions. Operations as diverse as counterdrug, noncombatant evacuation, nation assistance, and humanitarian and disaster relief are conducted by the Army. Operational deployments have increased significantly since 1989, and the soldier in an operational unit today deploys much more frequently away from home station and family. On any given day in FY 1996, more than 35,000 soldiers were deployed away from their home stations. The Implementation Force (IFOR) mission in Bosnia accounted for the majority of these deployments.

## 4 Overview

The Army fulfills many roles. It contributes greatly to preventing international conflict by maintaining a forward presence overseas (more than 100,000 soldiers and 28,000 civilians stationed in Europe, Panama, and the Pacific), controlling the proliferation of weapons of mass destruction, and strengthening military relationships with other nations.

The Army strengthens military relationships by building security alliances with new friends and strengthening relations with long-standing allies. The Army's military-to-military contact programs with new partners in Europe, the former Soviet republics, and other nations are important pieces of this effort. During FY 1996, the Army conducted peace enforcement and peacekeeping operations as part of Operation Joint Endeavor in Bosnia, Operation Able Sentry in Macedonia, and Multinational Force Observers in the Sinai and provided humanitarian and civic assistance during Operations Pacific Haven and Marathon Pacific. As a show of force to deter Iraqi aggression, the Army participated in Operations Intrinsic Action, Desert Falcon, and Desert Strike. In addition, the Army participated in a Noncombatant Evacuation Operation, Assure Response, in Liberia. The Army was also involved in overseas training exercises and operational deployments in Southwest Asia; training for Haitian National Police; ensuring a healthy and safe living area

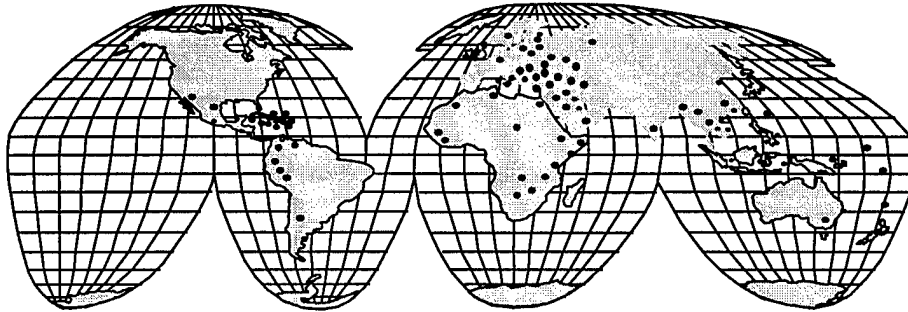
for Cuban migrants; and supporting the United Nations mission in Haiti, among others.

The Army also supports communities here at home. During FY 1996, American soldiers and civilians provided logistical and security assistance to the Summer Olympic Games and Paralympic Games in Atlanta; contributed logistical support and equipment in the aftermath of Hurricanes Bertha, Fran, Hortense, and Edouard; assisted local authorities in fighting wildfires in the West; aided flood victims in the South and Midwest; and provided support in the aftermath of the TWA Flight 800 tragedy. The Army continues to support the counterdrug activities of Federal, State, and local drug law enforcement agencies and provided health care to underserved populations in the United States through the National Guard's Medical Innovative Readiness Training, formerly known as Operation Guard Care.

### Challenges of Today

The uncertainty, complexity, and unsettled nature of today's global environment portend a continuing need for a trained and ready, versatile, power projection Army, but it takes resources to maintain that Army. Resources define the readiness and capabilities of the force and, influence virtually every aspect of operations. Resources affect the number and

#### America's Army-Worldwide Commitment



*September 21, 1996, was a typical day for America's Army. In addition to the 100,000 soldiers based outside the Continental United States, 31,142 soldiers were performing 1,337 missions in 80 countries; C Company, 1st Battalion, 504th Infantry was protecting the soldiers of the 864th Engineer Battalion as they reconstructed a hospital in Port-au-Prince, Haiti; 2-1 Air Defense Battalion, reinforced by two batteries of the 2-7 Air Defense Battalion, was providing air defense coverage in Saudi Arabia; the 3d Brigade, 1st Cavalry Division, was in the midst of a no-notice deployment of its 3,800 personnel to Kuwait as a show of force against Iraq; 19,900 soldiers were deployed in and around Bosnia in support of Operation Joint Endeavor; the 25th Infantry Division (light) had just deployed 180 soldiers to Guam to help with the resettlement efforts of Kurdish refugees from Iraq; and 60 soldiers were helping to monitor the demilitarized zone between Ecuador and Peru. Every day the nation calls upon the Army to provide a wide variety of capabilities in support of our international objectives. When the nation calls, no one asks if the Army is ready the nation expects the Army to be ready.*

quality of soldiers and civilians, the pace of training, and the maintenance of equipment and facilities.

### People - The Army's First Resource

Without question, the Army's most important resource is the soldiers and civilians that constitute the total force. Maintaining the quality of the force is one of the Army's highest priorities.

The Army continues to have great success in attracting and retaining high-quality soldiers and civilians. Today's soldiers are the best educated in our history. In FY 1996, the Active and Reserve Components achieved their quality and quantity goals for nonprior service recruits, 95 percent of whom possessed high school diplomas.

Also, the drop in young males enlisting in the Army has stabilized. The retention of quality

soldiers after their first term of service also continues a successful trend. For FY 1996, the Army accomplished 100 percent of its goal for initial term re-enlistment and 98 percent of its mid-career re-enlistment goal. This indicates that the future noncommissioned officers of the Army will remain as professional and capable as they are today. That notwithstanding, the future will present new challenges. Frequent deployments, promotion slowdowns resulting from budgetary constraints, and a perceived loss of quality of life have the potential to affect recruitment and retention adversely.

The effects of a massive, planned drawdown in personnel, coupled with a world not envisioned 7 years ago, has placed a great burden on the quality people serving our nation as soldiers and civilians. Force structure changes, base closings, early-out programs, and assignment priorities have caused turbulence throughout the ranks. During this difficult period, however, the soldiers and civilians of America's Army have surpassed all expectations with their dedication, energy, and flexibility in the face of all challenges.

***It is important for all of us to understand that what we do is driven by the quality people in the Army. We are a total force of quality soldiers and civilians. We must be right-sized, right-shaped, and properly distributed to meet the National Military Strategy.***

***General Dennis J. Reimer  
Chief of Staff of the Army***

### **Reshaping Installations**

Closing and realigning bases save money and opens up valuable assets to productive use in the private sector. The savings permit the Army to invest properly in the forces and bases it keeps to ensure continued effectiveness.

Fort Devens, MA, the last installation to close under Base Realignment and Closures (BRAC) 1991, lowered its flag in FY 1996. The closure of Vint Hill Farms Station in Virginia, the Army's only closure in BRAC 1993, will be complete by the end of FY 1997. Work is continuing on the 29 closures and 11 realignments approved by the 1995 BRAC Commission.

Savings from BRAC have begun to materialize. The Army is investing \$5.2 billion in four rounds of BRAC to realize \$1 billion in annual recurring savings in the form of reduced operating costs. In FY 1997, BRAC savings will begin to exceed the combined costs for all BRAC rounds. Of the total savings, \$1.7 billion is earmarked for construction and renovation of facilities that would not have been possible through the normal military construction program, an important, if not widely appreciated result of BRAC.

The extensive overseas closures do not receive the same level of public attention as those in the United States; although, about 7 of every 10 sites in Europe are closing, along with additional sites in Korea and Panama. Notwithstanding all the BRAC closures, the Army will retain sufficient installations overseas to support forward presence.

### **Modernization of the Force**

American soldiers are the best equipped in the world. The Army's challenge is to maintain that status. Modernization is essential as the Army prepares to enter a new century. A smaller Army requires increased lethality and modern equipment. The Army's modernization plan, science and technology master plan, strategic logistics plan, and enterprise strategy describe the future force's overall characteristics and define its parameters, critical capabilities, key technologies, and advanced operational concepts. Six patterns of operation—project the force, sustain the force, protect the force, gain information dominance, shape the battlespace, and decisive operations—must be performed in all military operations and serve to focus the Army's efforts.

Scarce modernization dollars require the Army to buy a limited number of new weapon systems while extending the lives and improving the capabilities of existing systems. Following are just a few of the Army's major accomplishments in FY 1996:

- started fielding digitized control equipped M1A2/M2A3 to the combined arms team;
- first unit equipped with Javelin anti-tank missile; and
- first flight of Comanche prototype.

Limited modernization resources preclude large investments at this time. Upgrading proven weapons by adding information technology increases capabilities and utilization, but the Army will eventually reach the point where additional technological improvements of today's systems will provide only marginal benefits. New weapon systems and tactical truck fleets must be developed and procured for the future force. The modernization necessary to maintain the technological edge that allows the Army to dominate the battlefield can occur only with additional resources.

### **Challenges of Tomorrow**

The Army's highest priority is to provide the nation with a thoroughly trained and ready force capable of executing the diverse missions required in a troubled world. When a crisis arises, the President will not ask if America's Army is ready. He will assume, and rightfully so, that the Army is ready to protect the nation's interests, wherever and whenever needed.

The Army's imperatives-quality people, warfighting doctrine, proper force mix, training, modern equipment, and leader development-when properly balanced based on affordability and risk, ensure a ready and versatile force capable of delivering decisive victory. The Army's senior leadership is addressing readiness by adhering to these historically proven imperatives. However, maintaining a ready force requires a joint effort from the Army, DOD, the Executive Branch, and Congress. Stability in personnel, quality of life, force structure, and funding is essential to maintaining a trained and ready force.

Constrained resources constitute the Army's toughest challenge. The Army recognizes that resources are in demand throughout government and must be used wisely, but America's Army must have sufficient quality and size to deter potential adversaries and meet operational commitments. To prepare for the resource challenges of tomorrow, the Army is aggressively implementing the Chief Financial Officers Act (CFO) of 1990, as amended by the Government Management Reform Act (GMRA) of 1994. These laws were enacted to bring more effective financial management to the Federal Government. Also, there is an aggressive, ongoing Army-wide effort to drive down the cost of doing business. Motivated by the National Performance Review (NPR), the Army is implementing policies designated to make the government work better and cost less. It is shifting from rules to results, garnering constrained resource for reinvestment in

modernization, re-engineering and revitalizing Army business practices, insisting on customer satisfaction, decentralizing authority, and focusing on core missions-while retaining the Army as a viable instrument of national policy.

### **21st Century Force of Decision**

The world environment tells us that the Army's mission requirements will remain robust as we enter the 21st century. Tomorrow's adversaries will no doubt be similar to those we face today. The frightening images of terrorism; narco-trafficking; ethnic cleansing; clan murders; and resurgent, competitive nationalism will ensure that the global environment remains volatile. The Army is moving today to conceive, shape, test, and field a force prepared to meet the coming challenges. America's 21st Century Army (Army XXI) will be a capabilities-based, technologically enhanced, power projection force, capable of providing the nation with full-spectrum dominance.

Army XXI will be the versatile Army with the capabilities America will need in the next century. This new and unique fighting force will be an improved version of today's Army. Leveraged with high-quality people and information technology, Army XXI will win the nation's wars, establish order, prevent conflict, and sustain operations as long as required. The ability to compel, deter, reassure, and support will be the essential capabilities of the 21st Century Force of Decision.

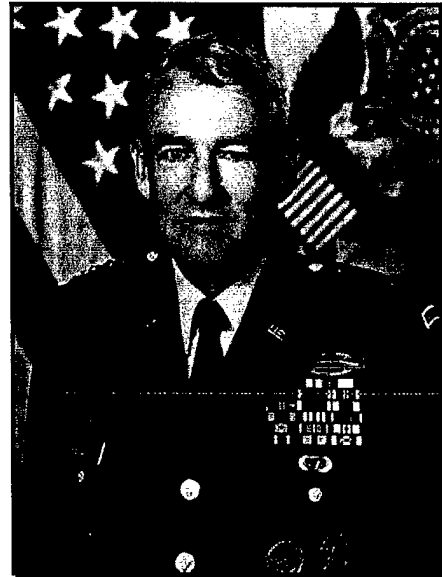
### Army After Next

As the Army looks into the 21st century, there is a real opportunity for a revolution in military affairs. It has already begun to understand the complexities and opportunities of this new era. Armed with the lessons of Army XXI and complemented by the

technology explosion of the information age, the Army envisions an entirely different force, logistically unencumbered with greater lethality, versatility, and strategic and operational mobility. The Army has begun to call this force the Army After Next.

*I am convinced that we are on the right track to building the Army of the 21st century, but the outcome is not preordained. We must work smarter. We must protect our core competencies, our quality of soldiers and civilians, and our values. We must maintain the balance between readiness, quality of life, and modernization. We must have stability. We must shift resources from Cold War to post-Cold War requirements and capabilities. We must be willing to take risks. We have a window of opportunity that must be exploited. In creating its 21st century future and in changing to meet its demands, the institution of the Army must be flexible, agile, and responsive...*

**General Dennis J. Reimer**  
Chief of Staff of the Army



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# ARMY MISSIONS AND PERFORMANCE

## INTRODUCTION

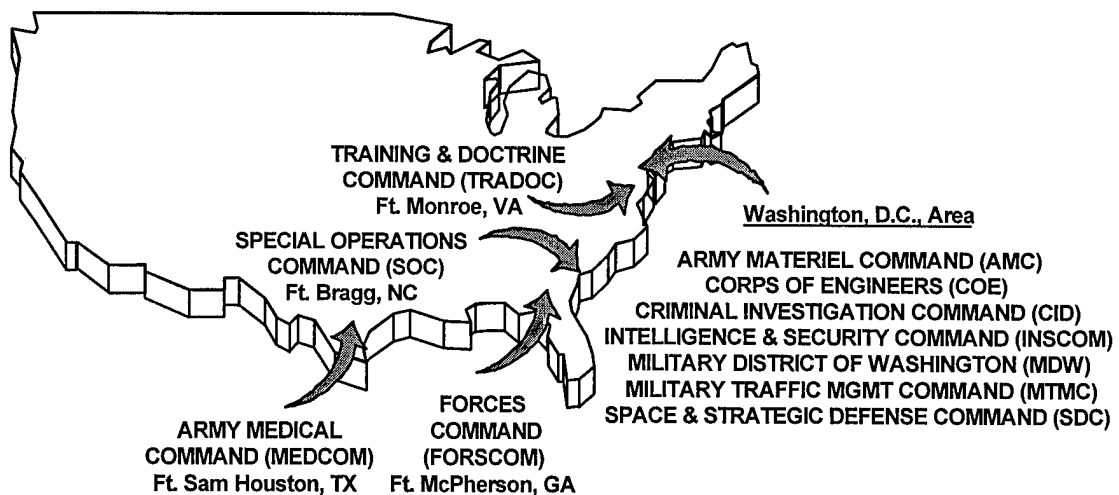
America's Army exists for the defense of the nation. Its broad missions are set forth in Title 10, United States Code, which states in part:

[The Army] shall be organized, trained, and equipped primarily for prompt and sustained combat incident to operations on land... [and] is responsible for the preparation of land forces necessary for the effective prosecution of war except as assigned, and in accordance with integrated mobilization plans, for the expansion of the peacetime components of the Army to meet the needs of war.

The process of preparing its forces to be ready for the effective prosecution of war - *total force readiness* - is the Army's principal mission.

The Secretary of the Army is responsible for, and has the authority to conduct, all affairs of the Army. He is assisted by the Chief of Staff of the Army; the Under Secretary of the Army; the Vice Chief of Staff; officials of the Army Secretariat and Army Staff; and the Commanders of the Major Commands, Corps, and Divisions. The map below highlights the Major Army Commands in the United States, a number of which are referred to in this report.

Major Army Commands in the United States



### Major Army Commands Overseas

Army commands overseas consist primarily of major forces assigned as ground force components of the U.S. unified commands. The major Army commands overseas and the unified commands to which they are assigned are:

- U.S. Army, Europe (USAREUR), assigned to U.S. European Command;
- U.S. Army, Pacific (USAPAC), assigned to U.S. Pacific Command;
- Eighth U.S. Army (EUSA), assigned to U.S. Forces Korea (a unified command of the U.S. Pacific Command); and
- U.S. Army South (USARSO), assigned to U.S. Southern Command.

### Military Forces

The Army's military forces are an integrated organization of the active Army and the reserve components (Army National Guard and U.S. Army Reserve), organized into combat service support units. Combat units include active and National Guard divisions, special operations units, and other combat units assigned to echelons above the division level. Combat service support units provide logistical, communications, medical, transportation, supply, maintenance, and other support essential for combat operations.

### Measuring Performance

America's Army has demonstrated its professionalism, dedication, and readiness repeatedly in recent years, whether responding to foreign aggression and national security threats, supporting peacekeeping operations, providing disaster relief, or aiding in humanitarian efforts. The Army has many effective systems for evaluating readiness, especially the Unit Status Reporting System, which includes a variety of indicators that portray the condition and trends of units Army-wide. A number of these measures appear in the sections that follow. However, (much of this information is classified and can not be disclosed in this type of report.) The Army continues working to develop and implement new and even more effective measures of performance that will provide meaningful assessments of its ability to fulfill its missions.

### The Functional Elements of Readiness

America's Army accomplishes its principal mission of total force readiness when the required force structure is manned with quality personnel; supported with modern equipment and systems; trained and prepared to mobilize and deploy rapidly; and capable of being sustained until military objectives are achieved.

A trained and ready force continues to be the Army's overarching priority, which all other priorities support. The Army Standing Resource Priorities focus on the highest defense priority, readiness and sustainability:

- **Maintain the quality of the Total Force.**
- **Maintain quality of life.**
- **Integrate information-age technologies.**
- **Establish projection platforms to support the future force.**
- **Ensure that the force is mobilized, deployed, sustained.**
- **Optimize modernization to maintain technology superiority.**
- **Provide the framework for the Army missions, goals, and objectives.**



## FORCE STRUCTURE

Army's force structure has met the challenge of undergoing its most significant changes since the end of World War II. Today's force structure, a Continental United States (CONUS)-armored-based power projection land force, is essential for the accomplishment of Army missions in support of the national defense strategy goals. The force structure provides the Army the key element for all readiness planning and other functional components of total force readiness.

The Army force structure supports the National Military Strategy. As the strategy changed to meet the demands of an environment of ever-increasing, unpredictable threats, the supporting Army force structure changed significantly. From FY 1989-1996, the Army active and reserve component military endstrength decreased by approximately 448,000 personnel. While the active component has achieved its objective size, the reserve components will continue to downsize through the end of FY 1998. Throughout this period, the Army has downsized its force while increasing its capability to project forces from locations within CONUS in response to worldwide contingencies. The objective of force structure centers around a contingency force with associated combat support and combat service support. The force will combine elements of various capabilities, permitting tailoring and allowing assignment to any theater. In addition to the CONUS contingency force units, the overseas Army forces retain the flexibility to deploy strategically at any given time.

ARMY YESTERDAY (1989)	CUMULATIVE REDUCTIONS FY 89-96	ARMY TODAY (1996)
5 CORPS 18 AC DIV 10 RC DIV	AC - 275,000 RC - 173,000	4 CORPS 10 AC DIV 8 RC DIV

The current force structure of the Army provides a solid foundation for a transition to Army XXI,

America's land force of the future. The Force XXI Campaign Plan is the concept that the Army will use to manage and exploit anticipated revolutionary changes in technology. Army XXI will be sized and structured appropriately to meet the demands of requirements contained in the National Military Strategy.

As the active component downsized, the Army National Guard (ARNG) and U.S. Army Reserve (USAR) mission requirements continued to increase. To enhance the Army's readiness, the Army National Guard Division Redesign Study (ADRS) examined ways to convert existing low-priority combat units into higher-priority support forces, thus reducing the overall combat support and combat service support shortfalls.

The Bottom-Up Review and National Military Strategy identified the requirements for highly trained and equipped, combat-ready reserve forces to separate our nation's ability to win two near-simultaneous Major Regional Conflicts (MRCs). The 15 Army National Guard Separate Brigades are the combat force with the highest priority to be organized and resourced to train, mobilize, and deploy within 90 days of call-up.

The ARNG Separate Brigades, scheduled to be fully operational by FY 1999, are currently undergoing modernization and extensive training in order to be compatible with active Army divisions. The brigades' readiness capability will allow employment in the fast-evolving regional conflicts expected in the future or to reinforce active units in a crisis.

Reserve component force structure continues to undergo major transition, with the ARNG and USAR each being realigned with their core competencies. The ARNG will maintain its balanced structure of combat, combat support, and combat service support units. The Army Reserve will be aligned with combat service support, combat support, and specialized units. As a result of this realignment, the two reserve components will exchange more

## 12 Overview

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than 10,000 slots of force structure. The unit transfers commenced in FY 1994, with the National Guard receiving responsibility for all reserve component Special Forces. They continued in FY 1996 with the transfer of more than 11,570 slots. Unit transfers are projected for completion in FY 1997.

FY 1996 Force Structure Highlights are described below:

- Military endstrength was reduced to 495,000 in the active component (down 275,000 from FY 1989) and to 603,000 in the reserve component (down 173,000 from FY 1989). With the active component endstrength met, the reserve component will continue toward its goal of 575,000 endstrength by the end of FY 1998.
- The active Army drawdown was completed in FY 1996 with the inactivation and redesignation of the headquarters and divisional units of the 1st Infantry Division (Mech), Fort Riley, KS, and the 4th Infantry Division (Mech), Fort Carson, CO. Reflagging actions have redesignated the 2d Armored Division, Fort Hood, TX, as the 4th Infantry Division (Mech) and the 24th Infantry Division (Mech), Fort Stewart, GA, as the 3d Infantry Division (Mech). The 3d Infantry Division (Mech), stationed in Germany, has been redesignated as the 1st Infantry Division (Mech).



The mission of the manning function is to ensure that the Army has high-quality soldiers and civilians in the proper grade and skill alignments and with the required skills, ability, and experience to perform demanding, complex tasks. Manning includes acquiring personnel, ensuring they receive the proper training and professional development, and assigning them, i.e., *getting the right person in the right place at the right time with the right skills*

- The two maneuver brigades at Fort Riley are aligned with divisions in Germany (3d Brigade of the 1st Infantry Division (Mech) and 3d Brigade of the 1st Armored Division). One of the two divisional maneuver brigades at Fort Carson inactivated. The brigade remaining at Fort Carson was redesignated as 3d Brigade of the 4th Infantry Division (Mech) at Fort Hood, TX.



Force planning is a complex, interrelated series of analyses to develop the optimum force composition necessary to counter assessed threats.

Manning the Army continues to be complicated by redefining roles and missions, by force deployments, and by the challenges of affordability and base closure/realignment actions, all while the Army is executing the force drawdown. Even in this environment, Army goals and objectives remain constant.

### Goals, Objectives, and Performance Measures

**Goal: *Manning the force with quality personnel***  
Army manpower requirements, total personnel needed by skill and grade, are defined by the force structure. When the required structure is fully manned with quality personnel trained in the appropriate skills, total force readiness is directly supported. The Army is only as good as its people. Key actions in support of this goal include:

## MANNING

- Continue a recruiting strategy that offers the necessary incentive packages, educational programs, and resources to provide quality accessions for the Army.
- Sustain second lieutenant and civilian intern production in numbers and academic disciplines required by the Army.
- Provide compensation, educational, and transition management programs that contribute to maintaining a quality force.
- Provide confident, competent leaders through quality leadership and executive development programs.
- Emphasize equal opportunity, equal employment opportunity, and affirmative action programs. Maintain an environment free of harassment and discrimination.
- Maintain high-quality-of-life programs to meet the needs of the force.
- Maintain personnel readiness, mobilization, deployment, and reconstitution capabilities in support of the National Military Strategy.

**Objective:** *Provide quality nonprior service accessions for America's Army*

**Measure:** Percentage of high school diploma graduates The Army establishes annual goals for the percentage of nonprior service (NPS) accessions (first-time enlistees) who are high school diploma graduates.

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### Nonprior Service (NPS) Accessions- Percentage of High School Diploma Graduates

	FY 94	FY 95	FY 96
<b>Active Component</b>			
Total NPS Accessions (000)	60	57	70
Goal - High School Graduates	95%	95%	95%
Actual - High School Graduates	95%	96%	95%
<b>Army National Guard</b>			
Total NPS Accessions (000)	23	21	24
Goal - High School Graduates	94%	95%	95%
Actual - High School Graduates	85%	82%	82%
<b>US Army Reserve</b>			
Total NPS Accessions (000)	19	19	19
Goal - High School Graduates	95%	95%	95%
Actual - High School Graduates	95%	95%	95%

**Measure:** Percentage of Armed Forces Qualification Test Category IV The Army establishes annual goals for the maximum percentage of accessions that should score in the lowest category (Category IV) of the Armed Forces Qualification Test (AFQT).

### Percentage Armed Forces Qualification Test Category IV

	FY 94	FY 95	FY 96
<b>Active Component</b>			
Goal - AFQT Cat IV	2%	2%	2%
Actual - AFQT Cat IV	2%	2%	1%
<b>Army National Guard</b>			
Goal - AFQT Cat IV	2%	2%	2%
Actual - AFQT Cat IV	2%	2%	1.7%
<b>US Army Reserve</b>			
Goal - AFQT Cat IV	2%	2%	2%
Actual - AFQT Cat IV	2%	2%	2%

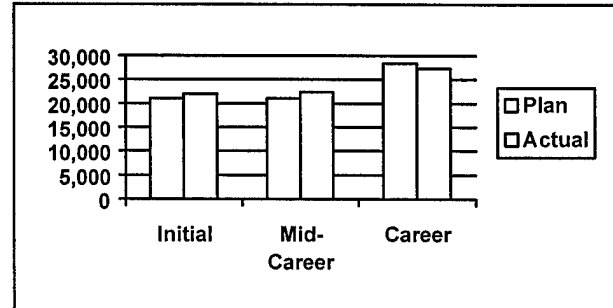
**Results:** The active component and Army Reserve met all quality marks for NPS enlisted accessions. The Army National Guard fell short of the goal for high school diploma graduates, but met the goal for AFQT Category IV. However, when alternative credential holders are included, ARNG is at 100 percent high school graduates.

