Army
Working Capital Fund

Chief Financial Officer Annual Financial Statement FY 1997

February 27,1998

Army Working Capital Fund
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DEPARTMENT OF ARMY

ARMY WORKING CAPITAL FUND

OVERVIEW

DEPARTMENT OF ARMY

The Chief Financial Officers (CFO) Act requires the Department of Defense to prepare financial statements each fiscal year. These financial statements, prepared to display FY 1997 results, are expected to provide financial management information to DoD program managers, the Congress, and the public. While the Army has experienced some problems with accounting reports, the objective is to improve financial reporting and to produce statements that are accurate, consistent and meaningful--statements that can be used to improve management. Consistent with the objectives of the CFO Act, the Army continues to work toward the integration of program and financial information in order to provide for more effective program management at all levels.

This Overview adheres to the guidance on the form and content of financial statements under the authority of the CFO Act; the Office of Management and Budget (OMB) guidance on “Form and Content of Agency Financial Statements“ and Department of Defense Guidance. In addition, the Army coordinated the FY 1997 Overview with the Army Audit Agency (AAA) to ensure compliance with the CFO Act and Department of Defense and OMB guidance.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and the results of operations for the entity pursuant to the requirements of the CFO Act of 1990. While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the OMB, the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a Federal entity, that unfunded liabilities reported in the financial statements 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.

Army Working Capital Fund (AWCF)

The Army has historically operated a significant number of its in-house commercial and industrial facilities under the revolving fund concept to encourage these activities to function in a more efficient manner and to provide the additional flexibility needed to properly manage these facilities under changing workload conditions. The support services provided by the activities funded under the AWCF are absolutely essential to the success of the Operating Forces. Moreover, the activity groups themselves are an integral part of the defense team. The Army manages four activity groups within the AWCF:

***Supply Management, Army*.** The activity group buys and maintains assigned stocks of material for sale to its customers, primarily Army operating units. The availability of this material is linked to equipment, operational readiness and war fighting readiness of Army units. The activity group consists of a wholesale division and separate retail divisions for Army major commands.

Depot Maintenance. This activity group maintains end items and depot-level reparables. Its mission encompasses the full range of depot maintenance services, including overhaul, rebuild, conversion, renovation, modification, repair, inspection and test, manufacture, fabrication and reclamation of materiel, as well as other maintenance support services. Installations store, maintain, distribute and demilitarize ammunition, and perform base support host operations. The activity group consists of twelve depots and depot activities.

Ordnance. The mission of the activity group is to manufacture, renovate and demilitarize ordnance material for all services within the Department of Defense and foreign military customers. The activity group consists of three arsenals and two ammunition plants that provide production of munitions, ammunition stockpile management, set assembly, depot supply operations, depot maintenance, tenant support and national procurement services for thin and thick walled cannons. The five activities are responsible for logistics management including follow-on procurement, production, maintenance, engineering, and integrated logistics support management.

Information Services. The mission of the Information Services activity group is to provide for the development and operational sustainment of automated information systems and communication systems (i.e., requirements analysis and definition, system design, development, testing, integration, implementation support and documentation services) performed at four development centers. A new addition to the activity groups, known as the Army Small Computer Program (SCP), provides customers with fully competed commercial sources for purchase of small and medium computers, hardware, software, and support services.

The US Army Materiel Command (AMC) exercises management control over the Depot Maintenance, Ordnance, and Information Services activity groups. The Deputy Chief of Staff for Logistics at Headquarters, Department of Army, exercises management control over Supply Management, Army.

Overview Format

The Overview has five sections: one for corporate level that discusses the key indicators the Army reviews and manages and one for each of the activity groups. The narrative for the AWCF activity groups will cover the following areas:

(1) ***General***. Includes mission statement, customer revenue and personnel size.

(2) ***Financial performance***. Explains the core indicators: Cost per dollar of Wholesale and Retail Sales (Supply Management); Cost per Direct Labor Hour (Depot Maintenance, Ordnance, and Information Services activity groups); Operation Measures; Customer Rates; Capital Investment Programs; and Cash Management.

(3) ***Program performance***. Identifies and explains the program measures for each activity group.

(4) ***Financial management issues.*** Discusses the key issues facing each activity group.

CORPORATE

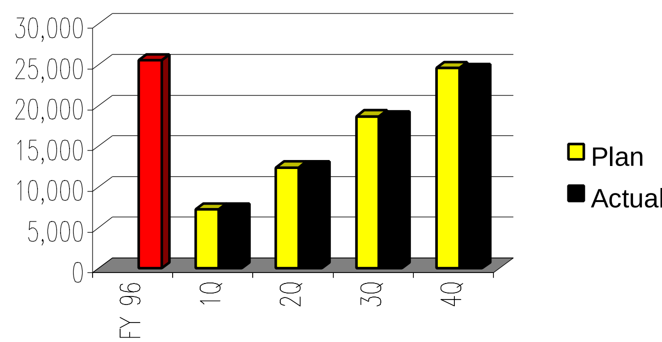
The Department of Army manages certain key AWCF functions at the corporate level. This section will be divided into two areas: (1) performance measures and (2) financial management issues.