**Objective:** *Retain quality soldiers.*

**Measure:** Achievement of retention goals Retaining quality soldiers is key to maintaining strong personnel readiness.

**Results:** Overall, the active component achieved 99.9 percent of its FY 1996 retention goals. Soldiers who re-enlisted in FY 1996 are the same high caliber individuals who enlisted 3 or 4 years ago. Nearly 82 percent of the initial term soldiers re-enlisting in the active Army had general test scores over 100. This is a good indicator of the quality of the Army's future noncommissioned officer corps.

### FY 96 Active Army Re-enlistments



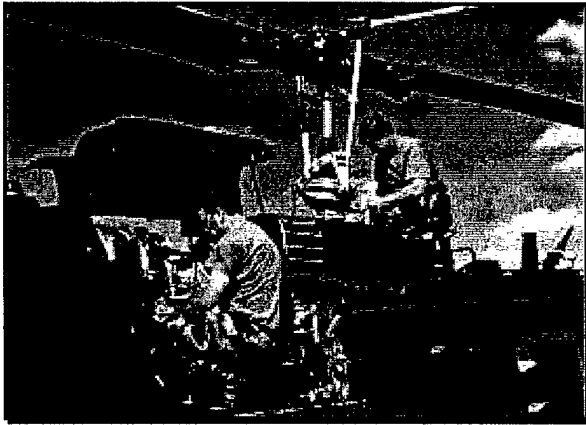
**Objective:** *Sustain active component commissioned officer production in numbers, academic disciplines, and grades required by America's Army*

**Measure:** Number of accessions needed to minimize deviation between force structure allowances and operating strength

### Active Duty Officer Accessions Needed to Minimize Force Structure vs. Operating Strength Deviation

	FY 94	FY 95	FY 96
Planned	5,504	5,881	5,334
Actual	5,855	5,840	5,212

**Results:** As we come out of the drawdown and move toward a steady-state endstrength, accessions planning should stabilize. The accession mission will still be sensitive to uncertainty associated with losses and future force structure changes.



## Acquisition and Fielding

### Modernization Objectives and Key Capabilities

The soldier remains the key to American victory in war. Quick, decisive victory requires land force dominance. To achieve land force dominance with a diminishing force, the Army must develop and maintain overmatching technological capabilities through continuous modernization. The Army's modernization strategy is built on five objectives that prescribe capabilities to achieve land force dominance, provide an all-system view and analysis of the battlefield, and emphasize the interactive and interdependent nature of the required capabilities. Hence, most Army weapon systems and programs provide capabilities that support at least two of the objectives. The modernization objectives, and supporting systems, are described below.

#### 1. *Project and Sustain the Force.*

America's Army is primarily a Continental U.S.-based force. Today's environment demands, and future environments will demand, the capabilities to project CONUS-based forces quickly and sustain those forces for extended periods of time. The Army is making improvements in this area by prepositioning War Reserves, upgrading CONUS infrastructure, and continuing support for both the Air Force C-17 and the Navy Large, Medium-Speed, Roll-on/Roll-off Ship (LMSR). The following are selected systems that enable the Army to project and sustain the force: Family of Medium Tactical Vehicles (FMTV), Palletized Load

Modernization is the process of integrating new doctrine, organization, training, leader development, and materiel to develop and field warfighting capabilities for the Force Projection Army. A state of continuous modernization exists if the following condition holds: For every class of major weapon system (e.g., main battle tank, attack helicopter, truck) within the Army's warfighting structure, there is either a system in production, an upgrade of the system in progress, or a technologically superior replacement of the system in development.

Continuous modernization is vital to total force readiness. Today's technological advances (digital communication, high-speed computer processors, fiber optics, etc.) are integrated into evolving military doctrine, organization, force mix, tactics, and methods of control and communication. As the Army of the 21st century, Army XXI, emerges, the Army continues to implement a strategy to deliver all aspects of force modernization to the battlefield of the future. This strategy reflects today's decreasing resources by emphasizing technology integration and improvement of existing systems. Procurement of new systems is limited; extending the lives and upgrading the capabilities of existing systems, while retaining the technology edge, is paramount.

*Modernization is a continuous process essential to ensure that the Army is capable of successfully responding to our Nation's needs today and in the future.*

## MODERNIZATION

### Research & Development,

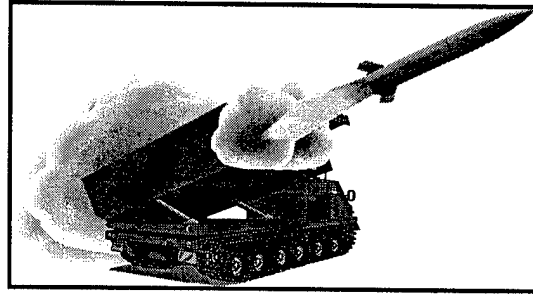
System (PLS) trucks and trailers, Family of Heavy Tactical Vehicles (FHTV), CH-47D Cargo Helicopter, and Combat Service Support Control System (CSSCS).

**2. Protect the Force.** Although our soldiers are vulnerable during all phases of operations, they are most vulnerable during initial, forced entry into hostile areas. The Army has made some improvements in reducing the threat from theater ballistic and cruise missiles and corresponding nuclear, biological, and chemical (NBC) threat. The systems that enable the Army to protect the force include: Patriot, Avenger, JSTARS' ground station, and the Fox NBC reconnaissance vehicle.

**3. Win the Information War.** Information warfare capabilities harness advances in information technologies in order to collect, process, disseminate, and use information. The goal is to give Army XXI the operational advantages of information dominance. The Army has started fielding a robust sensor and communication capability to win the information war. Some of the systems that contribute to information dominance are: MILSTAR, Guardrail Common Sensor (GRCS), All Source Analysis System (ASAS), Tactical Internet, and Tactical Exploitation of National Capabilities (TENCAP).

**4. Conduct Precision Strikes.** To shape the battle space, the Army XXI commander must have a rapidly deployable capability to conduct deep attacks against the threat. To attack successfully, the Army has made progress in attacking targets with precision at extended ranges and developing the capability to see deep, find high-payoff targets, and transmit that information in near real time to firing units employing advanced weapons and munitions systems to destroy those targets. Systems that shape the battle space are the Multiple Launched Rocket System (MLRS) Improved Fire Control System and launcher, Search and Destroy Armor (SADARM) munitions, and Army Tactical Missile System (ATACMS).

**5. Dominate the Maneuver Battle.** The Army must be able to control and dominate the fight in order to achieve swift, decisive victory with minimum casualties. Modernization of the maneuver forces is making them more deployable, tailorable, and lethal. This allows maneuver forces to get to the area of operations. Once there, they must have the versatility to function in both war and military operations other than war. Equipment key to dominating the fight include: M1A2 Abrams Main Battle Tank, M2A3 Bradley Infantry Fighting Vehicle, Javelin Anti-tank Missile System, night vision devices, and the Long-Range Advanced Scout Surveillance System.



Achievement of the five modernization objectives across the battlefield is a function of the Army's ability to protect and enhance those weapon systems that deliver four key modernization capabilities: (1) *night vision*, achieved through the 2nd Gen Forward-Looking Infrared (FLIR) thermal night vision device; (2) *digitization of the battlefield*, achieved through horizontal integration of digital communications, command and control (C3) technologies in maneuver, fire support, air defense, intelligence and aviation weapon platforms; (3) *smart munitions* which, after launch, require no operator for target engagement; and (4) *deep fires*, i.e., the ability to strike deep; deep attack weapon systems include ATACMS, the Comanche advanced armed reconnaissance helicopter, and the AH-64D Longbow attack helicopter.

The night vision capability advances, primarily, the "Project and Sustain the Force" and "Dominate the Maneuver Battle" modernization objectives. Digitization of the battlefield

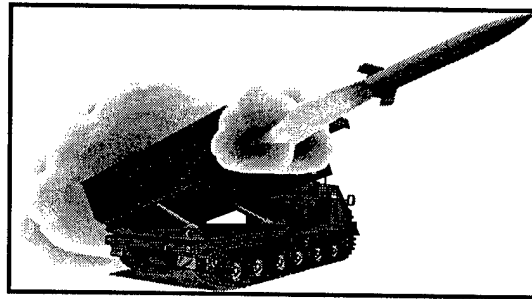
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advances "Protect the Force," "Win the Information War," "Conduct Precision Strikes" and "Dominate the Maneuver Battle." Smart munitions and deep fires provide their greatest contribution to the "Protect the Force" and "Conduct Precision Strikes" objectives.

**Horizontal Technology Integration**

Fiscal constraints, the rate of technological advances, acquisition reform and manufacturing improvements have significantly changed the Army's modernization strategy. When a technology is identified as providing a significant capability improvement, it may be incorporated in dissimilar existing platforms that operate together. The horizontal technology integration (HTI) may be in new acquisitions, product improvements, or system component improvements. While this strategy accepts some risk, it greatly reduces the expense from a total recapitalization strategy and takes maximum advantage of expenditures for previously fielded systems. HTI is currently directed toward three of the key modernization capabilities Second-Generation Forward Looking Infrared (2nd Gen FLIR), battlefield combat identification, and digitization of the battlefield.

**Executing Force Modernization**

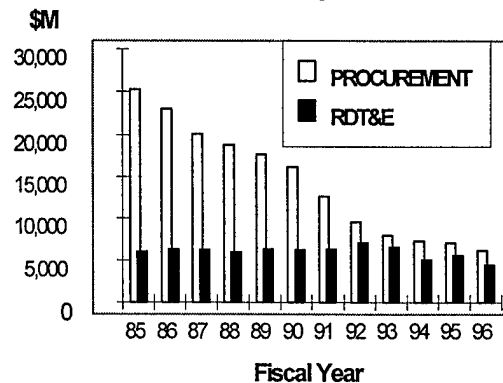
Modernization is executed by "force package." Each force package is a discrete grouping of fighting units ordered by war-fighting priority. The Army has designated four force packages to which units are assigned according to their mission and potential for deployment. As modernized equipment is fielded to units in a given force package, the useful equipment it replaces "cascades" to the next force package. Priority for modernization, therefore, goes to units in a first-to-fight sequence.

Affordability compels the Army to limit modernization to the core force Package 1 (FP1). If procurement continues its current downward trend (see chart), modernization will be confined to a shrinking subset of the first-to-fight units, while the equally undesirable alternative of procuring at uneconomical rates becomes the practice. If fewer pieces of equipment continue to cascade to the next force package, more and more outdated, hard-to-maintain equipment, near or beyond its life service, will remain in units awaiting replacement from higher force package stocks.

**Conclusion**

To modernize the force, the Army must develop, produce, and field mission-capable equipment and materiel and be able to evaluate the performance of systems once in operation. Each system must provide added value-a degree of superiority which contributes measurably to Army readiness and mission accomplishment.

**Army Research, Development and Acquisition Funding FY 1985-1996**





## TRAINING

The Army must remain trained and ready to deter war, deploy and commit forces rapidly to protect U.S. interests, and, if necessary, fight and win. Training includes the full range of individual training for military and civilian personnel and unit/collective training. It gives soldiers, leaders, and units the knowledge and skills to accomplish their missions successfully.

- Army schools develop soldiers and leaders as they progress through their careers.
- Training at home station prepares units to perform as combined arms teams or joint/ combined arms and services teams.
- Deployments for training, such as rotations at the Combat Training Centers and Joint Chiefs of Staff exercises, allow units to practice the integration of all battlefield operating systems, including joint systems.
- Leadership development training provides advancement opportunities for officers, noncommissioned officers, and civilians.

### Goals, Objectives, and Performance Measures

**Goal:** *Units trained for rapid deployment and decisive victory.* The goal of unit training is a combat-ready force that can mobilize, deploy, fight, and win. The Army must ensure that units are ready to respond rapidly and effectively, whether the mission is to promote peace or to win war.

**Objective:** *Provide individually trained soldiers for America's Army*

**Measure:** Accomplishment of Initial Entry Training Entry Training (which includes Basic,

Station Unit, and Officer Basic Training) is the introductory training given to all military personnel upon entry into the Army.

**Results:** The Army produced trained soldiers and officers from the accession input to meet force structure requirements of the National Military Strategy. Soldiers were trained in basic combat skills and were disciplined, motivated, and prepared for follow-on training.

**Measure:** Accomplishment of MOS qualification training Military Operational Specialty (MOS) training provides soldiers with the specific individual skills necessary in their areas of specialty.

**Results:** MOS qualification training produced soldiers who are fully MOS qualified and immediately available for assignment to units around the world. Soldiers were trained in specific skills to meet the requirements of positions in the field.

***Training ensures that soldiers, leaders, and units are prepared to fight and win. Well-trained and-led, quality soldiers have proven capable of adapting to any situation, against any opponent, anywhere in the world.***

Objective: *Sustain unit training.*

Measure: Accomplishment of training at Combat Training Centers (CTCs)

**Results:**

- National Training Center (NTC): Twelve two-battalion task force-size brigade rotations (11 AC/1 NG) were scheduled for FY 1996. All 12 rotations were conducted at the NTC.
- Joint Readiness Training Center (JRTC): Ten three-battalion task force-size brigade rotations were scheduled by FY 1996. All 10 rotations were conducted at the JRTC.
- Combat Maneuver Training Center (CMTC): Five three-battalion task force-size rotations were scheduled for FY 1996. All five rotations were conducted at the CMTC.
- Battle Command Training Program (BCTP): Trained 2 Corps Warfighter Exercise (WFX) equivalents, 7 division WFX equivalents, 12 Reserve Component (RC) Brigade Battle Command and Battle Staff Training (BCBST) exercises, and 12 Operations Group Delta Joint Task Force exercises.

Operating Tempo (OPTEMPO) is a framework for estimating the funds necessary for fuel, spare parts, and other recurring costs of home station operations, training, and maintenance. OPTEMPO requirements are based on unit-specific events in the Battalion Level Training Model. OPTEMPO does not equal readiness. The Army is working to develop an improved system of measurement to define readiness with more rigor and provide a framework to improve the linkage between resources and readiness.

Measure: OPTEMPO-Combat vehicle mileage execution (selected systems). Ground OPTEMPO is programmed to support training readiness at the C1-C2 level, in the Active Component. In Reserve Components, it is programmed at the C1-C3 level based on unit priority. The ground OPTEMPO requirements are generated using the Battalion Level Training Model (BLTM) for both active and reserve component units. Funds are provided to the Major Army Commands for distribution to individual units.

Results: Overall execution for all three systems combined was 107 percent of programmed miles. This is up 16 percent from FY 1995 execution of 91 percent.

**FY 1996 Combat Vehicle Mileage Execution**

	FY 96	FY 96	FY 95	Percent
System	Prog Mileage	Actual Mileage	Actual Mileage	Change FY95-96
M1A1	800	642	629	+ 1%
M2	934	1,277	1,013	+27%
M3	1,309	1,517	979	+41%

Measure: OPTEMPO-Flying hour execution The FY 1996 total flying hour program was 1,110,242 hours in the President's budget.

Results: FY 1996 execution of 1,035,117 hours was 94.2 percent of the final adjusted program of 1,098,543 hours, reflecting the impact of overall FY 1996 funding shortfalls and downsizing of force structure. This compares with FY 1995 execution of 1,152,519 hours (90 percent), FY 1994 execution of 1,232,640 hours (90.3 percent), and FY 1993 execution of 1,371,670 hours (97.6 percent).

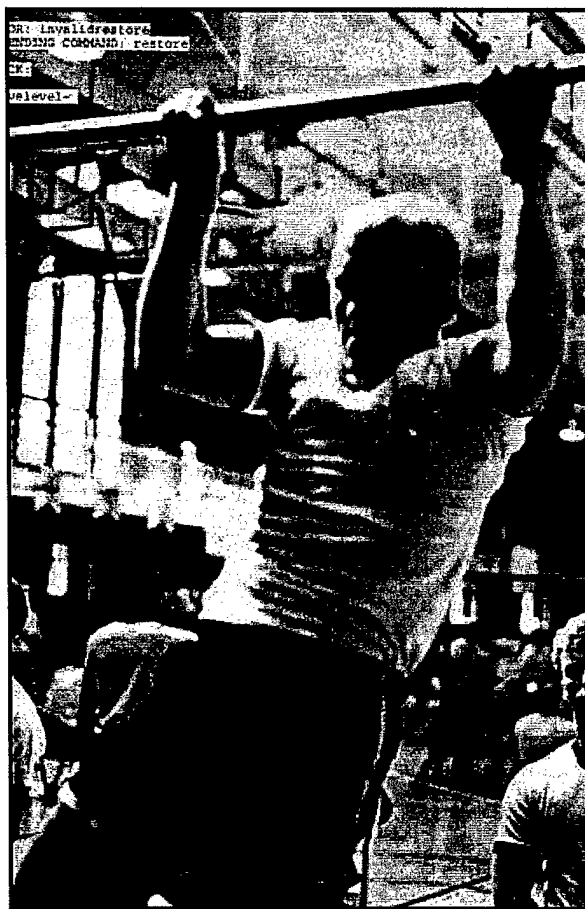
The active Army flying hour program assumes one crew per aircraft. The cumulative executed flying hours average for FY 1996 was 14.3 hours per crew per month, compared to 13.8 in FY 1995, 13.5 in FY 1994, and 13.3 in FY 1993.

**Active Component Flying Hours**

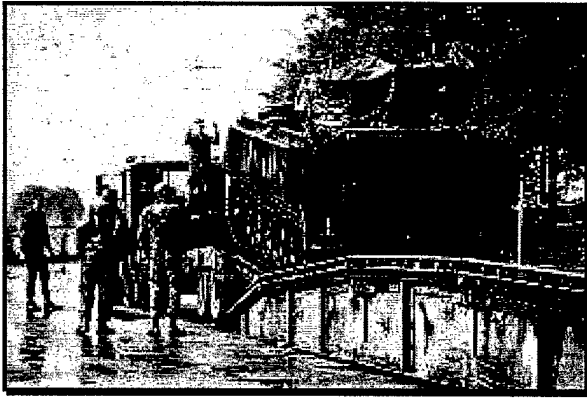
FY 96 - Total Flying Hours	336916
FY 96 - Aircraft	1966
FY 96 - Average Hours/Crew/Month	14.3
FY 95 - Average Hours/Crew/Month	13.8
FY 94 - Average Hours/Crew/Month	13.5
FY 93 - Average Hours/Crew/Month	13.3

Operational Readiness. Total force readiness is more than just the unit training funds in the OPTEMPO accounts. The Army is working to revise its resource programming approach to

reflect more accurately and capture its actual training environment. The overall initiative, called Operational Readiness, focuses on the broader needs and requirements of the force projection Army. Operational Readiness will incorporate training ranges; training areas; maintenance facilities; training aids, devices, simulations, and simulators (TADSS); training ammunition; and force projection platforms. It will establish a much stronger link between readiness reporting and program execution.



*The Army's highest priority is to maintain readiness. America's ability to respond rapidly to crises worldwide requires a trained and ready Army. High-quality people; tough, realistic, mission-focused training; and competent leaders ensure that the Army is a full-spectrum force capable of decisive victory.*



## MOBILIZATION AND DEPLOYMENT

**Mobilization** is the process by which the Army is brought to a state of readiness for war or other national emergency. It includes activating reserve components and assembling and organizing personnel, supplies, and materiel.

**Deployment** is the process by which military forces, active and reserve, together with sustainment equipment and supplies, are moved to the area of operation in response to a crisis, war, or natural disaster. Mobilization and deployment capabilities are essential to readiness planning under the evolving National Military Strategy. The National Military Strategy seeks to prevent, deter, and when necessary defeat threats to our vital interests. To do this, the Army balances its overseas presence with the capability to project powerful contingency forces anywhere in the world within 24 hours of notification.

The credibility of the new strategy depends on the ability to rapidly deploy an appropriate military force that is capable of decisive victory and that is versatile, lethal, expandable, and sustainable. Following the Persian Gulf War, Congress directed the Department of Defense to determine its strategic mobility requirements. The resulting Mobility Requirements Study Bottom-Up Review (MRS-BUR), which identified required investments in sealift, airlift, prepositioning of equipment, and transportation infrastructure, is the centerpiece of national power projection capability.

The Army's implementation of the MRS-BUR is the Army Strategic Mobility Plan (ASMP), which is based on the capability to deploy a five-division contingency force, with its associated support structure, anywhere in the world in 75 days. The Army can project and sustain an armored or a mechanized division anywhere in the world in 30 days. Additionally, the Army can project and sustain an Air Assault, Airborne, or Light division anywhere in 12 days. The Army has the capability to project and sustain a heavy brigade of two Armored battalions and two Mechanized battalions anywhere

in the world in 15 days. This capability has been demonstrated three times in the last 3 years in Southwest Asia.

### Goals, Objectives, and Performance Measures

For the Army to provide a total force, immediately deployable, trained and ready to fight, and capable of a decisive victory, it must be able to: order, deploy, and sustain sufficiently manned, equipped, and trained forces to support military operations anywhere in the world; deploy/redeploy active component units; alert, mobilize, and deploy required reserve component units and individuals; and redeploy and demobilize them as directed.

Key capabilities include the following:

- overall ability to achieve deployment closure objectives as set forth in the ASMP;
- augmentation of active component units with reserve component personnel at mandated readiness levels, within minimum possible time;
- support of day-to-day Army operations with reserve component volunteers on temporary tour of active duty when mobilization authority is not available; and
- worldwide operational/military support to humanitarian, disaster relief, and other directed operations.

### Strategic Mobility

**Goal: Overall capability to achieve deployment closure objectives as set forth in the Army Strategic Mobility Plan (ASMP).**

Achievement of objectives is expressed in terms of days elapsed since notification of deployment

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("C+.days") versus the closure objectives set forth in operations plans and in accordance with standards in the ASMP. Closure is achieved when unit equipment, personnel, and supply/logistical support are joined together to form a fighting force in the objective area.

Current targets in the ASMP are as follows:

- Light or Airborne Brigade C+4.
- Heavy Brigade to Prepositioned Eqmt Army War Reserves (AWR-5,-4,-2) C+6.
- Light or Airborne Division C+12.
- Heavy Brigade to Army Prepositioned Eqmt Afloat C+15.
- Two Heavy Divisions with Corps Support C+30.
- Two Divisions and Corps Support C+75.

These standards are applied and tested consistently in exercises and actual operations. Actual deployment/redeployment periods may vary, depending on the contingency, circumstances, and political requirements.

**Measure:** Strategic airlift capability Percent of million ton-miles per day strategic airlift capability achieved (reported by the Air Force).

**Results:** Through FY 1996, 27 C-17 aircraft have been delivered to the Air Force; the program completion projection is FY 2004.

**Measure:** Strategic sealift capability Percentage of required strategic sealift capability achieved (reported by the Navy and the Maritime Administration).

**Result:** Strategic sealift initiatives include procurement of Large Medium-Speed Roll-on/Roll-off (LMSR) ships and upgrade of the Ready Reserve Force (RRF) fleet. Through FY 1996, the first two conversion LMSRs have been delivered to the Navy. Contracts or options to build have been let for 15 of the remaining 17 LMSRs. The Navy has budgeted the last two LMSRs for FY 1998. A total of 19 LMSRs are programmed to be converted or built through FY 2001, 8 of which will become a part of the prepositioned afloat fleet. The MRS recommended a total of 36 Roll-on/Roll-off ships be maintained in the RRF. The Maritime Administration currently has 31. No funding is programmed for the remaining five.

Although the MRS-BUR recommended a total of 36 Roll-on/Roll-off ships be maintained in the RRF, the FY 1997 President's budget did not support acquisition of the five remaining ROROs needed to meet the recommendation. The U.S. Transportation Command is preparing a strategy to mitigate this strategic sealift shipping shortfall.

**Measure:** Availability of afloat prepositioned equipment Required prepositioned afloat square footage achieved.

**Results:** The Army did not add any additional ships to its prepositioned afloat program in 1996. In February 1997, the USNS Gordon will be the first LMSR to receive its pre-positioned afloat Army War Reserve cargo. These additional ships provide approximately 38 days of supply for units arriving in theater before establishment of sea lines of communication.

Army pre-positioned ships afloat now total 14, and the Army has moved much closer to meeting the MRS requirements.

**Mobilization and Deployment of Reserve Components**

**Goal: *Accession of reserve components into the active component within mobilization standards.*** Accession is achieved in five phases, as set forth in the Army Mobilization Operation Planning and Execution System (AMOPES).

**Objectives:** *Accession objectives* are shown in the table below. Objectives for individuals and small units were validated during mobilization exercises.

**Measure:** Reserve component accessions into the active component in accordance with mobilization objectives Army Reserve units are used extensively to augment and supplement active component units in combat support and combat service support.