PERFORMANCE MEASURES

The Army reviews and manages a few key indicators at the AWCF Corporate level: personnel resources, total customer revenue and cash. This allows the Army leadership the ability to monitor the performance of the organization on a monthly basis.

Personnel Resources. A key objective of the Army-managed AWCF activity groups is to have the optimum mix of appropriately skilled people to match workload requirements. Reductions are accomplished, to the maximum extent possible, through voluntary separations and hiring freezes. As a result, skill mismatches between the workforce and the workload requirements may be created. Such mismatches have caused unprogrammed operating losses as the Army dramatically downsizes.

Chart 1. FY 1997 Civilian Full-Time Equivalents



		FY 97			
	FY 96	1Q	2Q	3Q	4Q
Plan		7,261	12,393	18,673	24,628
Actual	25,562	7,193	12,390	18,564	24,398
Var		-68	-3	-109	-230
Var%		-1%	0%	-1%	-1%

As Chart 1 demonstrates, there has been a 4.5% decrease in the Civilian Full-Time Equivalents over the last two fiscal years in the AWCF activity groups. Indicators are within 1% of the plan.

Cash Management. Cash management is important to both private sector and government. The private sector strives to have sufficient cash on hand or a line of credit to meet the organization's immediate obligations. If the private sector organization cannot meet those obligations, it must either borrow the funds or face insolvency. The Army does not have the option of either using a line of credit or borrowing funds to cover disbursements that exceed the cash balance. Nevertheless, the Army must maintain a positive cash balance to meet immediate requirements and preclude an Anti-Deficiency violation.

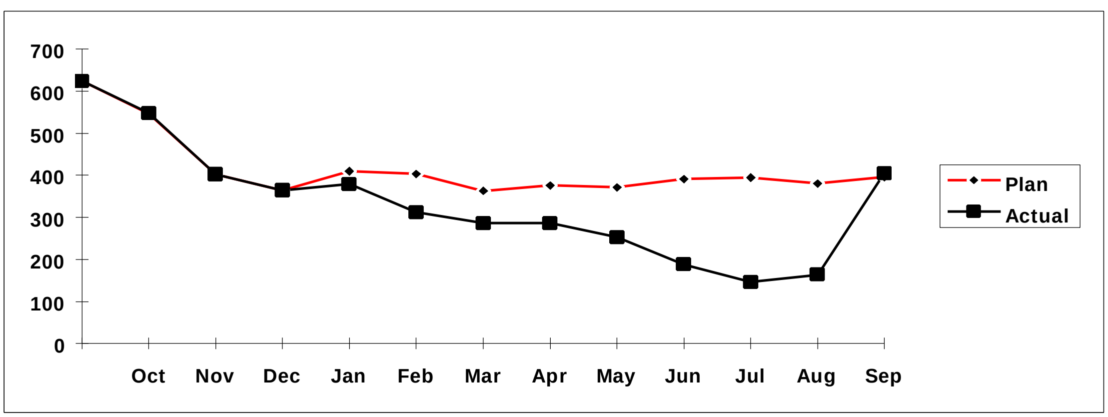
In order to minimize cash balances required for operating and capital disbursements, the Army manages cash at the corporate level. The activity groups manage to outlays, not necessarily maintaining a positive cash balance. They project collections, disbursements and outlay targets on a monthly basis. If deviations from plan exceed +/-10% during execution, explanations and/or corrective actions are required.

Projecting cash inflows and outflows has proven to be very difficult. While we can make a fairly good estimate of collections and disbursements based on *estimated* levels of operations, we have been unsuccessful in accurately projecting customer workload. Also, we are not able to predict the effects of accounting adjustments that correct prior year errors and in accommodating policy changes. We have had difficulty predicting effects on cash from transactions by others. Our "undistributed" collections and disbursements fluctuate dramatically throughout the year. We hope to be able to make more accurate projections in the future based on systems improvements that are being put in place by the Defense Finance and Accounting Service (DFAS), from whom we purchase our accounting services.

To ensure solvency during periods of poor cash flows, the Army has the ability to take the following actions: (1) advance bill; (2) curtail new obligations; (3) emphasize collection of valid prior year bills. We have not resorted to advance billing since March 1995. However, because of poor cash flow in FY 1997, we did curtail new obligations in Supply Management. Also, we increased collection of valid prior year bills in August and September.

Chart 2 represents actual versus planned cash balances at Army Corporate level. Significant deviations occurred primarily because of unplanned reductions to wholesale sales in Supply Management; Congressional reduction to funding for unutilized plant capacity in Depot Maintenance and Ordnance; and poor operating results in nonsupply activities due to slippages in production.

Chart 2. FY 1997 AWCF Cash Balance



Total Revenue. This indicator reflects the total size and volume of work completed by the Army WCF activity groups. The total planned revenues for FY 1997 were $11.8 billion. Actual revenue totaled $11.4 billion, 3% below plan. This was primarily due to reduced wholesale sales in Supply Management. Chart 3 displays revenue by customer (appropriation). The largest customer for the AWCF is Operation and Maintenance, Army (OMA) ($5.5 billion).

Chart 3. AWCF Revenue by Customer

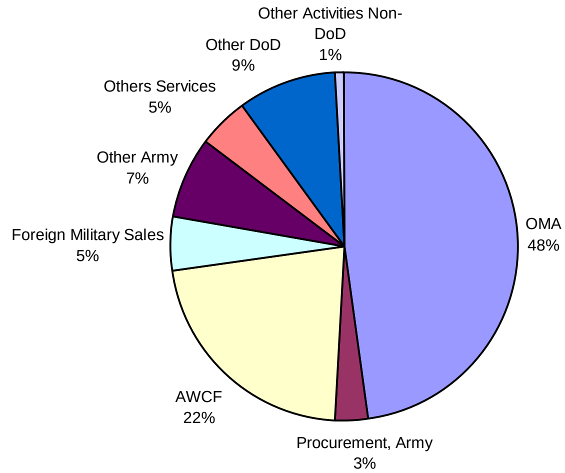


Chart 4. AWCF Revenue by Activity Group

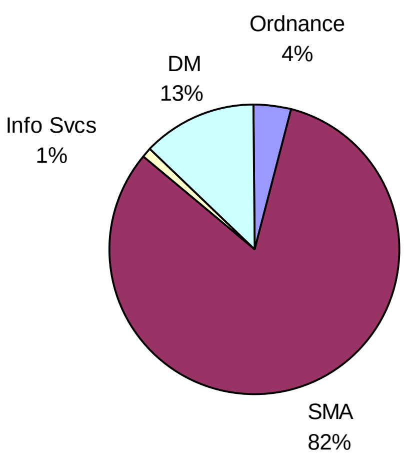


Chart 4 displays revenues by activity group. Supply Management, Army (SMA) had revenues of $9,359.9* million, which is 82% of total AWCF revenue. The Depot Maintenance (DM) and Ordnance activity groups earned revenues of $1,449 million and $478 million respectively for a combined total of $1,927 million or 17% of the total revenues. Information Services collected $155 million or one percent of the total revenues.

*From Statement 6, Reimbursable Issues.

All of the Army activity groups were within the +/-10% variance for revenues.

LOOKING AHEAD

During FY 1997, DoD, in accordance with congressional direction, conducted a study of the problems being experienced by activities funded under the DWCF (formerly, Defense Business Operations Fund). Study groups included members from all services and the staff of the Office, Secretary of Defense. Among other things, the groups looked at ways to improve accounting systems and reports, cash flows, operating results and rate setting. A plan for improvement was provided to Congress in September 1997.

It is hoped that changes recommended in the plan will help to improve accounting information--both timeliness and accuracy. Such improvements will aid management in better identifying problem areas and focusing on corrective actions.

FINANCIAL MANAGEMENT ISSUES

Downsizing. The Army Working Capital Fund activities have downsized dramatically since the inception of Defense Business Operations Fund (DBOF), the DWCF predecessor. Force structure reductions, Base Realignment and Closure actions, and declining customer funding levels have adversely affected our ability to predict customer orders, revenues, expenses, and cash impacts. Decreased sales, increased losses, and unexpected cash drains are the result of such instability.

Cash management. Accurately forecasting cash collections and disbursements continues to be a challenge. We do not have real-time visibility of cash balances. More of our disbursements are processed by Navy and Air Force finance offices as DFAS continues to consolidate and downsize. We plan to continue development of better forecasting techniques through training and modelling.

Carry-over. On a more positive note, we were successful in reducing carry-over levels at Depot Maintenance and Ordnance activities by $513 million in FY 1997. Carry-over is the amount of work funded in the current year that remains available to be completed in subsequent years. Such work enables the nonsupply activity groups to transition smoothly to a new fiscal year, even though a delay in enacting customer appropriations may occur. However, if carry-over is excessive, customer appropriations for new orders may be reduced by Congress.

SUPPLY MANAGEMENT

DESCRIPTION

Description of Reporting Entity. The Supply Management, Army (SMA) activity group consists of a wholesale division and separate retail divisions for Army Major Commands. Another retail division is organized by function to support military requirements in the National Capital Region (Washington, DC). Retail Divisions manage Department of Army (DA), Defense Logistics Agency (DLA) and General Services Administration (GSA) items, to include repair parts; clothing; subsistence; medical supplies; industrial supplies; bulk and packaged petroleum, oil and lubricants; general supplies and ground support supplies. The wholesale subdivisions are organized by commodity with major subordinate commands of the Army Materiel Command (AMC) managing assigned Army items. SMA also manages DLA prepositioned war reserves under Army control.