**Results:** In May 1996, there were 199 USAR units (1,233 soldiers) mobilized in support of Operation Uphold Democracy (Haiti). Mobilized personnel

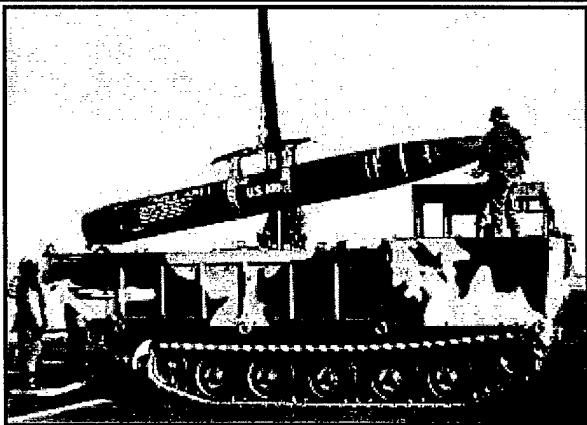
were from Aviation, Military Police, Engineer, Postal, Transportation, and Special Operations-Civil Affairs and Psychological Operations, making up 58 percent of all mobilized reserve components.

At the end of FY 1996, the USAR was supporting Operation Joint Endeavor (OJE) with 139 units (5,682 soldiers). On 30 September, 74 percent of all reserve component units in support of OJE were USAR forces. The USAR provides all the reserve component requirements for Special Operations, Medical, Postal, Finance, Mobilization support, Logistics augmentation, and firefighters. With downsizing of the active component, the requirements for reserve component personnel with special skill (language, computer hardware/software, special operations, transportation, and logistics) have greatly increased.

*Downsizing is just another one of the inevitable, omnipresent changes in life. Downsizing is not a survival strategy...but is part of the process.*  
*Honorable Helen T. McCoy*  
*Assistant Secretary of the Army*  
*(Financial Management and Comptroller)*

**Mobilization Objectives-Reserve Components Accessions into the Active Component**

Entity	Premobilization Alert	Home Station	Mobilization Station	Deployability Date
Individual	M to M+5		M+6 to M+21	M+22
Small Combat Service Support Unit	M-5 to M	M to M+3	M+4 to M+14	M+15
Large Combat Support/ Combat Service Support Unit	M-7 to M	M to M+3	M+4 to M+30	M+31
Combat Brigade	M-7 to M	M to M+3	M+4 to M+90	M+91



**SUSTAINING THE FORCE**

**Introduction**

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Sustaining the force involves providing all the support necessary to conduct sustained combat operations anywhere in the world at a moment's notice. All levels of activity fall under the sustaining umbrella, from providing soldiers in the field what they need, when, where, and in the condition and quantity required, to providing a home to the force with facilities to work and train that can serve as a platform from which to respond quickly to threats to our Nation's peace and security.

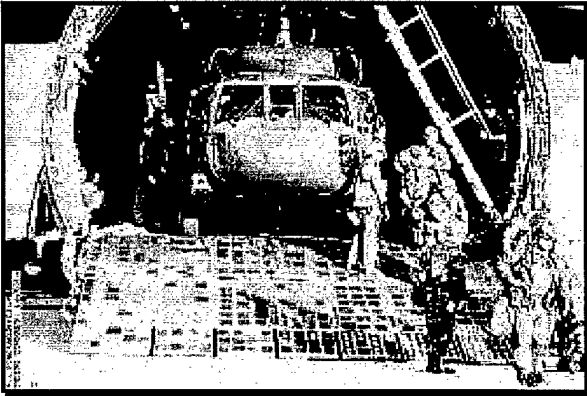
The primary components of sustaining the force are **logistics** and **installation management**

Core logistical functions are supply, maintenance, transportation, soldier support, and security assistance.

The key installation management functions addressed in this report are facilities, environmental stewardship, and quality of life for soldiers and their families.

**Information management** is a critical support function that takes place throughout the Army in strategic, theater/tactical, and sustaining base environments.

Sustaining the force is receiving increasing attention as we rely more on troops to deploy rapidly from installations in the United States. Army installations are changing in support of this new military strategy. As the force is downsized, management of this crucial resource becomes even more important.



## LOGISTICS

Combat sustainability is the ability to maintain the required intensity and duration of combat operations to achieve planned objectives. It represents the balanced capability of logistics and combat support over time, and includes force structure, pre-positioned and war reserve materiel, prescribed loads and operating stocks, and the wholesale sustaining and industrial base, which in their totality constitute the Army's ability to project and reconstitute.

### Goals, Objectives, and Performance Measures

**Goals:** The overarching goal of the logistics mission is *sustainability of all military operations*. Supporting goals include:

- *Develop logistics doctrine, procedures, and equipment to support future integrated sustainment.*
- *Support and sustain current Army war-fighting capacity and peacetime readiness.*
- *Improve logistics response time to a conflict or crisis.*

**Objectives:** The following logistics objectives have been identified, but appropriate performance measures have not been fully developed:

- *Develop a total distribution capability with asset visibility from source to foxhole.*
- *Improve industrial preparedness to meet transition and wartime production requirements.*
- *Maintain equipment at organizational-level standards. Increase combat service support effectiveness in all environments.*

- *Increase survivability of logistics assets by improving their positioning and protection.*

- *Support security assistance programs to meet the equipment and sustainment needs of supported nations.*

- *Identify materiel excess to Army requirements and plan to make this equipment available for security assistance opportunities.*

Objectives supported by measures follow:

**Objective:** *Support depot maintenance pro-grams to improve readiness of Army equipment*

**Measure:** Depot maintenance backlog

This measure identifies shortfalls in the funding necessary to support depot repair and overhaul of major end items and their embedded software. It serves as an indicator of the projected availability of reconditioned and overhauled weapons systems and equipment necessary to support Army redistribution and modernization efforts.

**Maintenance Requirements (\$M)  
Percent of Requirements Funded**

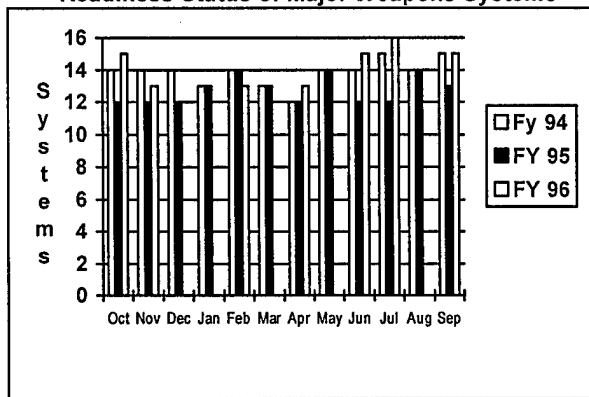
FY 94	\$1.272	56%
FY 95	\$1.278	78%
FY 96	\$ 0.959	80%
FY 97	\$1.095	77%

**Objective:** *Improve the Army's ability to project decisive land combat power*

**Measure:** Readiness status of major weapons systems Total system availability days (active component), divided by total possible days, for each of the Army's 16 major weapons systems. Indicates trends for each weapons system. Goals are 90 percent for nonaircraft and 75 percent for all aircraft except the UH-60, for which the goal is 80 percent.

**Results:** The average monthly number of systems achieving readiness goals was 14.

**Readiness Status of Major Weapons Systems**



**Measure:** Fully mission-capable (FMC) status of weapon systems Total system availability (active component) for all systems, including the 16 major weapons systems.

**FMC Status of Weapons Systems**

Systems	3Qtr FY95	4Qtr FY95	1Qtr FY96	2Qtr FY96	3Qtr FY96
FMC	92	91	90	93	94
Not FMC	65	65	69	53	55

**Measure:** FMC status of separate line items Total system availability (active component) for all separate line items, including the systems noted above.

**FMC Status of Separate Line Items**

Line Items	3Qtr FY 95	4Qtr FY 95	1 Qtr FY 96	2Qtr FY 96	3Qtr FY 96
FMC	284	327	324	323	344
Not FMC	108	110	123	123	99

**Objective:** *Support supply operation programs at a level that will provide timely logistical support to field commands.*

**Measure:** Order ship time (OST) Total number of days elapsed from the date Authorized Stockage Level (ASL) items are requested until received, divided by the total number of requests. Standards vary according to transportation mode and geographic destination. OST is an indicator of whether sufficient supplies are on hand or available within the supply system to support readiness.

**CY 96 Monthly Average Order Ship Time-Surface Transportation**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Europe	63	65.9	73.9	64.1	58.7	69.1	57.1	59.9	53.6	57.1	58.8	61.5
Korea	65.4	59.3	64.8	63.9	51	58.2	60.8	64.8	57.4	70.0	61.3	53.4

Goals: Europe-45 days;Korea-59 days

**CY 96 Monthly Average Order Ship Time-Air Transportation**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Europe	29.6	28.3	26.8	24.8	20.9	19	21.1	26.9	19.2	23.1	23.7	27.4
Korea	29	24.9	25.4	23.8	26.1	18	23.6	20.3	23	18.3	19	21.4

Goals: Europe-23 days; Korea-28 days

## RETROEUR PROGRAM

### Redistribute Equipment, Ammunition, and Other Materiel Throughout America's Army

With the continued drawdown of forces in Europe, the Army was challenged to retrograde significant amounts of materiel to sites in the United States. Through aggressive and judicious internal management, the Army brought back 6,500 tons of ammunition, 537 vehicles, and 152 containers of Class II (organizational clothing and individual

equipment) and Class VII (major end items) materiel during FY 1996, and inducted for repair 1,310 vehicles. Although there are immediate costs associated with such an effort, there will be ultimate cost savings as the Army concludes the closeout of materiel storage sites and less money is needed to maintain materiel in Europe.

RETROEUR Program

	FY 96 Goals	FY 96 Actual	Percent of Goal
<b>Retrograde</b>			
<b>Ammunition</b>	<b>14,000 Short Tons</b>	<b>6,500 Short Tons</b>	<b>47%</b>
<b>Vehicles</b>	<b>600</b>	<b>537</b>	<b>90%</b>
<b>Containers (Class II/Class VII Non-rolling stock)</b>	<b>200</b>	<b>152</b>	<b>76%</b>
<b>Vehicles in Repair Program</b>	<b>1,750</b>	<b>1,310</b>	<b>74%</b>

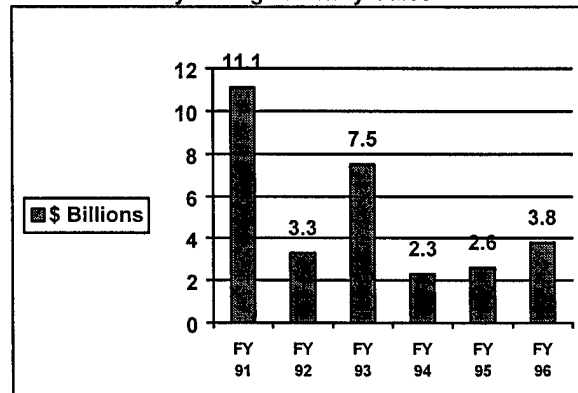
DATA AS OF THE END OF 3RD QUARTER 1996

### Security Assistance (Foreign Military Sales)

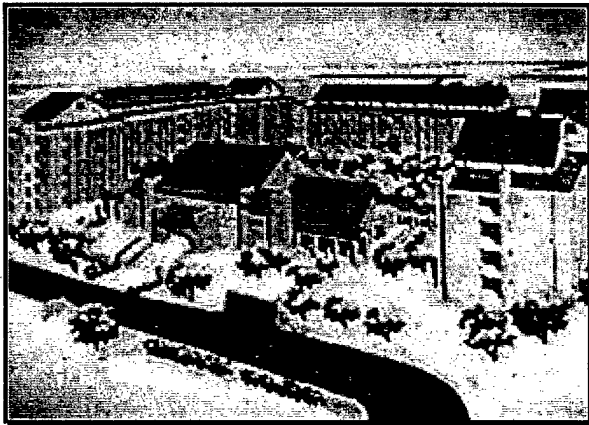
The Security Assistance Program is an integral element of U.S. National Security Strategy and National Military Strategy. The program enhances U.S. foreign and defense policies, promotes the U.S. economy, and supports the defense industrial base. Through security assistance, the U.S. strengthens regional and world stability, and lessens the likelihood of U.S. military involvement. A primary program objective is to assist friends and allies in sustaining the military capability to defend themselves from aggression.

The Army is involved in the Security Assistance Program through its foreign military sales. The accompanying chart illustrates the trends in new foreign military sales contracts signed from FY 1991 through FY 1996.

Army Foreign Military Sales



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## INSTALLATION MANAGEMENT

### INTRODUCTION

Army installations are:

- *home to the force;*
- *-serving our Nation in peace and war;*
- *continuously improving communities of quality facilities and excellent services;*
- *valued neighbors, trusted community partners, and recognized leaders in city management and public administration;*
- *environmental stewards for present and future generations; and*
- *world-class strategic power projection and sustainment bases.*

The installations of America's Army are changing to meet the demands of training highly technical forces within limited geographical and physical assets; mobilizing and frequently deploying and recovering operating forces; and providing sustainment and support services beyond the installation boundaries. Army installations also provide the quality of life that soldiers, families, and workers deserve.

The ability to deploy forces rapidly from platforms within the United States is central to installations' role. Army installations today face tougher challenges than ever before, as years of underfunding have caused infrastructure deterioration. As the Army's budget continues to shrink, the management of installations becomes even more critical.

#### Installation Status Report

In an effort to improve management of limited installation resources, the Army has developed a new decision support system, the Installation Status Report (ISR). The ISR is designed to assess installation conditions against Army-wide standards,

articulate needs, estimate resource requirements for improvements, assist in allocation of resources, and measure progress. Ratings mirror the Unit Status Report, with C1 and C2 considered "green," C3 considered "amber," and C4 considered "red" or inadequate.

When completed, the ISR will comprise of three parts. Part I, Infrastructure, approved for implementation in July 1994, provides an evaluation of the quality and quantity of facilities by category: Mission, Strategic Mobility, Housing, Community, and Utility Systems. FY 1996 was the first worldwide submission. Our facilities are "C-3" or amber for both quantity and quality. Part II, Environment, approved in October 1995, will provide an evaluation of major environmental programs. All CONUS installations performed the ISR II this year. Installation assessments were generally accurate, but since the standards allowed some room for individual interpretation, there is variability between installations. The overall C rating for CONUS was C2, with C2 for environmental

compliance, C2 for conservation, C1 for restoration, C2 for pollution prevention, and C2 for the foundation program. Part III, Services, will include Malcolm Baldrige-based criteria (still under development) for assessing Army installations. When complete and fully integrated, the ISR will provide an overall picture of an installation's status and show how deficiencies in installation conditions affect mission performance and the environment. The ISR will eliminate or streamline numerous existing reports and processes. In summary, ISR offers the potential for outcome oriented resourcing and improved management of Army Installations.

### Facilities

The Army operates and maintains more than 200 installations and military communities in the continental United States and overseas. The cost to replace all of the Army's real property with state-of-the-art facilities would be about \$168 billion, plus the cost of 12.6 million acres of land.

The Army is continuing to reduce its infrastructure significantly to support a smaller force that is based primarily in the continental United States. The installations that support Army forces must be world-class power projection platforms and must provide quality living and working environments for soldiers, their families, and civilian workers. Modernization of the installation infrastructure is as

fundamental to force readiness as is modernization of the operating force. However, funds for replacement of essential facilities have decreased steadily over recent years, resulting in increased costs for operating and maintaining aging and deteriorating facilities. Congressional recognition of the seriousness of this deterioration resulted in increased funding for Real Property Maintenance in FY 1995 and FY 1996.

#### Base Operations and Real Property Maintenance Funding (\$ Millions)

	Total Base Operations *	Real Property Maintenance *
FY 93	\$5,498	\$1,333
FY 94	\$4,514	\$ 981
FY 95	\$4,712	\$1,084
FY 96	\$5,374	\$1,257
% Change - FY 95 -96	+14	+16

\* Total Base Operations includes Real Property Maintenance.

Revitalization is the cornerstone of the Army's vision to provide excellent facilities. Revitalization must be applied in a systematic way to repair, upgrade, or replace infrastructure. The Army has a number of ongoing initiatives to help fulfill this strategy.

**Army Facilities Initiatives**

Initiative	Description
Army Whole Barracks Renewal Program	Upgrade of Army barracks in the U.S. by FY 2007, Europe by FY 2010, and Korea by FY 2014. Program began in FY 1994 and emphasizes a holistic approach to upgrade/replace facilities to new barracks standards. Coupled with the operations and maintenance Barracks Upgrade Program beginning in FY 1998, the program will substantially improve single soldier quality of life.
Facility Reduction Programs	Installations are required to dispose of 1 square foot of temporary facilities for each square foot of new construction, improve utilization of permanent facilities, consolidate in the best facilities, and dispose of the worst ones.
Whole Neighborhood Revitalization Program	Concentrates on renewing whole neighborhoods at a time, by revitalizing Army Family Housing dwelling units, or replacing quarters uneconomical to revitalize; includes the supporting infrastructure and amenities.
Privatization of Utility System	Reduces utility capital investment costs by establishing partnerships with local municipalities, regional authorities, or private utility companies and transferring the government-owned systems in return for non-federally financed modernization and complete operation, maintenance, and repairs to regulatory or industry standards.

Overseas, the Army is executive agent for Host Nation construction in the Pacific and has oversight responsibility for all Host Nation-funded projects for the Army, Navy, Air Force and Marines. In FY 1996, Germany contributed \$113.2 million toward barracks construction through the Payment in Kind program. Japan and Korea contributed \$1.1 billion for the design and construction of facilities for U.S. forces stationed in their countries.

GOAL (# Yrs)			
FY 93 - 95	57	57	35
FY 96 and After	57	25	35

**Results:** During FY 1996, we did not meet our goals. For all facilities, our cycle is approximately 61 years. We are at 28 years for barracks and 63 for family housing.

**Goals, Objectives, and Performance Measures**

**Objective:** *Improve utilities services and reduce utilities costs through privatization*

**Goal:** *Quality facilities for America's Army.*

**Measure:** Utility systems transferred

**Objective:** *Modernize the installation infra-structure.* The Army objective is to revitalize its entire infrastructure so that, in general, each facility is less than 57 years of age, except that barracks would be no older than 25 years and housing should be no older than 35 years.

**Results:** During FY 1996, three utilities at two installations were transferred.

**Measure:** Revitalization cycle years The Revitalization Cycle is the number of years it would take to revitalize the entire Army infrastructure (assuming straight-line funding).

**Objective:** *Eliminate nonessential facilities.* An effective power projection infrastructure is one that fits the mission. A facilities base that "fits" consists of permanent structures, at the proper locations, sized correctly to support the units and equipment that use them. Requirements to maintain nonessential facilities dilute the resources needed to support the power projection infrastructure.

**Revitalization Cycle Years**

	Facilities	Barracks	Army Family Housing

**Measure:** Excess facilities demolished

**Results:** During FY 1996, 5.4 million square feet were eliminated through the Facilities Reduction Program, bringing the program total to 38.7 million square feet.

**Objective:** *Achieve savings by completing all Base Realignment and Closure (BRAC) actions.*

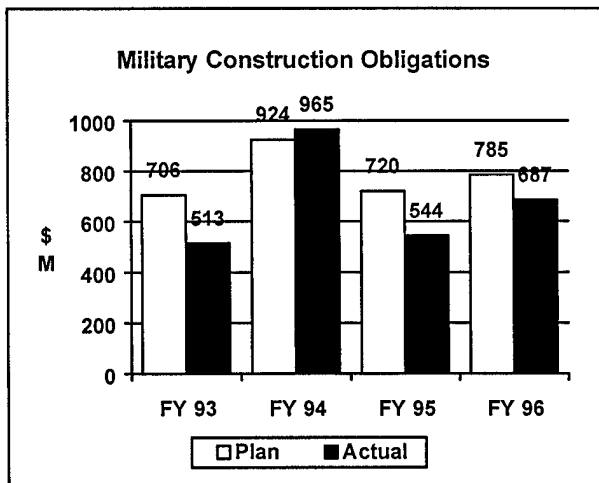
**Measure:** Completion of BRAC actions

**Results:** During FY 1996, the Army closed the last of its BRAC 91 closures, Fort Devens.

BRAC 93 actions remain ahead of schedule. All BRAC 95 actions are well underway.

**Objective:** *Improve award rates for Military Construction and Army Family Housing Construction projects.*

**Measure:** Military Construction program awards versus planned

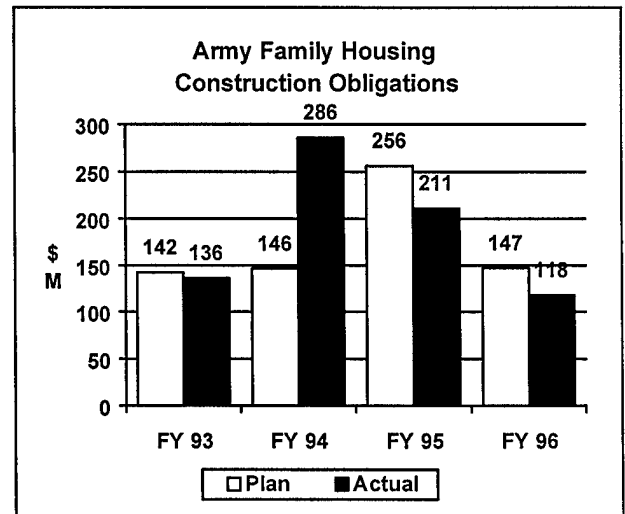


**Results:** For FY 1996, Military Construction awarded 88 percent of program funding. Projects not awarded were delayed

because of a lack of State permits (for Chemical Demilitarization, environmental issues, etc).

**Measure:** Army Family Housing Construction program awards versus plan

**Results:** Army Family Housing Construction awarded 80 percent of program funding and 77 percent of the planned projects. Three projects were not awarded because higher-than-expected bids were received, projects are being readvertised



*Installations are not just homes to soldiers and their families; each installation provides both training facilities and support services that directly contribute to unit readiness.*

## THE ARMY ENVIRONMENTAL PROGRAM

The Army strives to be a leader in environmental and natural resource stewardship. In FY1996, the Army continued implementing the environmental strategy introduced in FY 1993, which translates broad policy into discrete actions organized under four pillars: compliance, restoration, prevention, and conservation.

### Goals, Objectives, and Performance Measures

**Goal:** *Good stewardship and protection of the environment are integral parts of the Army's overall mission.*

Supporting goals under the four strategy pillars are as follows:

- **Compliance**-Ensure that all Army sites attain and sustain compliance in the face of changing regulations.
- **Restoration**-Protect human health and the environment as quickly as resources permit.
- **Prevention**-Adopt and implement integrated management approaches, procedures, and operations in all Army mission areas in order to minimize all environmental contamination and pollution.
- **Conservation**-Use all means consistent with Army missions to conserve, protect, and enhance cultural resources so that present and future generations may use and enjoy them.

With attainment of the following objectives, the Army demonstrates its commitment to being a national leader in environmental stewardship, protecting resources entrusted to its care, and cleaning up past transgressions.

**Objective:** *Attain and sustain compliance at all Army installations and communities.*

**Measure:** Number of New Enforcement Actions (notices of violations, warning letters, compliance agreements, and law suits).

**Results:** The FY 1996 target was a 10 percent reduction from FY 1995. In FY 1996, the Army achieved an actual reduction in New Enforcement Actions of 31 percent, from 320 to 221.

	FY 94	FY 95	FY 96

<b>New Enforcement Actions</b>	360	320	221
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**Measure:** Amount of Assessed Fines/Penalties

**Results:** The target for FY 1996 was less than \$1 million dollars in assessed fines/penalties. The Army surpassed the target by 61 percent, with assessed fines/penalties totaling less than \$0.4 million dollars.

Assessed Fines/Penalties	FY 93	FY 94	FY 95	FY 96
Number	26	51	21	11
Dollars in millions	\$3.7	\$6.3	\$0.6	\$0.4

**Objective:** *Clean up previously contaminated lands as quickly as funds permit.*

**Measure:** Identification and screening of Site

	FY 93	FY 94	FY 95	FY 96
Potential sites identified	10,850	11,081	10,486	10,362
Potential sites screened	99%	99%	100%	100%
Sites restored	153	169	169	96

**Results:** All sites requiring a measure of cleanup have been identified. Reduction in potential sites reflects transfer of sites to the BRAC program and refinement in the database. Remedial action is in place or completed at 96 installations.

**Measure:** Number of clean National Priority List sites Number of sites on National Priority List installations requiring no further action.

FY 1995: 368 of 1,662 completed  
 FY 1996: 555 of 1,970 completed

**Results:** Petitioned to remove Riverbank Army Ammunition Plant (full installation) and one site at Rocky Mountain Arsenal for delisting from the NPL in FY 1996.

A cleanup site was removed from NPL at Fort Lewis, the first DOD installation to achieve site removal from the NPL. Petitioned to remove Riverbank Army Ammunition Plant (full installation) and one site at Rocky Mountain Arsenal for delisting from the NPL in FY 1996.

**Measure:** Percentage of fund for cleanup.

	FY 94	FY 95	FY 96
Cleanup	50%	56%	68%
Studies	40%	34%	22%
Management	10%	10%	10%

**Results:** In FY 1996, accomplished 68 percent clean up, thus exceeding the DOD goal by 18 percent.

**Objective:** *Reduce pollution to as near to zero as possible, including source reduction, resource recovery and recycling, energy efficiency, and environmental research and development.*

**Measure:** Reduction in Toxic Release Inventory (TRI) Measures progress toward hazardous waste reduction. The overall reduction

goal is 1.25 million pounds by CY 1999 from CY 1994 baseline. Interim targets are as follows:

CY 1994 - 2.5 million pounds  
 CY 1995 - 1.8 million pounds  
 CY 1996 - 2.0 million pounds

**Results:** Actual CY 1995 TRI is 1.74 million pounds.

**Measure:** Hazardous waste disposal costs. Net cost of disposing of hazardous waste

Baseline: \$58M  
 FY 1994 \$66M  
 FY 1995 \$71M  
 FY 1996 \$63M

**Results:** Increases from the baseline reflect inflationary cost. Emphasizing pollution prevention to reduce future costs.