Table 1. Activity Divisions and Identifiers

Retail Divisions	Location
FORSCOM	Headquarters, U.S. Army Forces Command
USAREUR	Headquarters, U.S. Army Europe
TRADOC	Headquarters, U.S. Army Training and Doctrine Command
EUSA	Headquarters, Eighth U.S. Army Korea
USARPAC	Headquarters, U.S. Army Pacific Command
USARSO	Headquarters, U.S. Army Southern Command
AMC-ID	Headquarters, U.S. Army Materiel Command-Installation Division
DSS-W	Defense Supply Service-Washington
Wholesale Subdivisions	**Description and Type of Items Managed**
ATCOM	U.S. Army Aviation and Troop Command--air and ground support
CECOM	U.S. Army Communications-Electronics (CE) Command--communications-electronics
MICOM	U.S. Army Missile Command--missile systems
TACOM	U.S. Army Tank and Automotive Command--combat automotive and construction
TACOM-ACALA	U.S. Army Armament and Chemical Acquisition and Logistics Activity --weapons, chemical and fire control items
War Reserves	**Location and Type of Items Managed**
AMC-MOB	U.S. Army Materiel Command-Mobilization War Reserves--DLA/GSA items: repair parts, clothing, subsistence, medical supplies, industrial supplies, ground forces supplies

Mission. This activity group buys and maintains assigned stocks of materiel for sale to customers. Materiel availability impacts equipment and operational readiness as well as the war fighting readiness of Army units.

Customer Revenue (Program Size). Revenue from Customer Sales was $9,359.9* million in FY 1997. Sales in FY 1996 were higher than anticipated due to Operation Joint Endeavor in Bosnia. Sales in FY 1997 were below FY 1996 levels for bothwholesale and retail due to Army inventory management policy changes which caused reductions of customers' Authorized Stockage Levels.

*Source: Statement 6, Reimbursable Issues

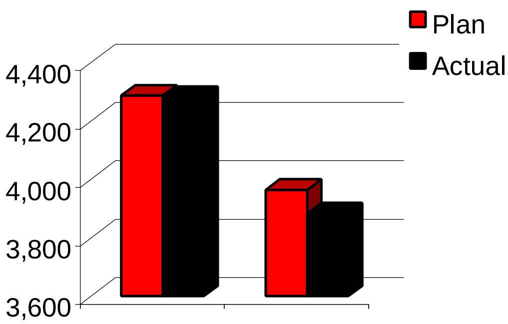
Table 2. Total Revenue by Customer (%)

Customer	FY 96	FY 97
OMA	46.4%	48.6%
Procurement, Army	1.8%	1.8%
Army, Other	8.4%	6.4%
AWCF	28.9%	23.3%
Foreign Military Sales (FMS)	3.2%	5.3%
Other DoD	7.3%	9.2%
Other Services	3.6%	4.7%
Non DoD	0.4%	0.7%
Total Revenue ($M)	**10,516.0**	**9,359.9**

Personnel. A key objective of the SMA activity managers is to have the appropriate number of skilled workers in the right places to support the workload requirements.

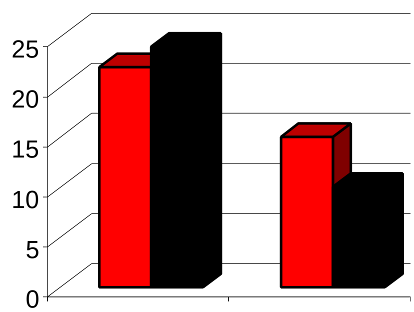
Chart 1. Personnel Indicators

Civilian Full-Time Equivalent



	FY 96	FY 97
Plan	4,287	3,964
Actual	4,282	3,883
Var	-5	-81
Var%	0%	-2%

Military End Strength



	FY 96	FY 97
Plan	22	15
Actual	24	10
Var	2	-5
Var%	9%	-33%

The reductions have been achieved through a combination of Voluntary Separation Incentive Programs (VSIP) and hiring freezes. The last two fiscal years display an overall downward trend in personnel levels consistent with current workload projections. The military end strength reflects a move of military personnel into tactical units and is consistent with overall Army plans. The deviation from plan in FY 1997 was due to Base Realignment and Closure actions at ATCOM.

FINANCIAL PERFORMANCE

Managers evaluate Supply Management execution on five key fiscal performance measures. The primary measure, Unit Cost, measures cost per dollar of sales. Other measures are total gross wholesale and retail sales; the financial operations measures of revenue, cost, and net operating results; capital investment; and cash flow as measured by disbursements, collections, and net outlays.

Cost per Dollar of Wholesale Sales (Wholesale Unit Cost). The wholesale division sells principally to federal government customers and to foreign governments through the Foreign Military Sales program. Wholesale costs include obligations for logistics operations (personnel and management contracts); depreciation of capital equipment; materiel for repair or procurement, and credit issued to customers for materiel returns. Unit Cost is measured by dividing these costs by gross wholesale sales. The Army operated in FY 1997 against an approved Unit Cost Goal of $.905, which is consistent with its inventory reduction goals, logistics efficiencies plans, and recent years' experience.

Table 3. Cost per Dollar of Sales (Unit Cost)

	FY 96	FY 97
Wholesale	$0.81	$0.91
Retail	$1.05	$0.98

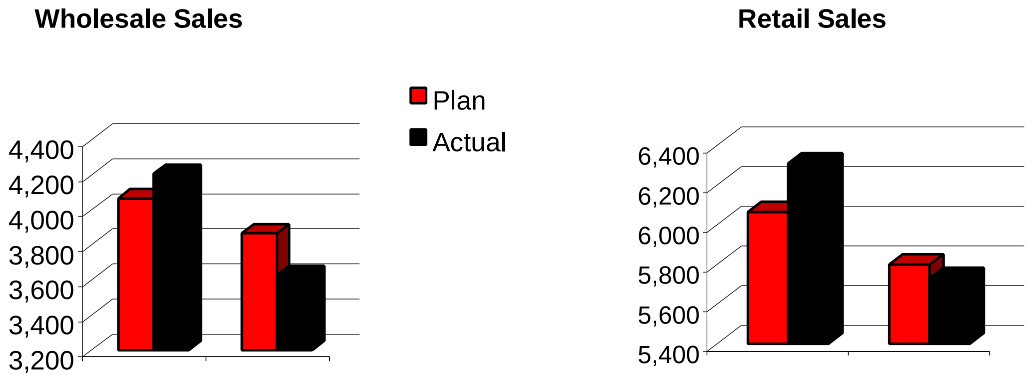
Cost per Dollar of Retail Sales (Retail Unit Cost). Retail divisions sell to authorized customers within their local geographic areas. The retail division buys and sells stock at standard price; over time, the Unit Cost therefore approximates $1.00. Unit Cost exceeded the standard in FY 1996 due to Army forces relocations and unit deactivations that resulted in an unusually high level of materiel returns to the supply system. In addition, the divisions acquired management responsibility for General Support Reparable Exchange stocks, purchasing existing stocks from customers by issuing credit. The retail divisions sold more stock than they replaced in FY 1997 so Unit Cost, as planned, was less than $1.00. FY 1998 is planned at $1.00 and FY 1999 at $.994, further absorbing materiel acquired in FY 1996.

Gross Sales (Total Sales at Standard Value). Attaining projected sales levels is key to achieving goals in inventory management and operations management, as well as recouping cost of operations.

The Retail Division sales exceeded plans in FY 1996 due to unplanned contingency operations. The single largest operation, the Bosnia peacekeeping mission, affected both Wholesale and Retail Division sales.

The Wholesale Division had to exercise significant management action in FY 1997 to ensure achieving the Unit Cost Goal because changes in Army inventory management policies (such as Authorized Stockage List-Prescribed Load List [ASL-PLL]) reduced customer demands. Sales of Army-managed items therefore did not meet projections.

Chart 2. Gross Sales ($M)



	FY 96	FY 97
Plan	4,066	3,866
Actual	4,206	3,628
Var $		-238
Var%		-6%

	FY 96	FY 97
Plan	6,063	5,799
Actual	6,310	5,731
Var $		-68
Var%		-1%

Note: Source of data is Statement 6, Reimbursable Issues.

Financial Operations Measures. Revenue, cost, and net operating results are the financial measures of operations. Revenue is Gross Sales at Standard Price, which is based on stabilized rates that are set eight or more months before the beginning of a fiscal year. Budgetary guidance requires the activity to recover its operating costs and fees while achieving zero accumulated operating results at the end of the budget period. Rates were set to achieve net operating results of $-40.0 million in FY 1997 to offset prior year gains. Results of operations, computed according to budget guidance, are presented in the following table.

Table 4. Operations Measures ($M)

Measure	FY 96			FY 97		
	Plan	Actual	Dev	Plan	Actual	Dev
Revenue	10,129	10,516	4%	9,689	9,359	-3%
Cost of Goods	10,123	10,483	4%	9,729	9,387	-4%
Net Operating Results	6	33		-40	-28	
Accumulated Operating Results	38	11		0	5	

Results of operations, when computed according to financial accounting standards, vary for reasons including valuation of inventory, timing of cost recognition, transfer fees paid to the Joint Logistics Systems Center which inflate revenue but are not a cost of production for the activity, and inclusion of nonrecoverables such as planned inventory reductions.

Capital Investment. The business seeks to maintain and refine business processes through equipment and software acquisition. The Capital Investment Program primarily funds development of software to improve managerial decision-making, utilize shared databases, and re-engineer business practices for efficiencies. Table 5 represents the obligation authority of the capital budget for Supply Management.

Table 5. Capital Budgets ($M)

Category	FY 96	FY 97
Equipment (execpt ADPE)	2.9	0.1
Software	14.4	43.9
ADPE & TELECOM	.02	1.3
TOTAL	17.5	45.3

The primary reason for the FY 1997 program increase was the transfer of funding responsibility from the Joint Logistics Systems Center (JLSC) to the Supply Management, Army activity group for the following systems: Century Date for Commodity Command Standard System (CCSS) ($3.3 million); Century Date for Logistics Support Agency (LOGSA) ($.7 million); Common Operating Environment (COE) ($5.9 million); and Vision 2010 ($8.6 million).