**Objective:** Enhance mission use of land and conservation of natural and cultural resources through the preparation and implementation of integrated management plan.

**Measure:** Number of integrated natural resources management plans

Required: 144  
 Current and in effect: 35  
 In progress: 109

**Results:** Our planning process is under way or completed for all required sites.

## Quality of Life

Quality of life is a key element of readiness and an important factor in ensuring that the Army attracts and retains quality soldiers. More than any other factor, quality of life influences a soldier's decision to re-enlist or to leave the Army. Therefore, focusing on issues important to the men and women, both single and married, who serve the Nation is essential to gain stability in the ranks. Now at 65 percent, an overwhelming percentage of the Army's soldiers are married. In addition to their pay, retirement benefits, and adequate health care, soldiers and their families are concerned about the quality of facilities and availability of services where they work and live. Other concerns include support to their families during deployments, availability of commissaries, child care, and the full range of morale and welfare recreation programs. Our goal is to provide an adequate level of support at a reasonable cost to soldiers while continuing to comply with pertinent laws, such as the Military Child Care Act, and Department of Defense guidance. Here are two measures of performance in the QOL area:

**Objective:** *Continual reduction of substantiated abuse cases*

**Measure:** Number of substantiated case of abuse

	FY 93	FY 94	FY 95	FY 96
Cases	11,028	10,444	10,026	9,562

As noted earlier, Part III of the Installation Status Report will include a Baldrige-based organizational assessment designed to evaluate progress toward specific quality goals. By using these criteria, installations will improve the quality of community services. They also will contribute to an increased sense of pride in the profession and the community that will sustain each soldier, civilian employee, and family member through the most demanding of times. The assessment criteria, when used effectively, will give installations the ability to assess quality of life using output-oriented metrics.

### Community Recreation

**Objective:** *Increased quality customer-driven programs to meet the interests of the customer.*

**Measure:** Increased technical training for staff to improve and expand leisure opportunities

Technical Training FY 1995      10  
 Technical Training FY 1996      18\*

\* Automotive skills contracted for training at installations-more cost effective for more staff.



### Family Advocacy Program

Quality of life for both married and single soldiers is a top priority of the Army. It is an extremely important factor in ensuring that we attract and retain quality soldiers. Quality of life, more than any other single factor, influences a soldier's decision to re-enlist or leave the Army. We are committed to ensuring adequate health care, pay housing, and retirement benefits.



## INFORMATION MANAGEMENT

The Information Technology Management Reform Act (ITMRA) became law as part of the National Defense Authorization Act for Fiscal Year 1996. The Act mandates that a Chief Information Officer (CIO), who reports to the Chief Executive Officer (Secretary of the Army), be appointed in each executive agency. As an executive agency, the Army has designated its CIO and is implementing the other ITMRA requirements.

A key focus of Army's performance management is its information technology investment program. Here, the Army seeks to improve its information technology support of command, control, communications, computers, and intelligence (C4I) mission goals.

### Goals, Objectives, and Performance Measures

**Goal:** *Winning the battlefield information war.*  
The Army's emphasis is to transition information management systems into a secure, seamless, and interoperable architecture for maximizing information flow to the warfighter.

The new CIO status will help ensure Information Technology readiness by securing funding and implementing the Army Enterprise Strategy (AES). This strategy lays out 10 principles for achieving information superiority in fighting wars against any opponent. As a crucial first step, the Army is providing new structural order, discipline, and an integrated methodology and framework in its architectures. This strategy, known as the Army Enterprise Architecture (AEA) program, encompasses all information requirements, technical standards, and systems descriptions, regardless of the information systems used.

The AEA transforms operational visions and associated required capabilities of the warfighter into a blueprint for an interoperable and integrated set of information systems. The new order will enable timely horizontal information technology

insertion while emphasizing expansion and adherence to information standards. Interoperability standards will allow cutting across functional "stovepipes", and other Services' C4I boundaries.

Over time, the Army Technical Architecture (ATA) will ensure effective design, evolution, and integration of C4I systems. Effective integration requires information standards be expanded and embedded in weapons and sustaining base systems. The Army is now accelerating the completion of its operational architecture to provide baseline information exchange requirements for specifying what information systems are to do and where their functions are to be performed. Accordingly, the AES and AEA will help guide the Army to fulfill the goals of its information technology investment program.

**Objective:** *Maintain power projection for command, control, communications, and computer infrastructure (PPC4I).* PPC4I is a tenet of the Army Enterprise Strategy. This is a

major objective that digitizes communications at selected installations through hardware and cable upgrades, system interoperability, and software development.

**Measure:** Installation of PPC4I at designated installations

**Results:** During FY 1996, PPC4I efforts concentrated on the modernization of Army installation backbone Local Area Networks (LANs) at Forts Campbell, Lewis, and Bliss. Work continued on LANs at Forts Hood and Stewart, with completion scheduled for early FY 1997. Telephone switches were replaced at Fort Stewart and upgraded at Forts Hood and Bliss, and at Kwajalein Atoll. Switches were expanded at Forts Campbell, Benning, and Lewis. Cable rehabilitation projects

were awarded at Forts Bragg, Hood, Stewart, Campbell, Lewis, and Bliss. Both the switch and cable projects are being installed with scheduled cut-over dates in the FY 1997 timeframe. The Router program continued the technology insertion effort, which includes installation of larger capacity servers to support increased Defense Information Systems Network (DISN) bandwidth (CISCO 7500 series routers and AS 5100 series access servers). Progress through FY 1996 has been considerable, and is expected to remain on schedule in FY 1997. Additional funding is required to keep the program on schedule through FY 1997 and FY 1998.

**Decisive victory in the 21st century will be achieved by dominating the enemy in speed, space, and time and by achieving and sustaining a high pace of continuous operations in all types of environments. Competitive advantage will derive from quantity, quality, and use of information.**



## MILITARY OPERATIONS OTHER THAN WAR

By preparing to fight to win the Nation's wars, the Army develops the leaders, organizations, equipment, discipline, and skills for many military operations other than war (MOOTW). The Army has supported such operations throughout its history, but it has never faced such a complex and sensitive variety of peace enforcement, peacekeeping, counterdrug operations, humanitarian assistance, disaster relief, noncombatant evacuation, and support to other Federal, State, and local agencies.

The Army usually conducts such operations as part of a joint team, often with other government agencies and with foreign governments. All components of the Army active, reserve, and civilian-are involved in military operations other than war.

### Counterdrug Operations

The FY 1989 National Defense Authorization Act mandated Department of Defense involvement in counterdrug activities. DoD was directed to lead in the detection and monitoring of the illegal aerial and maritime flow of drugs into the United States; integration of the command, control, communications, and intelligence network; and employment of the Army National Guard to support State efforts.

The Army provides operational and nonoperational support to civilian drug law enforcement agencies (DLEAs) and military commanders.

Army counterdrug efforts are focused in three areas: at the source countries, in transit from the source countries, and in the Continental United States. Army personnel provide intelligence analysis, linguistic support, engineering support, ground and air transportation, aerial and ground reconnaissance, and special operations training to 2,000 DLEAs, including the Federal Bureau of Investigation, the Customs Service, the Border Patrol, the Drug Enforcement Administration, the Coast Guard, and the National Park Service.

In addition to working on the domestic scene, the Army provides resources and operational personnel, through the State Department, to assist selected countries in combating the production and trafficking of illegal drugs. The Army trains foreign counterdrug forces in skills ranging from light infantry operations to maintenance and logistics support.

America's Army contributes to the Nation's counterdrug effort with approximately 4,000 active and reserve component soldiers in support of DLEAs on a daily basis.

The threats we face today as Americans respect no nation's borders. Think of them-terrorism, the spread of weapons of mass destruction, organized crime, drug trafficking, ethnic and religious hatred, aggression by rogue states, environmental degradation. If we fail to address these threats today, we will suffer the consequences in all our tomorrows.

President William J. Clinton

More than 150 soldiers and Army civilians are permanently assigned to joint counterdrug task forces or detailed to Federal agencies to coordinate military support. The Army has supported DLEA training requests within budget, manpower, and equipment capabilities. The Army also supports Foreign Host Nation civil and military DLEAs worldwide with training, aviation transportation support, and reconnaissance support

As of September 30, 1996, the Army had loaned, leased, or transferred more than \$179 million worth of equipment to DLEAs: pistols, rifles, shotguns, night vision devices, light utility vehicles, helicopters, radar, radios, etc. The Army has rotary wing aircraft on loan to the Drug Enforcement Administration, Customs Service, and Border Patrol. In FY 1996, the USAR conducted more than 267 counterdrug missions involving approximately 2,830 soldiers. Support was provided to DLEAs and Commanders in Chief (CINCs) in intelligence, linguists, transportation, maintenance, and engineering support.

**Counterdrug Goals, Objectives and Performance Measures**

It has been difficult to determine appropriate goals, objectives, and measures of successful performance of Army counterdrug support. Traditional measures attempt to link Army efforts to the price and availability of illegal drugs on the street, but such measures are more applicable to the DLEAs. Measures linked to efficiency and satisfaction of the supported DLEAs are more appropriate for the Army. These could include the level of effort provided, satisfaction of the supported agency, and added DLEA capabilities. Further studies of measures are being conducted by DoD and the Army.

**United Nations Peacekeeping Operations**

America's Army plays a major role in DoD and U.S. support of United Nations (UN) peacekeeping and peace enforcement operations. Pursuant to Section 7 of the United Nations Participation Act (22 U.S.C. 287-d-1), more than 1,050 Army Reserve personnel serve as guards, observers and in other noncombatant capacities.

The Army serves as Executive Agent (EA) or Responsible Agent, for those in Iraq-Kuwait, Israel, Syria, Georgia, Western Sahara, and UN Headquarters in New York. The Army is also EA for the Multi-National Force and Observers in the Sinai, Egypt, an international organization that serves outside UN auspices. EA responsibilities include directing military departments to detail personnel to

UN missions; furnishing facilities, services, supplies, and equipment; and obligating funds and procuring assistance as required.

The U.S. Military Observer Group Washington (USMOG-W), activated in 1993, serves as the DoD proponent for management of Army EA responsibilities for U.S. military observers, individuals, and special teams serving in UN and other multinational observer organizations. USMOG-W provides command and control, and implements DoD policy regarding personnel, logistics, administration, and operations in support of those UN missions for which the Army is responsible.

In FY 1996, more than 15,000 Army Reserve personnel were deployed overseas from more than 40 units for real-world missions and/or training exercises to more than 50 nations to support combatant commands.

USAR soldiers also provided humanitarian aid and performed nation-building activities in support of peace operations. USAR soldiers provided airlift support in Bosnia, engineering and maintenance activities in Southwest Asia, and medical and engineering assistance in South America.

These missions demonstrate the readiness of USAR combat support and combat service support units and afford the Army Reserve an opportunity to exercise deployment and redeployment operations. Such missions reinforce the USAR's forward presence,

strengthen readiness, and support priorities of combatant Commanders-in-Chief. In FY 1997 approximately 17,500 Army Reserve personnel are expected to deploy on missions to support combatant commands.

**The Army National Guard Overseas**

During FY 1996, Army National Guard soldiers were deployed overseas for real-world missions, to support combatant commands and United Nations peacekeeping forces, and to participate in routine training exercises. Army National Guard units also supported overseas Commanders-in-Chief strategies for national assistance. In all, 25,240 soldiers were deployed and spent in excess of 828,000 mandays overseas. The total number of soldiers, by theater, is outlined below:

THEATER	# SOLDIERS	# MANDAYS
ATLANTIC	1,303	45,299
CENTRAL	756	16,990
EUROPEAN	9,304	508,484
PACIFIC	2,177	39,373
SOUTHERN	11,700	218,156

**Disaster Relief and Humanitarian Efforts**

The Army serves as DoD Executive Agent for Military Support to Civil Authorities within the 50 States, territories, and possessions, and responds to a wide range of domestic emergencies. During FY 1996, the Army provided support to several major disasters, including the winter storms, western U.S. wildfires, West Virginia floods, and Hurricanes Bertha, Fran, Hortense, and Edouard.

The greatest share of DoD involvement in supporting civil authorities during FY 1996 was performed by the Army National Guard and the Air National Guard. In FY 1996, 50 State and territorial National Guard organizations reported involvement in emergency response missions. A total of 419 call-ups were reported in response to these civil emergencies, expending more than 716,120 mandays. Of these missions, 260 involved natural disasters, 56 encompassed civil emergencies, 32 supported law enforcement operations, and the remaining 71 of various emergency categories resulted in SENTRY in Macedonia, and Multi-National Force of Observers in the Sinai. Army units provided a monthly National Guard manday average of 59,677.

During FY 1996 more than 1,000 active and reserve personnel responded to national-level disasters and emergencies. The most shocking was the July 19, 1996, downing of TWA Flight 800 off the coast of New York, in which civilians and family members

were killed. Other major disaster relief contributions included providing support during the bombing of Centennial Olympic Park in Atlanta, Georgia. DoD also deployed a task force to provide contingency support to the 96 Summer Olympic Games. More than 10,000 soldiers, both active-duty and National Guard, were deployed and on call to support this historic event.

Also during FY 1996, the Army conducted numerous OOTW missions' including: peace enforcement operations as part of OPERATION JOINT ENDEAVOR in Bosnia, peacekeeping operations such as OPERATION ABLE SENTRY in Macedonia, and Multi-National Force of Observers in the Sinai. Army units provided humanitarian and civic assistance during OPERATIONS PACIFIC HAVEN and MARATHON PACIFIC; Noncombatant Evaluation Operation ASSURED RESPONSE in Liberia; and finally, as a show of force to deter Iraqi aggression in Northern Iraq, Army units participated in INTRINSIC ACTION, DESERT FALCON, and DESERT STRIKE.

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# FINANCIAL MANAGEMENT

## ISSUES

FY 1996 marks the sixth year that Army and the Defense Finance and Accounting Service-Indianapolis Center (DFAS-IN) have prepared audited financial statements in accordance with the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act (GMRA) of 1994. Each of the previous audit reports served to highlight the Army's progress in complying with the requirements of the CFO Act. These reports also serve as a constant reminder that we are years away from reliable, integrated financial systems and processes required to achieve full compliance with the Act. The auditors have been unable to express an opinion on the reliability of the data in the Army's statements; however, each successive audit has documented significant improvements in accounting controls, processes, and systems.

Army senior leadership is committed to improving financial management. Army and DFAS continue working together to resolve issues identified in past audits and to improve the reliability of financial data. Joint financial and functional teams are developing and implementing interim measures to address system deficiencies that require long-term fixes, such as inadequate integration or interfaces between the accounting system and personnel, pay, and property systems. These improvements will provide better financial information to aid decision makers in allocating scarce budgetary resources and will strengthen public confidence in the Army's financial management and stewardship.

### Accounting Systems

The Army's financial statements are prepared from a consolidation of accounting data reported from various installation systems and the Defense Finance and Accounting Service-Indianapolis Center. The overall accounting system supporting the Army consists of a variety of subsystems.

Field-level accounting systems are fed from an array of inventory, property, procurement, payroll, accounts payable, and other management information systems that create the detailed subsidiary records necessary to support the Army's consolidated financial statements. The field-level accounting systems report the accounting transactions via electronic file transfer to the Headquarters Accounting and Reporting System, located at DFAS-IN, so that financial consolidation and clearance functions can be performed. As part of the consolidation process, DFAS-IN must also record all disbursement/collection transactions made for the Army by other governmental agencies citing Army funds.

The management accounting information system currently supporting the Army is undergoing significant change. For example, conversion from the Standard Army Civilian Payroll System to the Defense Civilian Pay System is nearly complete. The active and reserve components are now paid by one system-Defense Joint Military Pay System. Other actions affecting the current accounting systems environment include the continued consolidation of field accounting offices to centralized Operating Locations (OPLOC). These OPLOCs will help in streamlining and standardizing the flow of accounting data used in the consolidation of the financial statements and will improve the ability of DFAS to efficiently replace existing unique systems with standardized accounting systems. And finally, all field-level accounting systems now have the capability of reporting General Ledger trial balances directly to the DFAS-IN departmental-level system

### Cash Management

The Army continues to search for methods to improve current cash management practices. Examples of cash management initiatives that have resulted from joint efforts between Army and DFAS-IN include: (1) encouraging civilian and military personnel (now mandatory for military) to elect payment of travel settlement vouchers via Direct Deposit/Electronic Fund Transfer (DD/EFT); (2) educating the vendors that provide Army goods and services on the benefits of receiving payments via Electronic Funds Transfer; (3) expanding the use of credit card purchases to reduce cash balances previously maintained by local imprest funds for use in purchasing small-dollar items; (4) reviewing existing cash holdings related to commissary change funds to determine where funds can be turned back to the Treasury because of decreasing customer requirements; and (5) decreasing the need for cash payment advances to government travelers by aggressively promoting use of the government charge card. Implementation of these initiatives allows the Army to reduce cash holding requirements, thereby minimizing the cost to Treasury of borrowing the money.

One of the most visible areas of cash management surrounds payments made to vendors under the Prompt Payment Act (PPA). In simple terms, payments must be made to vendors on time in

order to avoid late payment interest penalties. Additionally, sound cash management not only involves minimizing interest charges but also includes taking full advantage of all discounts offered by vendors, where cost-effective. The Army took advantage of 87 percent of offered discounts during 1996. The Army exceeded its goal for PPA interest penalties by incurring interest penalties on only .01 percent of the total amount of disbursements subject to PPA. Fiscal year 1996 PPA interest penalty and discounts taken are presented in the chart below.

## Debt Management

The management of accounts receivable is an important element of the Army's stewardship over public funds. The largest component of Army public receivables involves those debts created at the time soldiers are discharged from the Army. This category has grown dramatically as a result of demobilization and the rapid reduction in the armed forces. Known debts are collected from soldiers' pay at the time of separation. Debts exceeding the soldier's earnings are established as receivables. However, in many cases debts are discovered after the soldier separates, because the separation site does not receive the debt identifying documents in time.

### Prompt Payment Data (000s)

	Number	Amount
Discounts Taken	98	\$41,522
Discounts Lost	14	\$2,717
Discounts Lost (% of total)	12.5%	6%
Int. Penalties Paid Goal		2%
Payments Made Subject to PPA	3,020	\$16,175,297
Interest Penalties Paid	88	\$1,986
Int. Penalties Paid (% of total)	2.9%	.01%
Int. Penalties Paid Goal		.02%

Debt from former soldiers represents 40 percent of the total public receivables due to the Army. Other major categories of delinquent debt include foreign

governments (33 percent) and contract food service debt ( 10 percent). The remaining 17 percent is

attributable to debt from individuals, medical claims, and State/local governments.

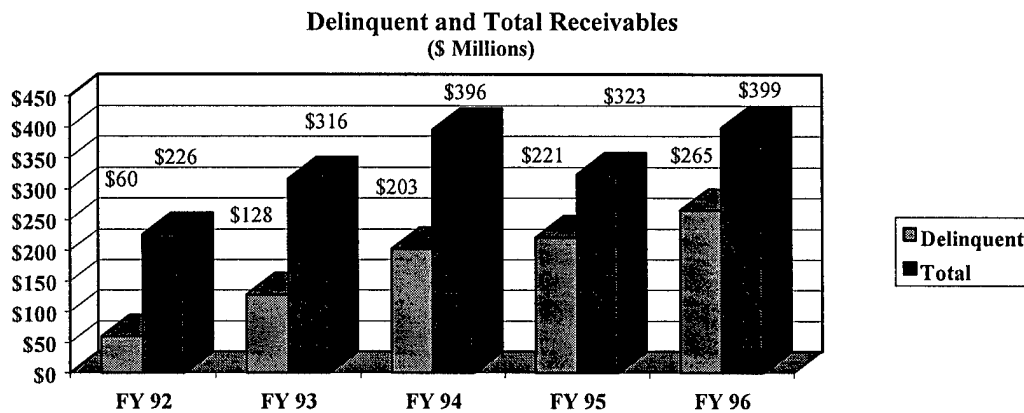
As would be expected, debt from former soldiers also represents the largest component of the Army's delinquent receivables. As of September 30, 1996, \$119 million, or 49 percent of the total delinquent debt, pertains to the "former soldier" category. Delinquent debt represents debt that, 30 days after proper notification, remains uncollected in full from the debtor. During FY 1996, a program developed and tested at one installation was expanded Army-wide. The program stresses improving the flow of information between activities to ensure debts are collected before the soldiers separate. The process appears to be working as we saw debt from former soldiers decreasing from 52% in 1995 to 40% in 1996.

The Army uses the Defense Debt Management System (DDMS) to manage accounts receivable due from former soldiers. Debt collection services include the DDMS capabilities in conjunction with credit bureau reporting, collection agencies, the Justice Department referral system, and locator services. The Internal Revenue Service Tax Offset Program is used to collect public past due accounts. Additionally, DFAS-IN uses information from the

Defense Manpower Data Center to initiate salary offsets for debts due from government employees.

In FY 1996, total public debt increased 23 percent, and total delinquent debt increased by 19 percent. The increase in total delinquent debt is attributed to an 80 percent increase in foreign government debt. This was partly offset by decrease of 11 percent in the debt of former soldiers. The chart below shows a 5 year comparison of delinquent and total receivables.

Debtors are encouraged to pay promptly or incur further charges such as interest, penalty, and administrative costs. Total collections for FY 1996 amounted to \$580 million in principal and \$3 million in interest, penalty, and administrative costs. Management is continuing to seek both policy and systems improvements to increase the efficiency of debt collection. Examples include: (1) validating debt referred for collection to ensure that only valid debts are reported; (2) providing timely feedback to field activities of debt status and emphasizing initiatives for debt avoidance; and (3) enhancing internal training and communication to improve the timeliness of collections.



### Canceled Appropriations

Public Law No 101-510 eliminated all unexpended obligation authority for merged year funds and

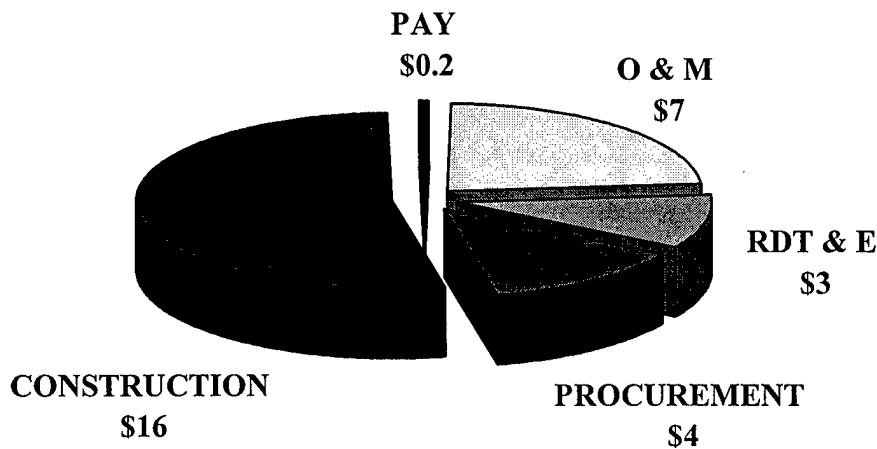
established new procedures and controls for liquidating obligated balances after the appropriations expired. Payments can be made from expired appropriation obligations for a 5 year period. The obligations must be canceled after the 5

year period, regardless of whether the Army is still obligated to pay for goods or services associated with the canceled obligations. Installations must use their current year unexpired appropriations (up to 1 percent of the available unexpired balances) to pay these liabilities when the proper invoices are presented for payment.

Detailed appropriations data must be maintained after the end of the appropriation's life cycle since payments may still be required subsequent to cancellation of the original obligation. The accounting network must closely monitor obligations as they approach the end of the appropriations's life cycle to prevent the need for liquidating canceled year obligations through disbursement of unexpired mission funds

Cumulative payments for obligations related to canceled appropriations amounted to \$104.9 million. The following chart indicates the total FY 1996 cancellations by appropriation category.

### TOTAL CANCELLATIONS BY APPROPRIATIONS \$30.2 MILLION



## Problem Disbursements

During FY 1996, the elimination of Problem Disbursements (PD) continued to be one of the highest priorities of the Under Secretary of Defense (Comptroller). The Army transacts a significant portion of its business using a centralized clearance system at DFAS-IN which allows an installation to make disbursements citing another installation's funds. The transactions include intraservice transactions by others, interfund billings, and cross-disbursements by others. Problem disbursements represent disbursements of Army funds that have been reported by one of Treasury's Disbursing Station Symbol Numbers (DSSN) to Treasury which have not yet been precisely matched against the specific source obligation giving rise to the disbursement. Problem disbursements represent a significant financial management concern because: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor-intensive as the age of the problem disbursements increases.