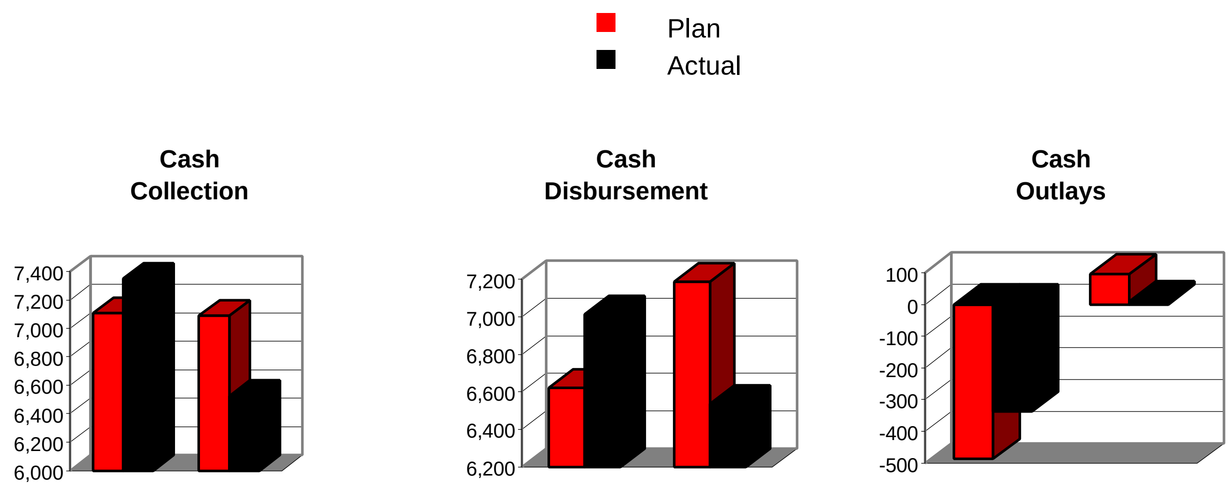
Additionally, other significant individual projects are:

Single Stock Fund ($5.0 million). This project integrates retail and wholesale inventory, management, and financial accounting functions to produce business process improvements and inventory efficiencies. The effort will eliminate one point of sale within the Army stock fund structure, thus eliminating duplication of logistical and financial processing. Global asset visibility and ownership of installation inventories will improve Army asset utilization and reduce inventory requirements.

Materiel Management System (MMS) ($15.0 million). MMS will provide improved functional capability to the military services and DLA, reduce costs for information services and establish a systems infrastructure on which DoD can improve the way it does business. Specific improvements include reduced inventories through better management, reduced labor requirements, reduced overhead costs, and improved control of assets. Once implementation is completed, legacy applications will be reduced or eliminated, decreasing ADP costs markedly.

Cash Management. The Army manages its Working Capital Fund cash at the corporate level. Individual activity groups are measured against planned collections, disbursements and outlays rather than independent cash balances.

Chart 3. Cash Measurements ($M)



	FY 96	FY 97
Plan	7,107	7,090
Actual	7,350	6,526
Var $	243	-564
Var%	3%	-8%

	FY 96	FY 97
Plan	6,621	7,187
Actual	7,012	6,536
Var $	391	-651
Var%	6%	-9%

	FY 96	FY 97
Plan	-486	96
Actual	-338	10
Var $	148	-86
Var%		

The FY 1997 collections and disbursements were adversely impacted by reduced sales in the Wholesale Division. The Retail Division collections and disbursements were above program due to the unanticipated effects of managing the reparable exchange (RX) item program within the SMA (FY 1997 was the first full fiscal year SMA managed the RX program). In fourth quarter, Headquarters, Department of Army, initiated management action to recoup credit extended to customers in previous years for materiel beyond the activity's requirements. This action caused additional collections of $175 million, which put the activity above target for its FY 1997 outlay plan.

PROGRAM PERFORMANCE

There are two program performance measures for Supply Management: Stock Availability and Stock Turn.

Stock Availability (Fill Rate). This measures the percentage of supply requisitions satisfied upon initial processing in the wholesale supply system. The Army has set a target of 85% of demands filled on initial processing to measure the relationship between readiness and inventory investment.

Table 6. Stock Availability (%)

	1Q	2Q	3Q	4Q
FY 1996	86%	84%	83%	85%
FY 1997	84%	85%	85%	84%

Stock Turn (Demand Base Consumable). Consumable items constituted 25.3% of our wholesale sales in FY 1997. Stock turn is the ratio of annual sales to the average inventory value (excluding non-demand based inventory held for reasons other than anticipated demand, such as insurance items, war reserves, economic retention, or contingency retention). The Army's Velocity Management Stockage Determination Process Improvement Team has identified Stock Turn as one measure of inventory mass. The FY 1997 Stock Turn deterioration is the consequence of reduced sales; activity managers are actively reviewing their FY 1998 acquisition plans to reverse this trend.

Table 7. Stock Turn ($M)

	FY 96	FY 97
Gross Sales	1,026	914
Avg. Inventory	1,468	1,469
Stock Turn	70%	62%

FINANCIAL MANAGEMENT ISSUES

Outsourcing and Privatization. The Wholesale division is currently examining the possibility of outsourcing the Integrated Materiel Management Center (IMMC) function at the Soldier System Command (SSCOM), which is the Army's smallest IMMC. Army Headquarters has received the request for Congressional approval to perform the A-76 study. Subsequent actions depend on the outcome of the study.

Single Stock Fund Impacts. Implementation of the Single Stock Fund, scheduled for FY 2000, will significantly change activity group management. At a minimum, we anticipate major changes in the value of sales and cost of goods sold as the retail divisions will cease to exist. In FY 1997, this amounted to $3.2 billion of $5.7 billion total retail sales.

Conflicting Budget and Accounting Guidance. The guidance for projecting net operating results (NOR) varies from accounting policy. OSD has developed an alternative NOR computation that more accurately matches total revenue to cost of materiel and operations, and matches the methodology used in setting budgetary surcharge rates. The financial statement NOR is not a factor in setting rates; it is therefore not related to subsequent years' revenues.

Budgetary guidance, which has been consistent since the inception of DBOF, more accurately measures activity group operating results. It matches sales to current cost of operations, which consists of cost (at latest acquisition price) of material sold plus operating costs and other costs paid by the activity group. Accounting guidance has been evolving throughout the same period. Current guidance matches revenue to an approximation of historical costs. The two methods therefore yield significantly different operating results.

Accuracy and timeliness of DFAS reports. Activity managers work with their DFAS representatives to resolve issues as the managers identify them. Due to DFAS' consolidation of operating locations, managers now find fewer DFAS accountants with knowledge of the unique accounting requirements related to inventory management and commercial-type relationships with suppliers and customers. There is an inherent risk as identification of problems has become primarily the responsibility of SMA functional managers who lack formal accounting training.

DEPOT MAINTENANCE

DESCRIPTION

Description of Reporting Entity. The U.S. Army Industrial Operations Command (IOC), a major subordinate command of the Army Materiel Command (AMC) manages twelve government-owned and operated depots and depot activities from its headquarters in Rock Island, Illinois. These depots perform the following work:

Table 1. Depot Description

Depot	Location	Type of Work
Anniston	Anniston, Alabama	Maintenance of heavy tracked combat vehicles, individual and crew served weapons and ammunition stockpile management.
Blue Grass	Richmond, Kentucky	Chemical material surveillance, ammunition storage and demilitarization.
Corpus Christi	Corpus Christi, Texas	Maintenance of rotary wing aircraft.
Letterkenny	Chambersburg, Pennsylvania	Maintenance of tactical missiles, self propelled and towed artillery, and ammunition stockpile management.
Pueblo	Pueblo, Colorado	Chemical munitions storage.
Red River	Texarkana, Texas	Maintenance of light combat vehicles, ammunition and missile storage.
Savanna	Savanna, Illinois	Ammunition storage and ammunition equipment fabrication.
Seneca	Romulus, New York	Ammunition and general supply storage.
Sierra	Herlong, California	Ammunition storage, demilitarization and storage of operational project stocks.
Tobyhanna	Tobyhanna, Pennsylvania	Maintenance of electronics and communications equipment.
Tooele	Tooele, Utah	Ammunition and chemical storage, ammunition equipment design and rail equipment maintenance.
Umatilla	Hermiston, Oregon	Chemical munitions storage.

In FY 1998, Pueblo, Umatilla and Tooele (South) will be decapitalized from this activity and direct funded.

Mission. Depot Maintenance repairs end items and depot level reparable. Its mission encompasses the full range of depot maintenance services, including overhaul, rebuild, conversion, renovation, modification, repair, inspection and test, manufacture, fabrication and reclamation of materiel, as well as other maintenance support services. Installations also store, maintain, distribute and demilitarize ammunition, and perform base support host operations.

Customer Revenue (Program Size). Customer requirements drive the Depot Maintenance workload. The revenue from customer sales in FY 1997 was $1,449 million, $104 million below FY 1996. Table 2 displays the customer revenue over the past two fiscal years.

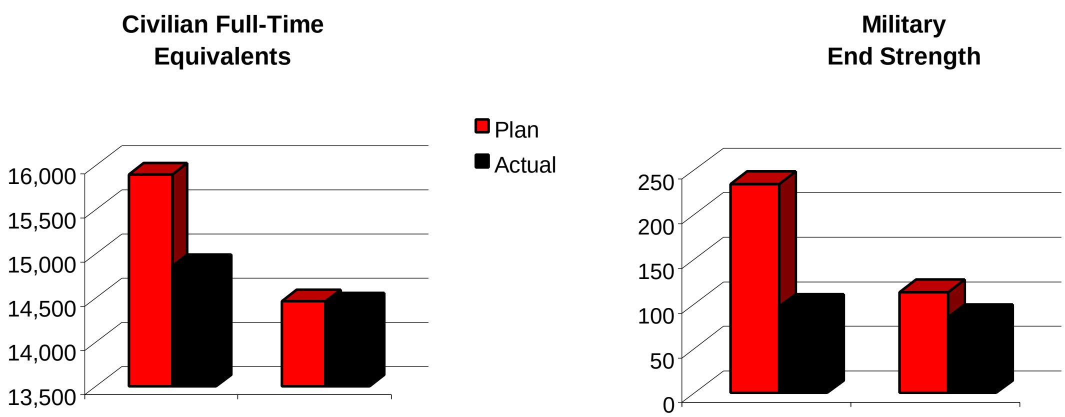
Table 2. Total Revenue by Customer ($M)

Appropriation	FY 96	FY 97
Operations & Maint, Army	723.7	645.9
Procurement, Army	187.6	206.3
AWCF	341.7	292.8
Other Army	31.6	30.3
Other services	80.6	83.3
Other DOD	136.9	138.2
Foreign Military Sales (FMS)	50.5	45.8
Non-DoD		6.3
Total Revenue ($M)	**1,552.6**	**1,448.9**

The drop in revenue is primarily due to the change in the composite stabilized rates and the decrease in direct labor hours between fiscal years. In FY 1995 the rate was $109.51, in FY 1996 it was $84.24, and in FY 1997 it was $90.07. Because of a significant amount of carry-over work from prior years, revenue generated from FY 1995 orders completed in FY 1996 was quite high. Conversely, revenue generated in FY 1997 from orders which had carried over from FY 1996 was lower, reflecting the relatively low stabilized FY 1996 rate. Additionally, direct labor hours worked in FY 1997 were 10.4% below those worked in FY 1996.