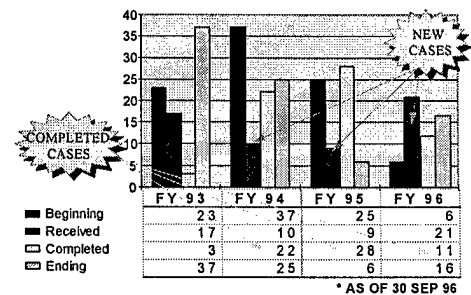
Contract payments made by the DFAS-Columbus Center (CO) still represent the largest portion of problem disbursements facing the Army today. The Columbus staff continues to make progress in this area. In an effort to reduce the high level of rejected transactions, DFAS-IN has established a liaison team at the Columbus Center to assist Army fund managers and accounting offices in reconciling disbursements recorded at the installation level to disbursements recorded in the Columbus contract payment system. During FY 1996, all disbursement stations, with the exception of DFAS-CO, continue to use a prevalidation program to confirm that sufficient obligations were available to cover invoices exceeding \$1 million before payment. Effective 1 October 1996, DFAS-CO conducts prevalidation to zero dollars for contracts awarded for FY 1997 and beyond. DFAS-CO prevalidates payments

exceeding \$1 million for those contracts awarded before FY 1997. The DFAS and Army are working towards the goal of being able to prevalidate 100 percent of all invoices prior to payment.

## Reportable Antideficiency Violations

The Army had 16 potential Antideficiency Act (ADA) violations under investigation as of September 30, 1996. Of the completed cases during FY 1996, only one was determined to be a violation of the Act. The single case totaling \$100,269,900 resulted when restrictions of Section 101 of the Military Construction Act of 1994 (Public Law 103-110) were violated. The restriction requiring prior approval by the Secretary of Defense for the expenditure of military construction funds for certain cost-plus-fixed-fee contracts has since been removed from the FY 1996 Military Construction Appropriations Act. During FY 1996, the financial management and legal communities have made significant progress in bringing ADA investigations to closure. Revisions to the ADA tracking system have provided added visibility over all phases of the process. Awareness of the fiscal constraints and ADA violations has been heightened by the preparation of an ADA primer that has subsequently published on the ASA(FM&C) homepage of the Web. Additionally, the legal community will be publishing the same document in the *Army Lawyer* magazine.

Antideficiency Act Cases



## Financial Management Waiver Program

The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) Business Practices Office implemented a financial management waiver program in FY 1994. The

programs focus was on improving financial management and stewardship of financial resources. The specific objective was to identify ways to generate revenues, reduce costs, streamline financial procedures, or allow for more business-like operations. MACOM and installation commanders were encouraged to submit suggestions to gain the authority needed to implement or test good ideas that were blocked by OSD or Army regulatory restrictions.

Since FY 1994, 40 waiver requests were submitted. Of these requests, 26 were approved/completed, 2 are still in process, and 12 were withdrawn either because they required legislative action or were not supported by the Army headquarters.

FY	Submitted	Approved	In-Process	With-drawn
94	2	1	0	1
95	31	20	1	10
96	7	5	1	1

Many of the waiver requests have had a major impact on the Army. Examples include the following:

- Changed DoD Instruction to allow Morale, Welfare, and Recreation (MWR) activities to generate revenue from the sale of advertising space in their publications. Also, gained approval to advertise public on-post events in off-post commercial publications. Both efforts increased revenues for MWR activities.
- Changed DoD Directive to raise threshold from \$300 to \$2,500 for certain classes of accountable property. This change resulted in better use of personnel.

- Expanded use of the International Merchant Purchase Authorization Card (IMPAC), thereby avoiding costs.
- Obtained approval to eliminate the annual yearend write-down and write-up procedures for reimbursable orders in multiyear appropriations. Achieved efficiencies in use of funds and personnel.
- Gained approval for the Corps of Engineers to accept project orders and roll over funding from year to year until the work is complete. Achieved efficiencies in use of funds and personnel.
- Achieved significant improvements in the way we acquire printing services. The impact of this change resulted in more business-like operations.

OASA (FM&C) recently sent a memorandum to Resource Managers requesting that they continue to look for innovative ways to improve the way the Army does business and to get the top value from every Army dollar.

**Objective:** *Continue to encourage Army commanders to look for innovative and better ways of doing business through the waiver program.*

**Measure:** Increase both the number of significant waiver requests and the quality of requests so that a higher percentage can be approved.

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# PRINCIPAL STATEMENTS

The Army's FY 96 Principal Statements are presented in the format prescribed by the Office of Management and Budget (OMB) and the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer). The statements present the overall financial position and operating results of the Army for the fiscal years ending September 30, 1996 and 1995.

The following statements are included as Army's Principal Statements.

- Statement of Financial Position
- Statement of Operations (and Changes in Net Position)
- Statement of Cash Flow

The principal statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990 as amended by the Government Management Reform Act. The footnotes should be considered an integral part of the principal statements.

## Limitations of the Financial Statements:

While the statements have been prepared from the books and records of the entity in accordance with the format prescribed by OMB and DoD, the statements are different from 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 a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Prior year balances have been restated in some cases. Additional information is contained at Note 1 (U).

## 48 Principal Statements

**Department of the Army**  
**Statement of Financial Position**  
**As of September 30, 1996**  
**(Thousands)**

ASSETS	<u>1996</u>	<u>1995</u>
<b>1. Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 1G and 2)	\$31,343,151	\$29,660,945
(2) Investments, Net (Note 1L and 4)	1,068	1,003
(3) Accounts Receivable, Net (Note 1I and 5)	953,735	977,322
(4) Interest Receivable	0	0
(5) Advances and Prepayments	4,304	89,800
(6) Other Federal (Intragovernmental)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments	0	0
(2) Accounts Receivable, Net (Note 1I and 5)	260,244	179,552
(3) Credit Program Receivables/ Related Foreclosed Property, Net	0	0
(4) Interest Receivable, Net	273	0
(5) Advances and Prepayments	424,246	920,048
(6) Other Non-Federal (Governmental)	0	0
c. Cash and Other Monetary Assets (Note 1G and 3)	19,802	270,250
d. Inventory, Net (Note 1K and 8)	37,669,779	33,160,758
e. Work in Process	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 1M and 15)	124,867,674	155,943,247
l. Other Entity Assets	5,476,723	153,000
<b>m. Total Entity Assets</b>	<u>\$201,020,999</u>	<u>\$221,355,925</u>
<b>2. Non-Entity Assets:</b>		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 1G and 2)	(\$134,337)	\$354,656
(2) Accounts Receivable, Net (Note 1I and 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of the statements

Department of the Army  
Statement of Financial Position  
As of September 30, 1996  
(Thousands)

ASSETS, Continued	<u>1996</u>	<u>1995</u>
<b>2. Non-Entity Assets:</b>		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 1I and 5)	\$6,478	\$7,549
(2) Interest Receivable, Net	6,058	1,348
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 1G and 3)	143,252	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$21,451</u>	<u>\$363,553</u>
<b>3. Total Assets</b>	<u><u>\$201,042,450</u></u>	<u><u>\$221,719,478</u></u>
<b>LIABILITIES</b>		
<b>4. Liabilities Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$2,069,074	\$1,070,455
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	725,319	1,421,524
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable (Note 1W)	1,789,207	1,307,626
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	1,957,061	1,295,363
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	327,984	330,338
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	218,865	190,720
c. Total Liabilities Covered by Budgetary Resources:	<u>\$7,087,510</u>	<u>\$5,616,026</u>

The accompanying notes are an integral part of the statements

## 50 Principal Statements

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**Department of the Army**  
**Statement of Financial Position**  
**As of September 30, 1996**  
**(Thousands)**

**LIABILITIES, Continued**

	<u>1996</u>	<u>1995</u>
<b>5. Liabilities Not Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	769,119	783,062
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	216
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,313,935	1,352,475
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	16,138,876	2,736,114
<b>c. Total Liabilities Not Covered By Budgetary Resources</b>	<u>\$18,221,930</u>	<u>\$4,871,867</u>
<b>6. Total Liabilities</b>	<u>\$25,309,440</u>	<u>\$10,487,893</u>
<b>NET POSITION (Note 20)</b>		
<b>7. Balances:</b>		
a. Unexpended Appropriations	\$27,461,855	\$27,966,112
b. Invested Capital	168,160,756	183,559,323
c. Cumulative Results of Operations	(1,667,671)	4,578,017
d. Other	0	0
e. Future Funding Requirements	(18,221,930)	(4,871,867)
<b>f. Total Net Position</b>	<u>\$175,733,010</u>	<u>\$211,231,585</u>
<b>8. Total Liabilities and Net Position</b>	<u>\$201,042,450</u>	<u>\$221,719,478</u>

The accompanying notes are an integral part of the statements

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Department of the Army  
Statement of Operations and Changes in Net Position  
For the Period Ended September 30, 1996  
(Thousands)

	<u>1996</u>	<u>1995</u>
<b>REVENUES AND FINANCING SOURCES</b>		
1. Appropriated Capital Used	\$55,643,717	\$53,273,311
2. Revenues from Sales of Goods and Services		
a. To the Public	627,185	495,222
b. Intragovernmental	5,552,692	5,466,516
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	929,604	912,178
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(432,977)	(321,412)
8. <b>Total Revenues and Financing Sources</b>	<u>\$62,320,221</u>	<u>\$59,825,815</u>
<b>EXPENSES</b>		
9. Program or Operating Expenses (Note 23)	\$57,789,003	\$54,475,978
10. Cost of Goods Sold (Note 24)		
a. To the Public	627,185	495,222
b. Intragovernmental	5,552,692	5,466,517
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	23,252	37,000
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	1,576	1,342
14. Other Expenses (Note 25)	735,136	357,780
15. <b>Total Expenses</b>	<u>\$64,728,844</u>	<u>\$60,833,839</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$2,408,623)	(\$1,008,024)
17. Plus (Minus) Extraordinary Items (Note 26)	<u>0</u>	<u>0</u>
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$2,408,623)</u>	<u>(\$1,008,024)</u>

The accompanying notes are an integral part of the statements

## 52 Principal Statements

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**Department of the Army  
Statement of Operations and Changes in Net Position  
For the Period Ended September 30, 1996  
(Thousands)**

	<u>1996</u>	<u>1995</u>
<b>EXPENSES, Continued</b>		
19. Net Position, Beginning Balance, as Previously Stated	\$211,231,585	\$225,808,608
20. Adjustments (Note 27)	(13,685,466)	2,545
21. Net Position, Beginning Balance, as Restated	<u>\$197,546,119</u>	<u>\$225,811,153</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(2,408,623)	(1,008,024)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(19,404,486)</u>	<u>(13,571,544)</u>
24. Net Position, Ending Balance	<u><u>\$175,733,010</u></u>	<u><u>\$211,231,585</u></u>

The accompanying notes are an integral part of the statements

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Department of the Army  
Statement of Cash Flows  
For the Period Ended September 30, 1996  
(Thousands)

	<u>1996</u>	<u>1995</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$421,324)</u>	<u>\$29,289</u>
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	111,109	93,807
4. Decrease (Increase) in Other Assets	551,089	62,554
5. Increase (Decrease) in Accounts Payable	(49,979)	58,394
6. Increase (Decrease) in Other Liabilities	(306,985)	(288,492)
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	<u>20,025</u>	<u>8,163</u>
10. Total Adjustments	<u>\$325,259</u>	<u>(\$65,574)</u>
11. Net Cash Provided (Used) by Operating Activities	<u>(\$96,065)</u>	<u>(\$36,285)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	<u>0</u>	<u>0</u>
19. Net Cash Provided (Used) by Investing Activities	<u>\$0</u>	<u>\$0</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
20. Appropriations (Current Warrants)	\$0	\$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	<u>0</u>	<u>0</u>
23. Net Appropriations	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of the statements

## 54 Principal Statements

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**Department of the Army  
Statement of Cash Flows  
For the Period Ended September 30, 1996  
(Thousands)**

	<u>1996</u>	<u>1995</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES, Continued</b>		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	<u>0</u>	<u>0</u>
29. Net Cash Provided (Used) by Financing Activities	<u>\$0</u>	<u>\$0</u>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	(\$96,065)	(\$36,285)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>159,678</u>	<u>195,963</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u><u>\$63,613</u></u>	<u><u>\$159,678</u></u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
	<u>1996</u>	<u>1995</u>
33. Total Interest Paid	\$0	\$0
<b>Supplemental Schedule of Financing and Investing Activity:</b>		
	<u>1996</u>	<u>1995</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of the statements

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**DEPARTMENT OF THE ARMY**

**NOTES TO THE  
PRINCIPAL  
FINANCIAL STATEMENTS**

## NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies:

#### **A. Basis of Presentation:**

These financial statements have been prepared to report the financial position and results of operations of the Department of the Army, as required by the Chief Financial Officers (CFO) Act, and other appropriate legislation. They have been prepared from the books and records of the Army in accordance with DoD guidance on the form and content of financial statements as adopted from Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. Consequently, these statements are different from the periodic accounting reports, also prepared by the Army pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

The Army's financial statements are prepared from a consolidation of accounting information reported from multiple field level accounting systems as well as departmental level data input by the Defense Finance and Accounting Service (DFAS) - Indianapolis Center. This consolidated accounting data is maintained in the Headquarters Accounting and Reporting System (HQARS) departmental general ledger located at DFAS-IN.

General ledger account balances have been verified to the year-end departmental budget execution and expenditure reports. Department level budget execution reports are prepared from installation budget execution reports that are certified for accuracy and completeness by installation commanders. Other methods, to include feeder reports, must be used to verify the accuracy of general ledger balances in those instances where budget execution and expenditure reports don't contain the particular information - for example, "Government Furnished Property."

The requirements for Statements of Cash Flows and Budget and Actual Expenses have been waived by the Office of Management and Budget for Department of Defense agencies and, accordingly, are not included.

#### **B. Reporting Entity:**

The Army's primary mission is to train and equip forces for the conduct of prompt and sustained combat operations on land. Fiscal year 1996 represents the 6th year that the Department of the Army has prepared, and had audited, financial statements as required by the CFO Act and the Government Management Reform Act. The accompanying audited financial statements account for all funds for which the Army is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified.

The accounts used to prepare the principal statements are classified as entity/ non-entity and by type of fund. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

Designators with X, F, and R indicate availability for an indefinite period of time. Appropriations with a designator "\*" are for a specific period of time.

#### Entity Accounts:

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**Revolving Funds**

21X4528 - Working Capital Fund, Army Conventional Ammunition

**Trust Funds**

21X8063 - Bequest of MG Fred C. Ainsworth, Library, Walter Reed Army Medical Center

21X8927 - General Gift Fund

**General Funds**

21\*7020 - Military Construction, Family Housing

21\*7025 - Operation & Maintenance, Family Housing

21\*1705 - National Board for the Promotion of Rifle Practice, Army

21X1805 - Cemeterial Expenses, Army

21\*2010 - Military Personnel, Army

21\*2020 - Operations & Maintenance, Army

21\*2031 - Aircraft Procurement, Army

21\*2032 - Missile Procurement, Army

21\*2033 - Procurement of Weapons and Tracked Combat Vehicles, Army

21\*2034 - Procurement of Ammunition, Army

21\*2035 - Other Procurement, Army

21\*2040 - Research, Development, Test & Evaluation, Army

21\*2050 - Military Construction, Army

21\*2060 - National Guard Personnel, Army

21\*2065 - Operations & Maintenance, Army National Guard

21\*2070 - Reserve Personnel, Army

21\*2080 - Operation & Maintenance, Army Reserve

21\*2085 - Military Construction, Army National Guard

21\*2086 - Military Construction, Army Reserve

**Note 1B Continued****Special Funds**

21X5095 - Wildlife Conservation, etc., Military Reservations, Army

21X5098 - Restoration, Rocky Mountain Arsenal

21X5194 - DoD 50th Anniversary of World War II Commemoration Account

21X5285 - Forest and Wildlife Conservation, Military Reservations

21X5286 - National Science Center, Army

**Non-Entity Accounts:****Deposit Funds**

21X6001 - Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property-Army

21X6002 - Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Army

21X6010 - Army Member Savings Deposit-Desert Shield/Desert Storm Savings Program

21X6031 - Effects of Mentally Incompetent Soldiers - United States Army

21X6050 - Employees' Payroll Allotment Account, United States Savings Bonds

21\*6060 - Estates of Deceased Soldiers, Regular Army

21X6075 - Withheld Allotment of Compensation for Payment of Employees Organization Dues

21X6083 - Withheld Allotment of Compensation for Charitable Contributions

21X6105 - Withheld Employee Contributions, State or Territorial Retirement

21X6108 - Employer Contributions, State or Territorial Retirement

- 21X6112 - Withheld Employee Contributions, State or Territorial Disability Benefits
- 21X6113 - Withheld Employee Contributions, State or Territorial Death Benefits
- 21X6129 - Foreign Taxes Withheld
- 21X6131 - Employee and Employer Contributions, Private Insurance Plans, Dept of the Army
- 21X6134 - Amounts Withheld for Civilian Pay Allotments
- 21X6208 - Amounts Withheld for Group Life Insurance, National Guard Members
- 21X6275 - Withheld Income Taxes (State, County, City)
- 21X6434 - Servicemen's Group Life Insurance Funds, Suspense, Dept of the Army
- 21\*6763 - Gains and Deficiencies on Exchange Transactions-Army
- 21X6875 - Budget Clearing Account (Misc.)
- 21X6999 - Accounts Payable, Check Issue Underdrafts

**Special Funds (Receipt Accounts)**

- 21R0891 - Miscellaneous Fees for Regulatory and Judicial Services not Otherwise Classified
- 21R1020 - Fines, Penalties, and Forfeitures, Economic Stabilization Laws

**Note 1B Continued**

- 21R1030 - Fines, Penalties, and Forfeitures, Immigration and Labor Laws
- 21R1060 - Forfeitures of Unclaimed Money and Property
- 21R1099 - Miscellaneous Fines, Penalties and Forfeitures
- 21R1125 - Recoveries Under Military Occupation
- 21R1210 - Contributions to Conscience Fund
- 21R1292 - Residue of Funds of Quasi-Governmental Organizations
- 21R1299 - Gifts--To the United States not otherwise classified
- 21R2462 - Deposits for Survivor Annuity Benefits
- 21R3019 - Recoveries for Government Property Lost or Damaged, Not Otherwise Classified
- 21R3041 - Recoveries Under Foreign Aid Programs -- Foreign Military Sales
- 21R3102 - Recoveries From Federal Agencies Resulting for Reductions in Civilian Salaries of Military Retirees
- 21R3200 - Collections of Receivables from Canceled Accounts
- 21R3210 - General Fund Miscellaneous Income and Recoveries not Otherwise Classified
- 21R3220 - General Fund Proprietorship Receipts
- 21R5095 - Sale of Hunting and Fishing Permits, Military Reservations
- 21R5098 - Restoration, Rocky Mountain Arsenal, Army-Reimbursements from Private Industry
- 21R5286 - National Science Center - Facilities
- 21R5194 - Royalties for Use of DoD-Military Insignia and Trademarks
- 21R8063 - Bequest of MG Fred Ainsworth to Walter Reed Army Medical Center
- 21R8927 - Trust Fund Receipt Accounts for Department of the Army General Gift Fund

**Special Funds**

- 21F0109 - Federal Tax withheld from payments to nonresident aliens
- 21F3845 - Proceeds of Sales, Personal Property
- 21F3875 - Budget Clearing Account (Misc.)
- 21F3878 - Budget Clearing Account (Chargebacks)
- 21F3879 - Undistributed & Letter of Credit Differences (Suspense)
- 21F3880 - Unavailable Check Cancellations
- 21F3885 - Undistributed Intra-government Payments
- 21F3886 - Federal Employee Retirement System (FERS) - Thrift Savings Plan Account

**C. Budgets and Budgetary Accounting:**

The Assistant Secretary of the Army (Financial Management and Comptroller) is responsible for directing the Army's budget and monitoring its execution against funds appropriated by Congress. Funds are distributed by appropriation directors through major commands to installations responsible for accomplishing the diverse missions for which the Army is responsible. As missions are performed, installations report obligations and disbursements against the applicable appropriations.

The Army's appropriations are divided into the general, revolving, trust, special and deposit funds. These accounts are used to fund and report how the resources have been used in the course of executing the Army's missions.

**General funds** contain the bulk of Congressional appropriations, including personnel, operations, research and development, investment, and construction accounts.

The Conventional Ammunition Working Capital Fund, a **revolving fund** accounts for the procurement, production, storage, distribution, maintenance, and demilitarization of conventional ammunition for all services.

**Trust funds** are used to record the receipt of funds held in trust for the government. **Special funds** are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law. **Deposit funds** generally are used to hold assets that are awaiting legal determination or for which the Army acts as agent or custodian. These accounts may also be used for unidentified remittances.

### **D. Basis of Accounting:**

Transactions are generally recorded on an accrual basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability has been incurred, without regard to the actual receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts which facilitate Army's compliance in meeting both legal and internal control requirements associated with the use of federal funds. All known intrafund balances have been eliminated.

### **E. Revenues and Other Financing Sources:**

The Army receives the majority of funding required to support its programs and missions through Congressional appropriations. A financing source, "Appropriated Capital Used," is recognized each fiscal year to the extent that appropriated funds have been consumed. Purchases of capital items and accruals of unfunded liabilities are excluded from the "Appropriated Capital Used" account.

Appropriations are, when authorized, supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the Army from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable process. The Conventional Ammunition Working Capital Fund recognizes revenues at the point of delivery.

Other revenues and financing sources include donated revenue and inventory and other gains. Donations to the Army are recognized as a financial source upon acceptance of the donated asset. Revenue is recorded for the value of the increase to the asset account. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required. Therefore, for the Army's general funds, an amount due from future financing sources (appropriations to be provided) is recognized as an offset to equity in the consolidated statement of financial position.

### **F. Accounting for Intragovernmental Activities:**

The Army, as an agency of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. However, it should be noted that these financial statements do not reflect the results of all financial decisions applicable to the Department as though the agency were a stand alone entity.

The Army's proportionate share of public debt and related expenses of the federal government are not included in these financial statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies.

The Army's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuance, tax revenues). The related interest costs incurred in the construction of Army facilities are also not capitalized since Treasury does not allocate interest costs to the benefiting agencies.

The Army's permanent civilian employees and military personnel are covered under the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS) and the Military Pay Retirement System (MRS) plans.

*CSRS* - Army makes matching contributions equal to 7 percent of civilian pay.

*FERS* - Army contributes to FERS, Social Security (SS) and Thrift Savings Plan for civilian employees hired after December 31, 1983, or CSRS employees that elected to be covered under FERS.

*MRS* - Army contributes to the Military Pay Retirement Fund for Active Component and Reserve/National Guard members.

The Army also contributes to the FERS Thrift Savings Plan on behalf of its participating employees. The following contributions listed below were made to the retirement plans and FERS Thrift Savings Plan (TSP).

	<b>Retirement Contributions (Thousands)</b>	
	<u>FY 96</u>	<u>FY 95</u>
<b>CSRS</b>	\$278,700.0	\$295,718.0
<b>FERS</b>	370,300.0	351,539.7
<b>MRS</b>	4,049,600.0	4,430,300.0
<b>SS</b>	338,600.0	326,496.0
<b>Total</b>	<u>\$5,037,200.0</u>	<u>\$5,404,053.7</u>
<b>TSP</b>	<u>\$120,600.0</u>	<u>\$110,322.0</u>

The Army funds a portion of the pension benefits under these retirement plans. No amounts are reported as assets or liabilities in the financial statements because the funds are maintained and reported by the Office of Personnel Management for CSRS and FERS; and DoD for MRS. Overseas commands obligate mission funds to pay separation and severance pay for Foreign Nationals in accordance with the Status of Forces Agreements.

#### **G. Funds with the U.S. Treasury and Cash:**

The Army's funding resources are maintained in Treasury receipt and expenditure accounts. The account balance with Treasury represents the aggregate of all Army appropriations. The Army is an agent for the Department of the Treasury for cash on hand.

Fund Balance With Treasury is adjusted for the amount of undistributed disbursements and collections reported in the departmental expenditure system. A corresponding adjustment is also

processed to both accounts payable and accounts receivable respectively. These adjustments represent Army's in-float (undistributed) disbursements/collections for transactions that have been reported by a disbursing station but not recorded by the appropriate accountable station. See Note 2, "Fund Balance with Treasury."

Cash in the accounts of Army officials was reported in the financial statements as "Cash and Other Monetary Assets." Other cash reported included imprest fund and undeposited collections. Army disbursing officers also maintain small on hand balances of foreign currencies when acting as an agent for the Treasury Department in overseas locations. These foreign currency balances are reported at the U.S. Dollar equivalent using the exchange rate in effect on the last day of the reporting period. See Note 3, "Cash, Foreign Currency, and Other Monetary Assets."

**H. Foreign Currency:**

The Department conducts a significant portion of its operations overseas. Gains and losses from foreign currency fluctuations are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year.

**I. Accounts Receivable, Net:**

As presented in the Statement of Financial Position, accounts receivable includes accounts, claims, and refunds receivable from other entities. Allowances for uncollectible accounts are based on an analysis of collection experience by fund type. Accounts receivable are adjusted for the amount of undistributed collections reported in the departmental expenditure system. A corresponding adjustment is also processed to Fund Balance With Treasury. These transactions represent the Army's in-float (undistributed) collections for transactions that were reported by a disbursing station but not recorded by the appropriate accountable station. See Note 5, "Accounts Receivable, Net."

**J. Loans Receivable: Not applicable**

**K. Inventory, Net:**

Currently, inventory is not recorded in the financial statements at the approximate historical cost in accordance with Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property." Instead, inventory is valued at a standard price (sale price) which includes the purchase price plus cost recovery factors (commonly called surcharges) necessary to recover operating costs and anticipated inflation rate changes. Gains or losses that result from valuation changes for inventory are not recognized and reported in the Statement of Operations. Such gains or losses are, however, reflected in the inventory asset valuation and related invested capital account in the Statement of Financial Position. See Note 8, "Inventory, Net."

**L. Investments in U.S. Government Securities:**

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. The reporting entity's intent is to hold investments to maturity. Consequently, no provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. See Note 4, "Investments, Net."

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**M. Property, Plant and Equipment, Net:**

Property, Plant and Equipment (PP&E) represents the majority of total assets recorded on the Statement of Financial Position. Property accountability systems maintain the subsidiary records that support the general ledger balances as recorded in the financial accounting systems. Property book officers generally report PP&E end of period balances to the supporting accounting offices on a quarterly basis.

Current DoD financial capitalization policy requires that assets previously capitalized at lower thresholds - \$5,000 prior to FY 91; \$15,000 from FY 91 - FY 93; \$25,000 in 1994; \$50,000 in 1995- remain in the PP&E accounts subsequent to the raising of capitalization thresholds. Most of the Army's property accountability systems can't comply with financial capitalization reporting requirements. Consequently, these systems are generally using the current \$100,000 capitalization threshold criteria for items having an estimated useful life of two or more years, regardless of when acquired.

Real property comprising land, buildings, and other facilities is valued using historical costs. The asset capitalization threshold was generally applied to the total costs (acquisition and capital improvements) of each facility supported by the Army's primary real property accountability system, the Integrated Facilities System. The other real property system generally reported asset costs in excess of \$25,000. Personal property (military equipment) is generally valued using latest acquisition costs or standard prices. Natural resources consist of the estimated market value of standing timber reserves.

New buildings are capitalized upon acceptance by the installation. Gains or losses from transfer of assets or liabilities between agencies are not recognized, except when assets are transferred to the Base Realignment and Closure Account. This account is not allowed to accumulate gains or losses on disposal. Any gain or loss must be transferred back to the original/losing command.

Government furnished material and property (GFM/GFP) are reported quarterly in the departmental general ledger. Contractors are required to maintain accountable records for GFM/GFP. The contractor data is used to supplement the general ledger balances. Land and buildings also include amounts for real property in the hands of contractors. See Note 15, "Property, Plant and Equipment."

No gains or losses were recognized in the Statement of Operations for revaluation changes and/or the loss of equipment. However, the assets and related investment accounts do reflect both pricing and value changes based on a periodic update to the general ledger. Depreciation is not recorded for assets financed by general fund appropriations. Routine maintenance and repair costs are expensed when incurred.

Construction-in-progress (CIP) is updated based on costs incurred. In accordance with guidance from DoD Comptroller, CIP includes \$4.3 billion of work-in-process inventory and progress payments made to others for procurement and RDT&E construction in progress funded efforts which are not complete.

**N. Prepaid and Deferred Charges:**

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and reported as an asset on the Statement of Financial Position. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

**O. Leases:**

As of September 30, 1996, the Army was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, rights of way, and operating facilities. The Army owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country.

Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. These "capital leases" do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments and the fact that the assets have already been funded and disbursements have already been made out of appropriated funds. Consequently, no capital lease liability is required for financial statement recognition.

**P. Contingencies:**

Most legal actions, other than contract claims, to which the department may be a named party are covered by the provisions of the federal tort claims act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either because payments under these statutes are limited to amounts well below the threshold of materiality for claims payable from the Department's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the Army's operations or financial position.

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**Q. Accrued Leave:**

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources

**R. Equity:**

Equity consists of invested capital, cumulative results of operation, and unexpended appropriations less unfunded liabilities. Invested capital, as presented in the Statement of Financial Position, represents the value of the Army's capital assets reported at average or actual cost. The portion of invested capital attributable to land and buildings represents their undepreciated cost. Increases to invested capital are recorded when capital assets are acquired or constructed or when asset valuations increase as a result of increases in average costs. Decreases occur as capital assets are consumed in operations, or when average costs are decreased.

Cumulative results of operation represents the excess of revenues over expenses since fund inception, less refunds and returns to the U.S. Treasury for all funds other than the General fund. The excess of revenues over expenses for the General fund is reported in "Invested Capital." Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

**S. Aircraft/Ship Crashes: Not applicable to Army****T. Treaties for Use of Foreign Bases:**

The Army has the use of land, buildings, and other facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the Army continued use of these properties until the treaties expire. These assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Army. In the event treaties or other agreements are terminated and use of foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the United States and the host country have been concluded, to determine the amount due the United States for such capital investments. Operating expenses for overseas bases are included in the Statement of Operations.

**U. Comparative Data:**

Army's financial statements will continue to reflect restatements and reclassifications due to the evolving nature of federal accounting standards and the development of new reporting financial systems. Restatement of lines 1.d. and 1.g. result from new DoD guidance relating to the reclassification of stockpile materials from the "Stockpile Materials, Net" line to the "Inventory, Net" line. Restatement of lines 4.b. through 5.b. result from audit recommendations relating to the recognition of accrued actuarial liabilities and other liabilities not covered by budgetary resources that were previously not recognized in FY 95. The restatement shown for lines 7.b. and 7.c. was the result of a change in DoD accounting policy/procedures requiring removal of the effects of activity in general

## 66 Footnotes

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fund appropriations from the "Cumulative Results of Operations" (CRO) line. Operating results relating to General Fund activity previously reported in CRO was reclassified as "Invested Capital." The remaining balances in CRO now represent only the cumulative operating results of the Trust, Revolving Fund, and Special fund accounts.

### Statement of Financial Position (Thousands)

<u>FY 95 Line</u>	<u>FY 95 Balance</u>	<u>Change</u>	<u>FY 95 Restated</u>
1.d.	\$1,896,011	\$31,264,747	\$33,160,758
1.g.	31,264,747	(31,264,747)	0
4.b.(2.a.)	1,117,479	177,884	1,295,363
4.b.(2.c.)	508,223	(177,885)	330,338
5.a.(1)	351,862	(351,862)	0
5.a.(3)	0	783,062	783,062
5.b.(4.)	0	1,352,475	1,352,475
5.b.(5.)	1,910,432	825,682	2,736,114
7.b	190,559,173	(6,999,850)	183,559,323
7.c	(2,421,833)	6,999,850	4,578,017

### **V. Undelivered Orders:**

The Army was obligated to pay for undelivered orders (goods and services that have been ordered but not yet received) amounting to \$27.9 billion at fiscal year-end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered. Unexpended appropriations in the financial statements were reduced by \$5 billion for unfilled orders where Army has not performed or earned the reimbursement.

**W. Accounts Payable:**

Accounts payable and operating expenses are understated by the accrual amount that should be recorded for contractor services/goods that have been performed/delivered but not yet paid. Since current contractor payment systems were not designed to provide this accrual data for entry to the accounting systems, a reasonable accrual estimate has not been determined. Existing systems/processes are being modified to provide this accrual data for future inclusion to Army's financial statements.

**Note 2. Fund Balances with Treasury:**

This account balance represents the aggregate of all Army appropriations. The schedule below identifies, by fund type, the status of the resources maintained in the Treasury accounts. Amounts that have been restricted by Congress, OMB, Treasury or DoD have been separately identified. Special, Deposit, and Receipt account balances have been consolidated into "Other Fund Types."

(Thousands)	Entity Assets				Total
	Trust Funds	Revolv- ing Funds	Appro- priated Funds	Other Fund Types	
<b>Unobligated Balance Available:</b>					
Available	\$403	\$63,613	\$3,101,174	\$89,702	\$3,254,892
Restricted	0	0	1,437,812	0	1,437,812
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	77	0	26,767,296	6,073	26,773,446
Unfunded Contract Authority	0	0	(122,999)	0	(122,999)
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance (FY 96)	<u>\$480</u>	<u>\$63,613</u>	<u>\$31,183,283</u>	<u>\$95,775</u>	<u>\$31,343,151</u>
Treasury Balance (FY 95)	<u>\$548</u>	<u>\$159,678</u>	<u>\$29,415,831</u>	<u>\$84,888</u>	<u>\$29,660,945</u>
<b>Non-Entity Assets</b>					
Beginning Balance	\$0	\$0	\$0	\$354,656	\$354,656
Funds Collected	0	0	0	(3,843,690)	(3,843,690)
Funds Disbursed	0	0	0	3,354,697	3,354,697
Ending Balance (FY 96)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$134,337)</u>	<u>(\$134,337)</u>
Ending Balance (FY 95)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$354,656</u>	<u>\$354,656</u>

**Other Information** Abnormal balance in the non-entity assets "Fund Balance with Treasury" is the result of unsupported disbursements and collections made by other agencies against Army appropriations. These unsupported transactions were placed in a suspense account pending identification of the correct appropriation.

**Note 3. Cash, Foreign Currency, and Other Monetary Assets:**

(Thousands)

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>
A. Cash	\$6,188	\$143,252
B. Foreign Currency	13,614	
C. Other Monetary Assets		
Total Cash, Foreign Currency and Other Monetary Assets (FY 96)	<u>\$19,802</u>	<u>\$143,252</u>
Total FY 95	<u>\$270,250</u>	<u>\$0</u>

During FY 96, DoD changed guidance relating to the classification of Disbursing Officer's Cash. Disbursing Officer's Cash (with the exception of Imprest Funds that cite an entity appropriation) will now be shown as a Non-Entity asset. Cash balances have been showing decreases from prior years due to the implementation of cash management initiatives. Use of government charge cards for travel related expenses and payments to local vendors account for a large portion of the reduction to cash holding requirements.

**Note 4. Investments:**

The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army and the receipt of interest arising from investment of such donations. The related earnings are allocated to appropriate Army activities to be used in accordance with the directions of the donor. At September 30, 1996, the Army reported \$1 million of investments.

**Note 5. Accounts Receivable, Net:**

Accounts Receivable include all receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts. The allowance for uncollectible accounts was based on an analysis of collection experience by fund type for current and noncurrent receivables. During FY 96 the Army wrote off \$23.2 Million in uncollectible receivables, including principal and interest.

	Gross Amount Due	Allowance For Estimated Uncollectibles	Net Due
A. Entity Receivables:			
Intragovernmental	\$953,735	\$0	\$953,735
Governmental	359,775	99,531	260,244
B. Non-Entity Receivables:			
Intragovernmental	\$0	\$0	\$0
Governmental	60,091	53,613	6,478
FY 96 Total	<u>\$1,373,601</u>	<u>\$153,144</u>	<u>\$1,220,457</u>
FY 95 Total	<u>\$1,304,671</u>	<u>\$140,248</u>	<u>\$1,164,423</u>

C. Other Information: Accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts from former service members, contractor debt and unused travel tickets. Reported bad debt expense is the sum of bad debt write-offs and the current year change in the allowance for doubtful accounts.

**Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets** Army has no activity in this asset category.

**Note 7. Loans and Loan Guarantees, Non-Federal Borrowers** Not applicable to Army's Financial Statements.

**Note 8. Inventory, Net:**

Inventory held for current sales is contained in the revolving fund, Conventional Ammunition Working Capital Fund (CAWCF). While no allowance account is maintained, "Inventory, Net" does reflect a FY 1996, CAWCF inventory adjustment. CAWCF was adjusted for unserviceable, condemned and obsolete inventory. The adjustments were based on "purpose codes" that identify the condition of the asset. One of the primary reasons for the adjustment - demilitarization- accounted for \$78 Million.

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The components of the Army's inventory are shown in the table below.

(Thousands)	Inventory Amount	Allowance For Losses	Inventory, Net
A. Inventory Categories:			
(1) Held for Current Sale	\$1,899,923	\$0	\$1,899,923
(2) Held in Reserve for Future Sale		0	
(3) War Reserve Material	35,769,856		35,769,856
(4) Excess, Obsolete and Unserviceable	0	0	0
(5) Held for Repair	0	0	0
Total FY 96	<u>\$37,669,779</u>	<u>\$0</u>	<u>\$37,669,779</u>
Total FY 95	<u>\$1,896,011</u>	<u>\$0</u>	<u>\$1,896,011</u>

The increase in this account resulted from implementation of DoD guidance which requires "war reserves" to be included in the inventory accounts. This category includes ammunition and missiles that were recorded as stockpile materials in prior CFO financial statements and are not considered to be held for sale during the current period. Additionally, secondary and principal items purchased with procurement dollars are also included. These procurement funded items were previously recorded as "Property, Plant and Equipment."

**Note 9. Work in Process:** DoD guidance does not provide for work in process for General Fund statements.

**Note 10. Operating Materials and Supplies (OM&S), Net:** Does not apply to Army General Fund financial statements.

**Note 11. Stockpile Materials, Net:** Reserved for National Defense Stockpile Transaction Fund. Financial data reported on this line in previous CFO reports has been reclassified as "Inventory, Net." See Note 8.

**Note 12. Seized Property:** Not applicable to Army General Fund financial statements.

**Note 13. Forfeited Property, Net:** Not applicable to Army General Fund financial statements.

**Note 14. Goods Held Under Price Support and Stabilization Programs, Net:** Not applicable to Army General Fund financial statements.

**Note 15. Property, Plant and Equipment:**

(Thousands)	Acquisition Value	Accumulated Depreciation	Net Book Value (FY 96)	Net Book Value (FY 95)
Classes of Fixed Assets				
A. Land	\$397,290		\$397,290	\$478,196
B. Structures, Facilities, & Leasehold Improvements	27,056,555		27,056,555	26,058,662
C. Military Equipment	80,893,158		80,893,158	112,172,317
D. ADP Software	16,782		16,782	14,967
E. Equipment	0		0	0
F. Assets Under Capital Lease	5,002,027		5,002,027	5,581,252
G. Other	135,018		135,018	135,020
H. Natural Resources	1,737,133		1,737,133	2,468,516
I. Construction-in-Progress	9,629,711		9,629,711	9,034,317
Total	<u>\$124,867,674</u>	<u>N/A</u>	<u>\$124,867,674</u>	<u>\$155,943,247</u>

Depreciation is not recorded for assets financed by general fund appropriations. Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. The value reported in Capital Leases is understated by approximately \$1 Billion due to reporting entities within Europe failing to complete reporting requirements for this asset category. These "capital leases" do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments. Consequently, no capital lease liability has been established.

Application of the new capitalization threshold criteria of \$100 Thousand accounts for the majority of the reduction of "Military Equipment" values as compared to those reported in FY 95. Values reported in FY 95 were based on application of a \$50 Thousand capitalization threshold criteria. A portion of the reduction is attributed to an understatement of "Military Equipment" by approximately \$11.3 Billion. The understatement occurred when incorrect prices were used to value specific equipment items managed by the Commodity Commands. The recommended audit adjustment was not fully resolved in time to be included in these financial statements. The reduction of "Natural Resources" is based on revised estimates of the number of "board feet" of lumber existing in the Army's timber reserves.

Real property (land, buildings, and other facilities) is overstated by an amount believed to be immaterial in relation to the total values reported in "Property, Plant and Equipment." Overstatements exist due to inclusion of reported real property assets belonging to non-Army tenant activities. Modifications to the current reporting process are being developed to exclude non-Army balances from the financial statements.

Government furnished material and property (GFM/GFP) are reported quarterly in the departmental general ledger. Contractors are also required to maintain accountable records for GFM/GFP. The contractor data is used to supplement the general ledger balances. Balances reported in this asset category include items related to the Defense Business Operations Fund (DBOF). A practical method for breaking out DBOF and non-DBOF GFM/GFP balances has not been

developed. However, DBOF amounts included in the GFM/GFP values are believed to be immaterial to the balances reported in the financial statement line "Property, Plant and Equipment."

**Note 16. Debt: Not applicable**

The Army's proportionate share of public debt and related expenses of the federal government are not included in the financial statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies. The Army's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuance, tax revenues). The related interest costs incurred in the construction of Army facilities are also not capitalized since Treasury does not allocate interest costs to the benefiting agencies.

**Note 17. Other Liabilities:**

The schedule below shows those liabilities that will be liquidated with funds that have already been received (Covered by Budgetary Resources) as well as those liabilities that will have to be funded with future appropriations (Not Covered by Budgetary Resources). Additionally, components making up the balances in "Other Liabilities" are further segregated by source and include "Other Federal" (Intragovernmental) and "Non-Federal" (Governmental).

A.

(Thousands)	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
1. Intragovernmental			
(a) Unearned Revenue, Advances from Gov't Agencies	\$0	\$695,383	\$695,383
(b) Treasury Cash Advances to Disbursing Officers	0	164,273	164,273
(c) Deposit Fund Liabilities	<u>0</u>	<u>(134,337)</u>	<u>(134,337)</u>
Total FY 96	<u>\$0</u>	<u>\$725,319</u>	<u>\$725,319</u>
		Total FY 95	<u>\$1,421,524</u>
2. Governmental			
(a) Unearned Revenue, Advances from Public	\$0	\$206,328	\$206,328
(b) Deferred Credits	<u>0</u>	<u>12,537</u>	<u>12,537</u>
Total	<u>\$0</u>	<u>\$218,865</u>	<u>\$218,865</u>
		Total FY 95	<u>\$190,720</u>

**B. Other Information** Abnormal balance in the deposit fund liabilities is the result of unsupported disbursements and collections made by other agencies against Army appropriations. These unsupported transactions were placed in a suspense account pending identification of the correct appropriation.

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**Note 17. Other Liabilities (Con't):**

(Thousands)	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
<b>C. Other Liabilities Not Covered by Budgetary Resources:</b>			
1. Intragovernmental			
(a) Other	\$0	\$769,119	\$769,119
Total FY 96	<u>\$0</u>	<u>769,119</u>	<u>769,119</u>
		Total FY 95	<u>\$783,062</u>
2. Governmental			
(a) Cancelled Budget Authority	\$0	\$22,437	\$22,437
(b) Accrued Annual Leave, Mil. Unfunded	0	834,861	834,861
(c) Accrued Annual Leave, Civilian, Unfunded	0	651,379	651,379
(d) Other	<u>14,630,199</u>	<u>0</u>	<u>14,630,199</u>
Total FY 96	<u>\$14,630,199</u>	<u>\$1,508,677</u>	<u>\$16,138,876</u>
		Total FY 95	<u>\$2,736,114</u>

D. Other Information: FY 96 marks the first year that liabilities pertaining to environmental cleanup, DoD restructuring/downsizing, radioactive waste cleanup, and actuarially determined personnel benefits have been recognized in the financial statements. Values reported for "Other Federal (Intragovernmental) Liabilities result from recognizing liabilities relating to payments Army will have to make to the Voluntary Separation Incentive Trust Fund for future payments to early takers and for payments owed to the Department of Labor for Worker's Compensation payments made on behalf of Army. Additionally, since this was the first year for recognizing these specific types of liabilities, restatements have been made to the FY 95 financial statements as reflected in Note 1.(U.).

The following schedule with narrative provides a breakout showing the various liabilities that account for the majority of recorded "Other Non-Federal (Governmental) Liabilities" not covered by budgetary resources:

(Thousands)

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Downsizing -National Guard	177,800
Environmental Restoration	7,945,000
Environmental Restoration - Formerly Used Defense Sites (FUDS)	5,300,000
Environmental Compliance	157,190
Low Level Radioactive Waste Cleanup	283,316
Overseas Restructure/Downsizing -Panama	430,800
Overseas Restructuring/Downsizing Europe	146,400
Workman's Compensation	1,313,935

- **Environmental Compliance/Restoration**- Liabilities for the Army's Environmental Program are primarily comprised of estimates to clean up contamination at Army installations. Other liabilities result from program requirements relating to the Endangered Species Act, Clean Water Act, Resource Conservation & Recovery Act, and the Sikes Act. For FY 96, Army has recorded approximately \$13.4 Billion dollars in this category.

- **Rightsizing/Restructuring** -Liabilities can be recognized or disclosed as a result of rightsizing the military and civilian workforce. These liabilities primarily relate to Congressionally authorized programs designed to provide transition benefits and incentives for military and civilians leaving the workforce. Liabilities can also be recognized or disclosed as a result of anticipated costs relating to the movement of troops, material and equipment in connection with consolidation of missions and the turnover of facilities. During FY 96, Army recorded liabilities approximating \$755 Million for this category.

- **Radio-active Waste** -Liabilities are recognized or disclosed as a result of having to correct the results of improper handling and disposal of low level radioactive waste. During FY 96, Army has recorded liabilities in the financial statements amounting to approximately \$283 Million for this category.

- **Workman's Compensation** -Legal actions brought by employees of the Army for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). The amount of unfunded FECA liability accrued as of September 30, 1996 was \$1.3 billion. See Note 19.

**Note 18. Leases:**

As of September 30, 1996, the Army was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, rights of way, and operating facilities. Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. These assets will revert to foreign ownership once the treaties expire.

**Note 19. Pensions and Other Actuarial Liabilities:**

Legal actions brought by employees of the Army for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). DOL bills Army annually as DOL claims are paid. However, payment on these bills is deferred two years to allow for funding through the budget process. Using actuarial estimates provided by DOL, Army has recorded FECA liabilities for balances billed to Army by DOL, and for estimates of the present value, using a 7.00 percent discount rate, of the long-term payments related to cases on hand at the end of

the fiscal year. The amount of unfunded FECA liability accrued as of September 30, 1996 was \$1.3 billion. A corresponding amount has been established as a future funding requirement.

**Note 20. Net Position:**

**Net Position is comprised of the following components**

**Unexpended appropriations-** amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Certain unobligated balances are restricted for future use and are not available for current use. "Undelivered Orders" represent those goods and services that have not yet been received/performed. Multi-year appropriations remain available to the Army for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Generally speaking, accounts close five years after the appropriation expires.

**Invested capital** - represents the net investment of the Government in the Army. Includes the initial investment and subsequent appropriations to finance program activities and the net balance of assets and liabilities that have been transferred in and out from/to DoD Components or other U.S. Government Agencies without reimbursement. Also, for General fund appropriations, includes the cumulative net difference between (1) expenses and losses and (2) financing sources to include appropriations, revenues and gains.

**Cumulative results of operations-** represents the cumulative net difference between (1) expenses and losses and (2) financing sources (includes appropriations, revenues and gains) of the Trust, Revolving, and Special Funds.

**Other** - represents other components of net position not specifically identified above. In prior years, Army financial statements showed balances in this account relating to miscellaneous receipts. Guidance from the Department of the Treasury requires the miscellaneous receipt balances to be excluded from Army's "Net Position" since the receipts are considered withdrawn by Treasury immediately upon collection.

**Future Funding Requirements-** Accrued expenses such as annual and military leave earned but not taken are not funded in the period the expense is recorded. These future funding requirements are recognized as an offset to "Net Position."

Net position is presented in the following table by fund type. "Other" fund types have been included in the "Appropriated Funds" column

(Thousands)

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appro- priated Funds</u>	<u>Total</u>
A. Unexpended				
Appropriations:				
(1) Unobligated,				
a. Available	\$0	\$403	\$3,190,876	\$3,191,279
b. Unavailable	0	0	1,314,813	1,314,813
(2) Undelivered Orders	0	18	22,955,745	22,955,763
B. Invested Capital	28,188	1,068	168,131,500	168,160,756
C. Cumulative Results	319,588		(1,987,259)	(1,667,671)
of Operations	0	0	0	0
D. Other	0	0	0	0
E. Future Funding				
Requirements	<u>(0)</u>	<u>(0)</u>	<u>(18,221,930)</u>	<u>(18,221,930)</u>
Total FY 96	<u>\$347,776</u>	<u>\$1,489</u>	<u>\$175,383,745</u>	<u>\$175,733,010</u>
			Total FY 95	<u>\$211,231,585</u>

A breakout of line (E) from the schedule above follows. Also see Note 17 for additional disclosure of the "Other Governmental Liabilities."

FUTURE FUNDING REQUIREMENTS  
(Thousands)

Other Governmental Liabilities	\$14,630,197
Annual Leave	1,486,239
Workman's Comp. and Medical Claims	769,120
Actuarial Liability for Federal Employees - Future Workman's Comp Benefits	1,313,935
Canceled Budget Authority (A/P)	22,437
Other	<u>2</u>
Total	<u><u>\$18,221,930</u></u>

**Note 21. Taxes: Not applicable**

**Note 22. Other Revenue and Financing Sources:**

	<u>1996</u>	<u>1995</u>
(Thousands)		
A. Other Revenues and Financing Sources:		
(1) Inventory Gains	\$457,944	\$443,976
(2) Investment Gains		
(3) Cost Contributions from Services		
(4) Unfunded Liability Payment from Treasury		
(5) Miscellaneous Reimbursements	471,448	467,395
(6) Other Miscellaneous Gains	212	807
(7) Benefit Program Revenue		
(8) Gain on Disposition of Assets		
(9) Donations		
Total	<u><u>\$929,604</u></u>	<u><u>\$912,178</u></u>

**B. Other Information:**

Other revenues and financing sources include miscellaneous receipts, donated revenue and inventory and other gains. Miscellaneous receipts, which are unavailable for agency use and are returned to Treasury, consist of license fees, fines, penalties and general fund receipts.

**Note 23. Program or Operating Expenses:**

(Thousands)	<u>1996</u>	<u>1995</u>
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	\$31,612,018	\$32,130,548
(2) Travel and Transportation	2,947,507	1,576,052
(3) Rental, Communication and Utilities	1,300,032	1,300,887
(4) Printing and Reproduction	86,056	50,472
(5) Contractual Services	15,518,590	13,661,243
(6) Supplies and Materials	4,442,067	4,001,708
(7) Equipment not Capitalized	476,632	485,688
(8) Grants, Subsidies and Contributions	123,212	90,692
(9) Insurance Claims and Indemnities	69,361	447
(10) Other	<u>1,213,528</u>	<u>1,178,241</u>
(11) Total Expenses by Object Class	<u>\$57,789,003</u>	<u>\$54,475,978</u>
	<u>1996</u>	<u>1995</u>
B. Operating Expenses by Program:		
(1) Revolving Fund	\$184,226	\$205,308
(2) General Fund	57,604,657	54,270,400
(3) Trust Fund	120	270
(4) Unallocated Expense	<u>0</u>	<u>0</u>
Totals	<u>\$57,789,003</u>	<u>\$54,475,978</u>

**Note 24. Cost of Goods Sold:**

	<u>1996</u>	<u>1995</u>
Public	\$627,185	\$495,222
Intragovernmental	<u>5,552,692</u>	<u>5,466,517</u>
Cost of Services Sold	<u>\$6,179,877</u>	<u>\$5,961,739</u>

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### **Note 25. Other Expenses:**

Inventory Loss/Adjustments from the CAWCF revolving fund accounted for the majority of this Statement of Operations (and Changes in Net Position) line item. Primary cause for the increase over the FY 95 expense line value was attributed to disposal of excess and obsolete inventory.

(Thousands)	<u>1996</u>	<u>1995</u>
A. Other Expenses:		
(1) Inventory Losses or Adjustments	\$733,513	\$355,257
(2) Other Miscellaneous Losses	<u>1,623</u>	<u>2,523</u>
Total	<u>\$735,136</u>	<u>\$357,780</u>

### **Note 26. Extraordinary Items: Not applicable to Army's FY 96 financial statements.**

**Note 27. Prior Period Adjustments:** Statement of Federal Financial Accounting Standard Number Six "Property, Plant, and Equipment," requires that the offsetting charges against liabilities recognized for environmental cleanup costs are to be recorded as a prior period adjustment. Accordingly, Army has recorded prior period adjustments of \$13.7 Billion in FY 96 for estimated liabilities relating to cleanup costs.

### **Note 28. Non-Operating Changes - (Transfers and Donations):**

A. Increases:	<u>1996</u>	<u>1995</u>
(1) Transfers-In	(2,811,700)	(325,650,346)
(2) Unexpended Appropriations	(504,258)	(3,225,403)
(3) Donations Received	0	0
(4) Other Increases	<u>773,655</u>	<u>33,123,545</u>
(5) Total Increases	(2,542,303)	(295,752,204)
B. Decreases:	<u>1996</u>	<u>1995</u>
(1) Transfers-Out:	(12,586,930)	311,647,204
(2) Donations	0	0
(3) Other Decreases	<u>(4,275,253)</u>	<u>(29,466,544)</u>
(4) Total Decreases	(16,862,183)	282,180,660
C. Net Non-Operating Changes (Transfers):	<u>(19,404,486)</u>	<u>(13,571,544)</u>

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### **Note 29. Intrafund Eliminations:**

The following schedules show the values of the transactions that were required to be eliminated from the Statement of Financial Position and Statement of Operations (and Changes in Net Position) since they represented activity between Army appropriations or activity with other DoD entities.

**Schedule A.** Sales within the General Fund activity by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections. It is presumed that an equal amount of accounts payable, expenses, advances and disbursements have been entered on the accounting records of the purchasing activity.

(Thousands)				
<b>Selling Activity:</b>	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Operation and Maintenance	\$404,572	\$2,655,349	N/A	\$2,622,795
Procurement	\$0	\$21,122	N/A	\$23,042
Research and Development	\$64,497	\$795,588	N/A	\$812,959
Military Construction	\$99,761	\$1,011,860	N/A	\$988,366
Other funds and accounts	\$162,002	\$787,088	N/A	\$642,949
Unearned Revenue	\$0	\$0	\$818,369	\$0
<b>Total</b>	<u>\$730,832</u>	<u>\$5,271,007</u>	<u>\$818,369</u>	<u>\$5,090,111</u>
<b>Customer Activity:</b>	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Operation and Maintenance	\$404,572	\$2,655,349	N/A	\$2,622,795
Procurement	\$0	\$21,122	N/A	\$23,042
Research and Development	\$64,497	\$795,588	N/A	\$812,959
Military Construction	\$99,761	\$1,011,860	N/A	\$988,366
Other funds and accounts	\$162,002	\$787,088	N/A	\$642,949
Advances	\$0	\$0	\$818,369	\$0
<b>Total</b>	<u>\$730,832</u>	<u>\$5,271,007</u>	<u>\$818,369</u>	<u>\$5,090,111</u>

**Note 29. Intrafund Eliminations (Con't):****Schedule B.** Not applicable**Schedule C.** Not applicable

**Schedule D.** Sales or services between the Army and other DoD reporting entities by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections. It is presumed that an equal amount of accounts payable, expenses, advances and disbursements have been entered on the accounting records of the purchasing activity

(Thousands)

Selling Activity:	Column A	Column B	Column C	Column D
	Accounts Receivable	Revenue	Unearned Revenue	Collections
Department of the Army	\$475,326	\$4,244,715	N/A	\$4,226,035
Unearned Revenue	\$0	\$0	\$605,946	\$0
Total	<u>\$475,326</u>	<u>\$4,244,715</u>	<u>\$605,946</u>	<u>\$4,226,035</u>
Customer Activity:	Column A	Column B	Column C	Column D
	Accounts Payable	Expenses	Advances	Disbursements
Department of the Army	\$0	\$0	N/A	\$0
Department of the Navy	\$55,537	\$520,681	N/A	\$504,167
Department of the Air Force	\$100,374	\$775,029	N/A	\$749,661
Defense Business Operations Fund	\$0	\$0	N/A	\$0
DoD Military Retirement Trust Fund	\$0	\$0	N/A	\$0
National Defense Stockpile	\$0	\$0	N/A	\$0
U.S. Army Corps of Engineers	\$0	\$0	N/A	\$0
Defense Security Assistance Agency	\$0	\$0	N/A	\$0
Other Defense Organizations	\$319,415	\$2,949,005	N/A	\$2,972,207
Advances	\$0	\$0	\$605,946	\$0
Total	<u>\$475,326</u>	<u>\$4,244,715</u>	<u>\$605,946</u>	<u>\$4,226,035</u>

**Schedule E.** The following schedule shows the values of sales and services between the Department of Army and other U.S. Government entities. This information is needed by the Department of Treasury to prepare U.S. Government-wide consolidated financial statements. It is presumed that an equal amount of accounts payable, expenses, advances, and disbursements have been entered on the accounting records of the purchasing entity.

(Thousands)				
Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Department of the Army	\$113,618	\$218,144	\$16,716	\$169,394
Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Dept of Commerce	\$1,899	\$270	\$0	\$410
Dept of Interior	655	1,386	0	1,626
Dept of Justice	9,283	18,291	0	15,485
Dept of Labor	9	16	0	26
Dept of Energy	450	2,142	0	2,036
Dept of State	1,961	4,515	0	19,072
Dept of Treasury	2,568	12,001	0	12,364
Veterans Administration	1,509	4,473	0	2,503
Republic of Panama	43	213	0	185
Federal Emergency Mgmt	4,451	927	0	286
General Services Admin	41,414	64,924	0	31,740
Environmental Protection	862	1,692	0	1,380
Dept of Transportation	8,599	14,113	0	10,574
Dept of Health Services	4,640	6,732	0	3,438
National Aeronautics	14,289	37,931	0	30,189
Dept of Housing	6	4	0	7
Legislative Branch	0	15	0	15
Office of the President	402	9,987	0	6,597
Dept of Agriculture	457	941	0	1,163
Energy Research	107	12	0	519
Selective Service System	4,566	6,188	0	3,634
Nuclear Regulatory Comm	124	474	0	386
All other Federal agencies	15,324	30,897	0	25,759
Advances	0	0	16,716	0
Total	<u>\$113,618</u>	<u>\$218,144</u>	<u>\$16,716</u>	<u>\$169,394</u>

**Note 30. Contingencies:**

The Army canceled all merged year and expiring account appropriations. The Army may still be responsible for an estimated \$417.5 million in obligations that relate to the canceled appropriations. The Army is subject to various asserted claims for over \$100 million. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims' likely outcome or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote. As of September 30, 1996 Army has approximately \$3.3 Billion in claims that are considered

to be only remotely possible of resulting in a loss. Additionally, Army is currently in the process of litigating cases having a remote chance of resulting in cumulative estimated losses of \$910 Million.

**Note 31. Other Disclosures:**

**A. Reportable Anti-Deficiency Violations:**

The Army had 16 potential Antideficiency Act (ADA) violations under investigation as of 30 September, 1996. Of the completed cases during FY 96, only one was determined to be a violation of the Act. The single case totaling \$100,269,900 resulted when restrictions of section 101 of the Military Construction Act of 1994 (Public Law 103-110) were violated. The restriction requiring prior approval by the Secretary of Defense for the expenditure of military construction funds for certain cost-plus-fixed-fees contracts has since been removed from the FY 96 Military Construction Appropriations Act.

**B. Problem Disbursements:**

The Army transacts a significant portion of its business utilizing a centralized clearance system at DFAS-IN which allows an installation to make disbursements citing another installation's funds. The transactions include intra-service transactions by others, interfund billings and cross-disbursements by others. Problem disbursements represent disbursements of Army funds that have been reported by a Treasury Disbursing Station Symbol Number (DSSN) to Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursement.

Problem disbursements represent a significant financial management concern because: (1) the accuracy of accounting reports is affected; (2) available funding picture is distorted; and (3) the research and resolution process can be very labor intensive. Initiatives such as prevalidation of payments, are well underway to reduce or eliminate problem disbursements. In the case of prevalidation efforts, entitlement personnel and accountants are now required to jointly ensure that an obligation of funds sufficient to cover the amount of the proposed disbursement has been recorded in the accounting records. This validation must be done for all payments exceeding a specified threshold. Eventually, all payments will be prevalidated prior to the disbursement of funds.

The following table shows the unmatched transactions and Negative Unliquidated Obligations (NULO's) as of September 30, 1996. FY 95 values for unmatched transactions can't be used for comparison purposes due to changes in reporting requirements and problem disbursement definitions implemented during FY 96. However, while FY 95 NULO's shown below do include Defense Business Operations Fund transactions, comparisons can still be made between both years. FY 96 DBOF transactions were equal to 7% of the total NULO's reported by Army. Using the same relationship found in the FY 96 reported values of NULO's (Army DBOF to total Army NULO's), the FY 95 NULO figure for Army non-DBOF transactions could be stated as 93% of \$147.7 million, or approximately \$137.4 million. FY 96 NULO's declined by 34% when compared to the computed non-DBOF FY 95 NULO balance.

(\$'s in Thousands )

	<u>FY 96</u>	<u>FY 95</u>
Unmatched	118,910	N/A
NULO's	90,557	147,700

**C. Other Entity Assets:**

This account is made up of military property in the hands of contractors. This estimate is based on the data reported by contractors for military peculiar property that may include both end items and integral components of military weapons system. This value was reported as \$6.8 Billion in the FY 94 CFO Statements but was not available for inclusion in the FY 95 CFO Statements.

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**SUPPLEMENTAL  
FINANCIAL  
AND  
MANAGEMENT  
INFORMATION**

## Supplemental Financial and Management Information

Financial statement attributes represent core DoD financial performance measures used to analyze financial results and trends affecting the overall health of the Army's financial programs. Six attributes analyze specific variables in Army's principal statements indicating past trends, current conditions and future impacts to programs. The measures are identified below and represent key indicators of program costs, results, health and future obligations.

**Operating Cost** --The operating costs attribute displays the costs to operate a program and is useful for planning, budgeting, and cost control purposes.

**Operating Results** --The operating results attribute combines a program's revenues and appropriated funds used less expenses to identify if sufficient revenues were available to cover costs. The information relating to an activity's operating results is important for assessing the financial risks of the program, its needs for financial assistance, and its potential cost to taxpayers.

**Financial Obligation** --The financial obligation attribute is a measure of an agencies ability to pay its obligations and liabilities. A program incurs liabilities in two ways: when it borrows money from the Treasury, other agencies, or from the public; and when it incurs costs or losses under a financial commitment that will be paid in the future. The information is important because financial obligations represent a future demand for resources and costs to taxpayers.

**Financial Condition** --The financial condition attribute defines the financial health of a program and its inherent ability to generate resources to maintain its operations and meet financial obligations without further financial assistance.

**Capital Investment** --The capital investment attribute represents the money the Army spends for the acquisition of military equipment and other long-term assets such as land, buildings, equipment, and other facilities. Capital investment information is significant for long-term planning decisions, since the acquisition of assets represents a major commitment of resources that will affect the program's performance over future periods.

**Asset Management Efficiency** -- The asset management efficiency attribute is shown for the conventional ammunition revolving fund. The attribute indicates how efficient the Army Ammunition Revolving Fund is managing assets such as accounts receivable and inventory. A relatively high rate of turnover in accounts receivable and inventory would indicate an efficient use of funds invested in inventories.

**1. General funds** contain the bulk of congressional appropriations, including military pay, operations and maintenance, research and development, and investment/construction accounts.

- Mission (operations and pay) accounts represent those funds used to pay and maintain the operating forces. These funds finance the functional and administrative support needed to operate and maintain Army installations.

- Research, Development, Test & Evaluation (RDT&E) funds are used to operate and maintain world-wide facilities which perform ongoing test, evaluation and research of systems used in completing Army's military missions.

- Investment/construction accounts are used for specific purposes approved by Congress for acquiring or constructing weapons systems, property, and infrastructures.

**2. Revolving funds** are designed to provide an effective means of financing, budgeting, accounting for, and controlling inventory, as well as the costs of providing goods and services used to support both peacetime and wartime operations.

The Army operates the Conventional Ammunition Working Capital Fund. As the single manager of conventional ammunition, the Army is responsible for procurement, production, storage, distribution, maintenance and demilitarization of conventional ammunition for all services.

**3. Trust funds** are used to record the receipt and outlay of funds held in trust by the government for use in carrying out specific purposes in accordance with the terms of a trust agreement or statute. Trust accounts include funds received through gifts and bequests (as well as interest earned on the investments of some of these gifts) and assets held for particular purposes.

**4. Other Funds** include special, deposit and special receipt accounts. Special funds are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law. Deposit funds generally are used to hold assets that are awaiting legal determination or where the Army acts as agent or custodian. These accounts may also be used for unidentified remittances.

Consolidating schedules are presented to show the financial position and results of operations for each fund type. Intrafund eliminations are also presented to show their effect on the statements.

**OPERATING COST ATTRIBUTE**

**FY 96**

(Millions)

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
TOTAL COSTS	\$62,788.3	\$60,833.8	\$64,728.8
REVENUE & REIMB.	<u>\$6,796.2</u>	<u>\$6,552.5</u>	<u>\$6,676.5</u>
NET OPERATING COSTS	<u>\$55,992.1</u>	<u>\$54,281.3</u>	<u>\$58,052.3</u>
PERCENTAGE OF CHANGE	-5.21%	-3.06%	6.95%

**OPERATING COST ATTRIBUTE**

**FY 96**

**Structural Analysis**

(Millions)

	<u>GF</u>	<u>RF</u>	<u>TF</u>	<u>OTHER</u>	<u>ELIM</u>	<u>TOTAL</u>
TOTAL COSTS	\$67,909.8	\$2,083.4	\$0.1	\$6.5	(\$5,271.0)	\$64,728.8
REVENUE & REIMB.	<u>\$10,285.4</u>	<u>\$1,662.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>(\$5,271.0)</u>	<u>\$6,676.5</u>
NET OPERATING COSTS	<u>\$57,624.4</u>	<u>\$421.3</u>	<u>\$0.1</u>	<u>\$6.5</u>	<u>\$0.0</u>	<u>\$58,052.3</u>

## OPERATING RESULTS ATTRIBUTE

FY 96

(Millions)

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
<b>REVENUES</b>			
FEDERAL SOURCES	\$4,796.2	\$5,145.1	\$5,119.7
PUBLIC SOURCES	\$1,111.6	\$495.2	\$627.2
OTHER	<u>\$888.4</u>	<u>\$912.2</u>	<u>\$929.6</u>
TOTAL REVENUES	\$6,796.2	\$6,552.5	\$6,676.5
EXPENSES AND LOSSES	\$62,788.3	\$60,833.8	\$64,728.8
NET OPERATING DEFICIT	(\$55,992.1)	(\$54,281.3)	(\$58,052.3)
ADDITIONAL APPROP	<u>\$55,610.3</u>	<u>\$53,273.3</u>	<u>\$55,643.7</u>
OPERATING DEFICIT	(\$381.8)	(\$1,008.0)	(\$2,408.6)

## OPERATING RESULTS ATTRIBUTE

FY 96

Structural Analysis

(Millions)

	<u>GF</u>	<u>RF</u>	<u>TF</u>	<u>OTHER</u>	<u>ELIM</u>	<u>TOTAL</u>
<b>REVENUES</b>						
FEDERAL SOURCES	\$9,658.0	\$1,165.7	(\$0.1)	(\$432.8)	(\$5,271.0)	\$5,119.7
PUBLIC SOURCES	\$627.2	\$0.0	\$0.0	\$0.0	\$0.0	\$627.2
OTHER	<u>\$0.2</u>	<u>\$496.4</u>	<u>\$0.1</u>	<u>\$432.8</u>	<u>\$0.0</u>	<u>\$929.6</u>
TOTAL REVENUES	\$10,285.4	\$1,662.1	\$0.0	\$0.0	(\$5,271.0)	\$6,676.5
EXPENSES AND LOSSES	\$67,909.8	\$2,083.4	\$0.1	\$6.5	(\$5,271.0)	\$64,728.8
NET OPERATING DEFICIT	(\$57,624.4)	(\$421.3)	(\$0.1)	(\$6.5)	\$0.0	(\$58,052.3)
ADDITIONAL APPROP	<u>\$55,637.1</u>	<u>\$0.0</u>	<u>\$0.1</u>	<u>\$6.5</u>	<u>\$0.0</u>	<u>\$55,643.7</u>
OPERATING DEFICIT	(\$1,987.3)	(\$421.3)	\$0.0	\$0.0	\$0.0	(\$2,408.6)

**FINANCIAL OBLIGATION ATTRIBUTE**  
**FY 96**

(Millions)

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
TOTAL CURRENT ASSETS 1	\$34,712.5	\$33,984.6	\$34,905.2
TOTAL CURRENT LIABILITIES 2	\$4,991.5	\$3,822.0	\$6,349.7
CURRENT RATIO	<u>6.95</u>	<u>8.89</u>	<u>5.50</u>
TOTAL QUICK ASSETS 3	\$32,702.8	\$32,088.6	\$33,005.2
TOTAL CURRENT LIABILITIES	\$4,991.5	\$3,822.0	\$6,349.7
ACID TEST RATIO	6.55	8.39	5.20

**FINANCIAL OBLIGATION ATTRIBUTE**  
**FY 96**

Structural Analysis

(Millions)

	<u>GF</u>	<u>RF</u>	<u>TF</u>	<u>OTHE</u> <u>R</u>	<u>ELIM</u>	<u>TOTAL</u>
TOTAL CURRENT ASSETS	\$34,310.7	\$2,047.4	\$0.5	\$95.8	(\$1,549.2)	\$34,905.2
TOTAL CURRENT LIABILITIES	\$6,804.2	\$276.1	\$0.1	\$0.0	(\$730.8)	\$6,349.7
CURRENT RATIO	<u>5.04</u>	<u>7.41</u>	<u>8.15</u>			<u>5.50</u>
TOTAL QUICK ASSETS	\$34,310.7	\$147.5	\$0.5	\$95.8	(\$1,549.2)	\$33,005.2
TOTAL CURRENT LIABILITIES	\$6,804.2	\$276.1	\$0.1	\$0.0	(\$730.8)	\$6,349.7
ACID TEST RATIO	5.04	0.53	8.15			5.20

1 Current Assets = Funds with Treasury, Cash, Foreign Currency, Total Accounts Receivables Less Treasury Noncurrent A/R, Advances and Prepayments, and Inventories Held for Sale

2 Current Liabilities = Accounts Payable, Accrued Payroll & Benefits and Unearned Revenue

3 Quick Assets = Funds with Treas., Cash, Foreign Currency, Accounts Receivable Less Treasury Noncurrent A/R, Advances and Prepayments, and Inventories Held for Sale

<b>FINANCIAL CONDITION ATTRIBUTE</b>
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<b>FY 96</b>
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<b>(Millions)</b>
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	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
SOURCES OF CASH 1	\$30,131.3	\$29,931.2	\$31,363.0
FUTURE REQUIREMENTS FOR CASH 2	\$4,821.5	\$5,425.3	\$6,868.6
CASH SURPLUS (SHORTFALL)	\$25,309.9	\$24,505.9	\$24,494.3
ANNUAL % OF CHANGE IN CASH SURPLUS OR (SHORTFALL)	11.60%	-3.18%	-0.05%
TOTAL ASSETS	\$233,698.4	\$221,719.5	\$201,042.5
TOTAL LIABILITIES	\$7,889.7	\$10,487.9	\$25,309.4
ASSET TO DEBT RATIO	29.62	21.14	7.94
ANNUAL % OF CHANGE IN ASSET TO DEBT RATIO	+49.36%	-28.63%	-62.43%

<b>FINANCIAL CONDITION ATTRIBUTE</b>
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<b>FY 96</b>
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<b>Structural Analysis</b>
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<b>(Millions)</b>
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	<u>GF</u>	<u>RF</u>	<u>TF</u>	<u>OTHE</u> <u>R</u>	<u>ELIM</u>	<u>TOTAL</u>
SOURCES OF CASH	\$31,203.1	\$63.6	\$0.5	\$95.8	\$0.0	\$31,363.0
FUTURE REQ. FOR CASH	\$6,852.4	\$1,699.6	\$0.1	(\$134.3)	(\$1,549.2)	\$6,868.6
CASH SURPLUS (SHORTFALL)	\$24,350.6	(\$1,636.0)	\$0.4	\$230.1	\$1,549.2	\$24,494.3
TOTAL ASSETS	\$200,568.7	\$2,047.4	\$1.5	(\$26.0)	(\$1,549.2)	\$201,042.5
TOTAL LIABILITIES	\$25,280.7	\$1,699.6	\$0.1	(\$121.7)	(\$1,549.2)	\$25,309.4
ASSET TO DEBT RATIO	7.93	1.20	26.25	0.21		7.94

1 Sources of Cash = Funds with Treasury, Cash, and Foreign Currency

2 Future Requirements for Cash = Accounts Payable, Accrued Payroll & Benefits, and Other Intragovernmental Liabilities

**CAPITAL INVESTMENT ATTRIBUTE  
GENERAL FUND  
FY 96**

(Millions)

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
<b>NET PURCHASE OF PROPERTY, PLANT &amp; EQUIPMENT</b>	\$11,768.5	\$10,168.1	\$10,559.3
<b>AVG BALANCE OF CAPITAL ASSETS</b>	\$159,775.2	\$158,157.9	\$140,405.5
<b>% OF ACQUISITIONS TO BOOK VALUE</b>	7.37%	6.43%	7.52%

**ASSET MANAGEMENT EFFICIENCY ATTRIBUTE  
REVOLVING FUND  
FY 96**

(Millions)

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
<b>COST OF GOODS SOLD</b>	\$2,045.7	\$1,497.9	\$1,165.7
<b>AVERAGE INVENTORY</b>	\$2,149.7	\$1,952.8	\$1,898.0
<b>INVENTORY TURNOVER RATIO OR IN DAYS</b>	.95 384	.77 476	.61 594
<b>SALES REVENUE</b>	\$2,552.8	\$2,087.7	\$1,662.1
<b>AVERAGE ACCOUNTS RECEIVABLE</b>	\$201.8	\$210.0	\$107.5
<b>A/R TURNOVER RATIO OR IN DAYS</b>	12.65 29	9.94 37	15.46 24
<b>OPERATING CYCLE = INV. TURN. RATIO DAYS + A/R TURN. DAYS</b>	413	513	618

Consolidating Schedules						
Statement of Financial Position						
As of September 30, 1996						
(Thousands)						
ASSETS	General Fund	Revolving Fund	Trust Fund	Other	Eliminating Entries	Total
<b>1. Entity Assets:</b>						
a. Transactions with Federal (Intragovernmental) Entities:						
(1) Fund Balance with Treasury	\$31,183,283	\$63,613	\$480	\$95,775	\$0	\$31,343,151
(2) Investments, Net	0	0	1,068	0	0	1,068
(3) Accounts Receivable, Net	1,632,632	51,935	0	0	(730,832)	953,735
(4) Interest Receivable	0	0	0	0	0	0
(5) Advances and Prepayments	791,360	31,313	0	0	(818,369)	4,304
(6) Other Federal (Intragovernmental)	0	0	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:						
(1) Investments	0	0	0	0	0	0
(2) Accounts Receivable, Net	260,244	0	0	0	0	260,244
(3) Credit Program Receivables/ Related Foreclosed Property, Net	0	0	0	0	0	0
(4) Interest Receivable, Net	273	0	0	0	0	273
(5) Advances and Prepayments	423,621	622	1	2	0	424,246
(6) Other Non-Federal (Governmental)	0	0	0	0	0	0
c. Cash and Other Monetary Assets	19,802	0	0	0	0	19,802
d. Inventory, Net	35,769,856	1,899,923	0	0	0	37,669,779
e. Work in Process	0	0	0	0	0	0
f. Operating Materials/Supplies, Net	0	0	0	0	0	0
g. Stockpile Materials, Net	0	0	0	0	0	0
h. Seized Property	0	0	0	0	0	0
i. Forfeited Property, Net	0	0	0	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net	0	0	0	0	0	0
k. Property, Plant and Equipment, Net	124,867,674	0	0	0	0	124,867,674
l. Other Entity Assets	5,476,723	0	0	0	0	5,476,723
<b>m. Total Entity Assets</b>	<b>\$200,425,468</b>	<b>\$2,047,406</b>	<b>\$1,549</b>	<b>\$95,777</b>	<b>(\$1,549,201)</b>	<b>\$201,020,999</b>
<b>2. Non-Entity Assets:</b>						
a. Transactions With Federal (Intragovernmental) Entities:						
(1) Fund Balance with Treasury	0	0	0	(134,337)	0	(134,337)
(2) Accounts Receivable, Net	0	0	0	0	0	0
(3) Interest Receivable, Net	0	0	0	0	0	0
(4) Other	0	0	0	0	0	0
b. Transactions With Non-Federal (Governmental) Entities:						
(1) Accounts Receivable, Net	0	0	0	6,478	0	6,478
(2) Interest Receivable, Net	0	0	0	6,058	0	6,058
(3) Other	0	0	0	0	0	0
c. Cash and Other Monetary Assets	143,252	0	0	0	0	143,252
d. Other Non-Entity Assets	0	0	0	0	0	0
<b>e. Total Non-Entity Assets</b>	<b>\$143,252</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$121,801)</b>	<b>\$0</b>	<b>\$21,451</b>
<b>3. Total Assets</b>	<b>\$200,568,720</b>	<b>\$2,047,406</b>	<b>\$1,549</b>	<b>(\$26,024)</b>	<b>(\$1,549,201)</b>	<b>\$201,042,450</b>

96 Supplemental Information

Consolidating Schedules						
Statement of Financial Position						
As of September 30, 1996						
(Thousands)						
LIABILITIES	General Fund	Revolving Fund	Trust Fund	Other	Eliminating Entries	Total
<b>4. Liabilities Covered by Budgetary Resources:</b>						
a. Transactions with Federal (Intragovernmental) Entities:						
(1) Accounts Payable	2,788,594	11,231	2	79	(730,832)	2,069,074
(2) Interest Payable	0	0	0	0	0	0
(3) Debt	0	0	0	0	0	0
(4) Other Federal (Intragovernmental) Liabilities	254,517	1,423,508	0	(134,337)	(818,369)	725,319
b. Transactions with Non-Federal (Governmental) Entities:						
(1) Accounts Payable	1,524,282	264,891	57	(23)	0	1,789,207
(2) Accrued Payroll and Benefits						
(a) Salaries and Wages	1,957,061	0	0	0	0	1,957,061
(b) Annual Accrued Leave	0	0	0	0	0	0
(c) Severance Pay and Separation Allowance	327,984	0	0	0	0	327,984
(3) Interest Payable	0	0	0	0	0	0
(4) Liabilities for Loan Guarantees	0	0	0	0	0	0
(5) Lease Liabilities	0	0	0	0	0	0
(6) Pensions and Other Actuarial Liabilities	0	0	0	0	0	0
(7) Other Non-Federal (Governmental) Liabilities	206,328	0	0	12,537	0	218,865
<b>c. Total Liabilities Covered by Budgetary Resources:</b>	<b>\$7,058,766</b>	<b>\$1,699,630</b>	<b>\$59</b>	<b>(\$121,744)</b>	<b>(\$1,549,201)</b>	<b>\$7,087,510</b>
<b>5. Liabilities Not Covered by Budgetary Resources:</b>						
a. Transactions with Federal (Intragovernmental) Entities:						
(1) Accounts Payable	0	0	0	0	0	0
(2) Debt	0	0	0	0	0	0
(3) Other Federal (Intragovernmental) Liabilities	769,119	0	0	0	0	769,119
b. Transactions with Non-Federal (Governmental) Entities:						
(1) Accounts Payable	0	0	0	0	0	0
(2) Debt	0	0	0	0	0	0
(3) Lease Liabilities	0	0	0	0	0	0
(4) Pensions and Other Actuarial Liabilities	1,313,935	0	0	0	0	1,313,935
(5) Other Non-Federal (Governmental) Liabilities	16,138,876	0	0	0	0	16,138,876
<b>c. Total Liabilities Not Covered By Budgetary Resources</b>	<b>18,221,930</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18,221,930</b>
<b>6. Total Liabilities</b>	<b>25,280,696</b>	<b>1,699,630</b>	<b>59</b>	<b>(121,744)</b>	<b>(1,549,201)</b>	<b>25,309,440</b>
<b>NET POSITION</b>						
<b>7. Balances:</b>						
a. Unexpended Appropriations	27,365,713	0	422	95,720	0	27,461,855
b. Invested Capital	168,131,499	28,188	1,068	1	0	168,160,756
c. Cumulative Results of Operations	(1,987,258)	319,588	0	(1)	0	(1,667,671)
d. Other	0	0	0	0	0	0
e. Future Funding Requirements	(18,221,930)	0	0	0	0	(18,221,930)
<b>f. Total Net Position</b>	<b>175,288,024</b>	<b>347,776</b>	<b>1,490</b>	<b>95,720</b>	<b>0</b>	<b>175,733,010</b>
<b>8. Total Liabilities and Net Position</b>	<b>200,568,720</b>	<b>2,047,406</b>	<b>1,549</b>	<b>(26,024)</b>	<b>(1,549,201)</b>	<b>201,042,450</b>

Consolidating Schedules						
Statement of Financial Position						
As of September 30, 1996						
(Thousands)						
REVENUES AND FINANCING SOURCES	General Fund	Revolving Fund	Trust Fund	Other	Eliminating Entries	Total
1. Appropriated Capital Used	55,637,075	0	124	6,518	0	55,643,717
2. Revenues from Sales of Goods and Services						
a. To the Public	627,185	0	0	0	0	627,185
b. Intragovernmental	9,657,995	1,165,704	0	0	(5,271,007)	5,552,692
3. Interest and Penalties, Non-Federal	0	0	0	0	0	0
4. Interest, Federal	0	0	0	0	0	0
5. Taxes	0	0	0	0	0	0
6. Other Revenues and Financing Sources	212	496,415	129	432,848	0	929,604
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0	(129)	(432,848)	0	(432,977)
8. Total Revenues and Financing Sources	65,922,467	1,662,119	124	6,518	(5,271,007)	62,320,221
<b>EXPENSES</b>						
9. Program or Operating Expenses	57,598,139	184,226	120	6,518	0	57,789,003
10. Cost of Goods Sold						
a. To the Public	627,185	0	0	0	0	627,185
b. Intragovernmental	9,657,995	1,165,704	0	0	(5,271,007)	5,552,692
11. Depreciation and Amortization	0	0	0	0	0	0
12. Bad Debts and Writeoffs	23,252	0	0	0	0	23,252
13. Interest						
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0	0	0
b. Federal Securities	0	0	0	0	0	0
c. Other	1,572	0	4	0	0	1,576
14. Other Expenses	1,622	733,513	0	1	0	735,136
15. Total Expenses	67,909,765	2,083,443	124	6,519	(5,271,007)	64,728,844
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(1,987,298)	(421,324)	0	(1)	0	(2,408,623)
17. Plus (Minus) Extraordinary Items	0	0	0	0	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(1,987,298)	(421,324)	0	(1)	0	(2,408,623)
19. Net Position, Beginning Balance, as Previously Stated	210,396,165	749,076	1,467	84,877	0	211,231,585
20. Adjustments	(13,685,466)	0	0	0	0	(13,685,466)
21. Net Position, Beginning Balance, as Restated	196,710,699	749,076	1,467	84,877	0	197,546,119
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(1,987,298)	(421,324)	0	(1)	0	(2,408,623)
23. Plus (Minus) Non Operating Changes	(19,435,376)	20,025	22	10,843	0	(19,404,486)
24. Net Position, Ending Balance	175,288,025	347,777	1,489	95,719	0	175,733,010

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**ARMY AUDIT  
AGENCY REPORT**



**INSPECTOR GENERAL**  
 DEPARTMENT OF DEFENSE  
 400 ARMY NAVY DRIVE  
 ARLINGTON, VIRGINIA 22202-2884



March 1, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND  
 CHIEF FINANCIAL OFFICER  
 DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FYs 1996 and 1995 Army Principal Financial Statements (Project No. 6FI-2020)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. On May 17, 1996, we delegated to the Army Audit Agency (AAA) the audit of the FYs 1996 and 1995 Army principal financial statements. Summarized below are the AAA opinion letter on the FYs 1996 and 1995 Army principal financial statements and the results of our review of the audit conducted by AAA. We endorse the disclaimer of opinion expressed by AAA (see the Enclosure) in its audit of the FYs 1996 and 1995 Army principal financial statements.

**Endorsement of the Disclaimer of Opinion.** The AAA disclaimer of opinion on the FYs 1996 and 1995 Army principal financial statements, dated February 21, 1997, stated that AAA was unable to express an opinion on those financial statements. We concur with the AAA disclaimer of opinion.

The primary reason AAA was unable to express an opinion was that the accounting systems, and other systems that interface with the accounting systems, were not designed for financial statement reporting, and therefore cannot produce reliable and auditable financial statement data. Other reasons for the AAA disclaimer of opinion were:

- o The processes used to collect, classify, and value fixed asset data (translating data on quantities of assets into reported dollar values) did not produce reliable and auditable amounts in the Statement of Financial Position.
- o Systems, procedural, and policy problems prevented the auditors from attesting to the reported values for accounts payable, and also for contingent and other liabilities.
- o Accounting systems did not produce subsidiary ledgers showing the detailed transactions that made up the summary amounts reported for expenses in the Army's financial statements.

Inadequate accounting systems resulted in disclaimers of opinion for the FYs 1991 through 1995 Army principal financial statements. Inadequate accounting systems continued to exist in relation to the FY 1996 financial statements.

**Internal Controls and Compliance With Laws and Regulations.** Internal controls did not fully ensure that the Army's financial statements contained no material misstatements. As a result, the risk of material financial misstatements was high. The Army and the Defense Finance and Accounting Service have recognized many of the financial reporting weaknesses and reported

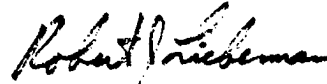
them in their FY 1996 annual statements of assurance on management controls. AAA audit work did not disclose any instances of unreported failures to comply with laws and regulations for the Army's financial statements.

**Review of Army Audit Agency Work.** To fulfill our responsibilities for determining the accuracy and completeness of the independent audit conducted by the AAA, we:

- o reviewed the AAA approach and planning of the audit, and
- o monitored the progress of the audit at key points.

We also performed other procedures deemed necessary to determine the fairness and accuracy of the audit approach and conclusions.

We conducted our review of the AAA audit of the FYs 1996 and 1995 Army principal financial statements from May 17, 1996, through February 21, 1997, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the AAA disclaimer of opinion on the Army principal financial statements and the related AAA evaluation of internal controls and compliance with laws and regulations.



Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Enclosure



DEPARTMENT OF THE ARMY  
OFFICE OF THE AUDITOR GENERAL  
3101 PARK CENTER DRIVE  
ALEXANDRIA, VA 22302-1596



Secretary of the Army

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the Army prepared the accompanying Principal Financial Statements for the fiscal years ended 30 September 1996 and 1995. As delegated by, and in coordination with, the Inspector General, DOD, we were engaged to audit the statements, including an evaluation of related internal controls and compliance with laws and regulations.

We were unable to express an opinion on the Army's Principal Financial Statements for the fiscal years ended 30 September 1996 and 1995. The reasons for our disclaimer were inadequate accounting systems, insufficient audit trails, and unreliable amounts for several types of assets, liabilities, and expenses. Procedural and compliance problems also contributed to the lack of reliable amounts in the Army's financial statements. In this report, we explain our disclaimer reasons plus some other reporting problems. We also cite areas where the Army and the Defense Finance and Accounting Service are making progress.

Internal controls weren't fully effective to ensure there were no material misstatements in the financial statements. As a result, the risk of material financial misstatements is high. The Army and the Defense Accounting Service have recognized many of the associated financial reporting weaknesses and reported them in their FY 96 annual assurance statements. Our audit efforts didn't disclose any instances of unreported failures to comply with laws and regulations related to the Army's financial statements. We will present details on these matters in our separate report on internal controls and compliance with laws and regulations.

Financial data in the Overview and the Supplemental Financial and Management Information sections of the Army's FY 96 Annual Financial Report was derived from the same sources as the financial statements and, therefore, may not be reliable.

To the extent possible, we performed our work in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 93-06 (Audit Requirements for Federal Financial Statements). However, as noted in the body of our report, there were significant limitations to the scope of our work.

## Reasons for Disclaimer

Our audit work showed that the Army continues to experience major financial reporting problems which precluded us from rendering an opinion on its financial statements. Specific reasons for our disclaimer were inadequate accounting systems, insufficient audit trails, and unreliable amounts for several types of assets, liabilities, and expenses. These problems are being worked on, but complete solutions aren't likely for several years to come.

The Army reported \$201 billion in assets, \$25.3 billion in liabilities, and \$64.7 billion in expenses in its financial statements for FY 96. Building on prior year audit results, we audited major portions of the reported assets and liabilities. Accounting systems problems precluded us from auditing reported expenses. Accounting systems and procedural problems also precluded us from attesting to the reported values for much of the Army's assets and liabilities. The following paragraphs briefly summarize our results. Complete details on these subjects, including specific recommendations, are in the supporting audit reports to be issued separately.

### ACCOUNTING SYSTEMS

The primary reason that we couldn't render an opinion on the Army's financial statements is that the accounting systems, and the systems which interface with the accounting systems (such as the Army's logistics and contracting systems), weren't designed for financial statement-type reporting—and, therefore, can't produce reliable and auditable financial statement numbers. The Defense Accounting Service owns and operates most of the systems used to account for the Army's resources, and it's working on a new accounting system intended to resolve this problem. However, the new system probably won't be fully fielded until after the turn of the century.

### ASSETS

As in prior years, we found that the reported total for fund balance with Treasury (\$31.2 billion for FY 96) was reliable. However, the total included an abnormal (\$-134 million) fund balance with Treasury for non-entity assets. We also found that the reported quantities of fixed assets were generally accurate. However, the processes used to collect, Quantity data into reported dollar values) didn't produce reliable and

auditable numbers in the Statement of Financial Position. We describe the most significant problems we found in the following paragraphs.

**Inventory, Net.** The reported value for inventory, net (\$37.7 billion for FY 96) was misstated by an unknown but probably material amount because the assets weren't properly valued—holding gains and losses weren't recognized, asset prices weren't current, and asset stockage categories were misstated. We also noted that this line consisted mostly of assets which don't appear to meet the definition of inventory. Instead, these assets probably should be reported as property, plant and equipment or separately as war reserves. This is a DOD-wide policy issue and will be addressed by the Inspector General, DOD.

**Property, Plant and Equipment, Net.** We weren't able to attest to the reported value for property, plant and equipment, net (\$124.9 billion for FY 96) because the following sub-elements were misstated by unknown amounts:

- The reported value for military equipment (\$80.9 billion) was misstated by an unknown but probably material amount. Physical accountability of equipment at using units appeared adequate, but the prices used to value this equipment weren't current. Furthermore, some units' equipment reports weren't accurate or complete, and most reports weren't based on DOD-specified asset reporting thresholds. The reported value for military equipment was also misstated because the contractor reports—used to account for equipment held by contractors—weren't complete or accurate.
- The reported value (\$27.5 billion) for real property (land; and structures, facilities, and leasehold improvements) was misstated by an unknown but probably material amount because Army and DOD reporting guidance wasn't clear and wasn't consistently implemented. Furthermore, real property assets were understated by an unknown but probably material amount because the Army's financial interest in State National Guard facilities wasn't recorded as an asset.
- The reported value for construction in progress (\$9.6 billion) was misstated by an unknown but probably material amount because (i) the portion pertaining to government-furnished materiel (\$3.3 billion) was based on contractor reports which weren't accurate or complete, and (ii) the amount reported for Army National Guard construction in progress (\$1.7 billion) included an unknown amount for completed projects.

**Other Entity Assets.** The reported value for other entity assets (\$5.5 billion for FY 96) was misstated by an unknown but probably material amount because it was derived from contractor reports which weren't complete or accurate, and included large amounts for equipment items which didn't belong to the Army or were otherwise already accounted for.

## LIABILITIES

By recognizing liabilities in its statements for FY 96 that it had previously only disclosed in footnotes, the Army made significant progress reporting its actual liabilities. However, systems, procedural, and policy problems prevented us from attesting to the reported values for accounts payable, and also for contingent and other liabilities. We anticipate additional progress in the near term on contingent and other liabilities, but the problems with accounts payable are likely to take longer to resolve. Here are the major problems.

**Accounts Payable.** The reported balances of accounts payable covered by budgetary resources for Federal and non-Federal entities (\$3.9 billion for FY 96) weren't reliable, and existing accounting systems and procedures precluded the determination of reliable values for these accounts. Accounts payable frequently aren't recorded (i) when goods or services are received, (ii) for year-end unpaid invoices on Defense-administered Army contracts, and (iii) for progress payment holdbacks. Furthermore, the Defense Accounting Service makes corporate-level adjustments to the Army's accounts payable which, because of procedural problems, distort rather than improve the reported numbers.

**Other Liabilities.** Although the Army recognized \$15 billion in other liabilities not previously recognized—a major improvement over prior years—not all reportable liabilities have been identified and properly valued. Consequently, we can't attest to the reliability of the contingent and other liabilities presented in the Army's statements.

## EXPENSES

Our prior audit results showed that the accounting systems don't produce transaction sets (subsidiary ledgers) showing the detailed transactions that make up the summary numbers reported for expenses in the Army's financial statements. Therefore, we didn't attempt to audit the expenses reported in the Army's statements for FY 96. We have recommended that changes be made to the Army's accounting systems to remedy this problem. The Defense Accounting Service (the owner and operator of the Army's primary accounting systems) acknowledged the

deficiency, but it's working on a new accounting system to replace those currently in use, and has decided to invest all of its available systems resources in the new system. Consequently, the existing accounting systems won't be changed, and this problem won't be resolved until the new accounting system is fielded.

### **Other Reporting Problems**

Our audit work disclosed other problems which don't preclude us from rendering an audit opinion, but which must be resolved to ensure the affected data is properly presented in the Army's financial statements.

**Assets Under Capital Lease.** The Army's overseas real property holdings, totaling about \$5 billion for FY 96, were misclassified as assets under capital lease and should have been reported in the normal real property accounts. This property was reported as assets under capital lease based on guidance from the Under Secretary of Defense (Comptroller). In our opinion, this guidance runs counter to generally accepted accounting principles. Also, some of the Army's real property holdings in Europe, which were confiscated from the German Government after World War II, or funded by other governments, weren't properly reported.

**Natural Resources.** The Army's reported value for natural resources (\$1.7 billion in standing timber assets for FY 96) may be overstated. The reporting guidance for these assets isn't clear, and wasn't implemented consistently. Moreover, reported values include timber which can't be harvested.

**Operating Materials and Supplies.** Based on guidance from the Under Secretary of Defense (Comptroller), the Army expensed the inventories of repair parts owned by its combat divisions and separate brigades—but it's possible that these inventories should have been reported as assets. The inventories appear to meet the definition of operating materials and supplies, so expensing them may understate the Army's total assets (these units are authorized to stock parts inventories worth about \$800 million). This is a potential DOD-wide problem, and its resolution will be addressed by the Inspector General, DOD.

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### **Progress Areas**

The Defense Accounting Service has the lead on the ongoing effort to Develop the new accounting system intended to resolve many of the problems noted in this report. An, the army has been actively working with the Defense Accounting Service on the accounting system

Development project. The Army has also taken steps to resolve the other financial reporting problems that it can fix by itself, and, as discussed in this section, we found that several of these problems were recently resolved.

Additionally, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) routinely holds Armywide video teleconferences in which financial problems are monitored and pursued. This office is also engaged in numerous partnering arrangements with other senior Army and DOD managers on functional and financial management improvement initiatives and problem-solving projects.

#### **FINANCIAL REPORTING INITIATIVES**

We discuss some of the Army's most noteworthy financial reporting initiatives in the following paragraphs.

**Corps of Engineers Financial Management System.** In May 1996, after a joint, preliminary test at an Army installation, the Under Secretary of Defense (Comptroller) directed the Defense Accounting Service to proceed with efforts to adapt the U.S. Army Corps of Engineers Financial Management System for use as the General Fund accounting system for the Army and some other DOD entities. The basic system is being fielded to Corps entities, and appears capable of meeting the Chief Financial Officers Act's financial management and reporting requirements. Adapting the system to the General Fund will entail much work, but its apparent success in the Corps makes it a meaningful candidate for resolving the Army's General Fund accounting problems.

**Revaluing Unserviceables.** In prior years, the lack of a method for revaluing unserviceable, repairable assets was one of the reasons we disclaimed an opinion on the Army's statements. During the current reporting cycle, the Army agreed to a method for revaluing these unserviceables, and this disclaimer point was resolved.

**Real Property Integrated Process Team.** Recognizing the magnitude and cross-cutting nature of the problems in financially accounting for real property, the Army initiated the establishment of a DOD-wide Real Property Integrated Process Team. The Team's objectives include defining data elements needed in real property systems for financial reporting, recommending needed policy changes to DOD, and identifying the process for integrating the Defense Property Accountability System with the various real property management systems. The team has met several times since being formed in FY 96 and plans to hold future meetings at least twice a year until financial reporting problems are

resolved. The team's goal is to have real property data loaded into the Defense Property Accountability System by the end of FY 98.

**Asset Reporting.** In response to prior audit recommendations, the Army's logisticians have undertaken a number of actions to rectify military equipment reporting problems. These actions include the initiation of a contractor-assisted effort to reduce mismatches between unit property records and the Continuing Balance System-Expanded (the system used as the source of data for reporting equipment in use at tactical units), the establishment of an Integrated Process Team chartered to improve the accuracy of the records on in-transit equipment, and aggressive interactions with the Defense Accounting Service to fund and implement changes to logistics systems accounting applications so that they properly report Project Manager-owned assets, as well as unserviceable, obsolete and excess assets. These efforts, planned for completion in FY 97 through FY 99, should remedy many of the Army's asset reporting problems and enhance the reliability of the asset values reported in the Army's financial statements.

**Government-Furnished Property.** In recognition of the extent and complexity of the problems which hinder financial accountability for government-furnished property, the Assistant Secretary of the Army (Financial Management and Comptroller) has hired Coopers and Lybrand on a series of engagements designed to bring a commercial perspective to the problem, and help determine needed changes.

**Problem Disbursements.** The Army continued its efforts to reduce the amount of problem disbursements. As of 30 September 1996, the Army reported a negative unliquidated obligation balance of \$133 million—the lowest since it began keeping statistics in FY 94. However, the balance for unmatched disbursements was \$334 million higher than the yearend result for FY 95. Defense Accounting Service personnel attributed much of the increase to its ongoing consolidation of accounting offices and the resulting personnel turbulence.

**Army National Guard.** The Army National Guard has identified financial reporting improvement initiatives and recognized the need to review business practices and institute improvements. Some of the planned actions include developing a general ledger reporting process at the State Guard level, and reconciling data reported by State Guard units with consolidated data at the Defense Accounting Service. These initiatives, which the Guard hopes to complete before FY 98, should help resolve some of the Guard's previously discussed reporting problems.

**Command-Initiated Adjustments.** The Army prepared several financial statement adjustments on its own this year to improve the accuracy of

the FY 96 financial statements. These adjustments were similar to those that we recommended in prior years, and this initiative signifies an enhanced recognition of the need to take ownership of the financial reporting process.

### **INTEGRATING FUNCTIONAL AND FINANCIAL MANAGEMENT**

Here are some of the Army's more significant initiatives aimed at integrating functional and financial management.

**Military Personnel and Payroll.** The Army and the Defense Accounting Service have developed automated interfaces between the Army's military personnel and pay systems to increase data accuracy and minimize improper payments. The Army has also initiated a process to reduce soldiers' out-of-service debts (debts not collected or settled before soldiers are separated from the Army).

**Travel Advances.** The Army is emphasizing the collection of outstanding travel advances and the use of government travel cards to reduce the need for advances. Reported travel advances as of 30 September 1996 totaled about \$73 million, a decrease of about 19 percent compared to the total as of 30 September 1995. Also, the Army eliminated retained advances.

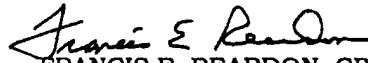
**Purchase Card.** The Army has increased its use of the International Merchants Purchase Authorization Card (IMPAC) to make micro purchases (generally, purchases under \$2,500). In a recent audit report, we projected that the Army saved the equivalent of \$155 million in workyears in FY 96 by using credit cards instead of purchase orders to execute its micro purchase transactions. An Army team developed specific business practice changes to streamline the purchase card processes which the Army approved in August 1996. These changes should further improve the program's efficiency.

**Velocity Management.** Velocity Management is a concept, implemented by a coalition of senior Army leaders, that focuses on improving the performance of logistics processes. The goals for this effort are to speed up the supply process, reduce inventories, improve the linkage between supply and financial management systems, and provide managers with timely and accurate decision-making information.

### **Outlook**

The initiatives discussed above are precisely the type of efforts needed to improve financial reporting and integrate functional and financial

management, as intended by the Chief Financial Officers Act. They give evidence both to the Army's commitment to the act and its progress toward successful implementation. Thus, although many problems remain, and full solutions are still several years distant, the outlook is positive.

  
FRANCIS E. REARDON, CPA  
The Auditor General

21 February 1997

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