Personnel. A key objective of the Army is to have the correct number of appropriately skilled people in the right places to support the workload requirements. The declining workforce is a result of decreasing workload and impacts of BRAC initiatives. Reductions were achieved through a combination of hiring freezes, voluntary separation incentives, and involuntary separations. At some depots, this resulted in workforce and workload skill mismatches. This will remain a challenge for this activity group in the foreseeable future.

Chart 1. Personnel Indicators



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	FY 96	FY 97
Plan	15,900	14,462
Actual	14,861	14,425
Var	-1,039	-37
Var%	-7%	0%

	FY 96	FY 97
Plan	234	113
Actual	97	85
Var	-137	-28
Var%	-59%	-25%

The deviation for Civilian Full-Time Equivalents is within tolerance. The deviation for Military End Strength in FY 1996 was due to the Special Weapons mission at Sierra ending sooner than planned. In FY 1997, actual military end strength was lower than planned because of reduced workload and other force structure requirements.

FINANCIAL PERFORMANCE

There are five fiscal performance measures for Depot Maintenance: (1) cost per direct labor hour (DLH), (2) operations measures, (3) customer revenue rate, (4) capital investment program, and (5) cash management.

Cost Per Direct Labor Hour. The cost per DLH is computed by dividing the sum of all labor and nonlabor expenses (direct, indirect, and general and administrative [G&A]), less change in Work in Process, projected to be incurred by the activity during the fiscal year, by the total number of DLHs to be accomplished during the fiscal year.

For FY 1997, actual unit cost ($101.31) was 6% higher than the plan ($94.40) because of decreased direct labor hour execution. Actual DLHs (15,345,000) were down 2.9% from the plan (15,801,000). FY 1997 costs were $63.6 million higher than plan, primarily due to inability to release excess overhead personnel at Corpus Christi and increased and unplanned War Reserve orders. The combination of higher costs and lower DLHs resulted in a higher cost per DLH.

Table 3. Cost per Direct Labor Hour

		FY97	
	FY 96	Plan	Actual
Cost per DLH	$87.93	$94.40	$101.31
Change from prior year	7.0%	7.4%	15.2%
DLHs(000)	17,121	15,801	15,345

Table 4 shows the elements of the costs per direct labor hour. Direct costs include civilian labor; material, supplies, and equipment; and other costs that are directly related to a funded order (travel, training, and purchased services). The Indirect/G&A elements are for all costs not directly related to an order. These include: administrative personnel, base support costs, support personnel, and facility repair and maintenance.

Table 4. FY 1997 Costs

Elements	FY97	
Direct Labor	$378.5	M
Indirect Labor	306.7	
G&A Material	28.4	
Direct Material	422.0	
Indirect Material	74.3	
Direct/Indirect Other	331.5	
Total	$1,541.4	M
Direct Labor Hours (000)	15,345	
Cost per Hour	$100.45	
Change in Work in Process	-13.1	M
Cost of Goods Sold	$1,554.5	M
Cost per Hour (Unit Cost)	**$101.31**	

Financial Operations Measures. Under the revolving fund concept, stabilized rates are set to cover all costs and achieve a zero Accumulated Operating Result (AOR) at the end of the budget year. During execution, the activity group experiences either a positive or negative (loss or gain)

Net Operating Result (NOR). That loss or gain is then added to the AOR from prior years. Rates are set approximately eight months in advance of execution and "stabilized" so that customers' programs will not be programmatically affected during execution, even though actual costs in the AWCF activity may be higher or lower than planned. Deviations from the plan impact the activity group to the extent that an unplanned gain or loss must be included in subsequent year rates to bring the AOR to zero.

Table 5 shows the operation measures for the past two fiscal years. As stated previously, the FY 1997 revenue was affected by orders which had carried over from FY 1996 at a lower revenue rate. This, combined with a 10.4% reduction in direct labor hours, resulted in FY 1997 revenue being significantly lower than FY 1996 revenue. The accepted deviation from the plan is +/- 10%.

Table 5. Operations Measures ($M)

	FY 96			FY 97		
	Plan	Actual	Dev	Plan	Actual	Dev
Revenue	1,633.0	1,552.6	-5%	1,463.7	1,448.9	-1%
Cost of Goods Sold*	1,643.0	1,505.5	-8%	1,517.8	1,554.5	2%
Operating Results	-10.0	47.1		-54.1	-105.6	
Less Capital Surcharge		16.5			17.0	
Less Extraordinary Items		0.0			21.9	
Net Operating Results		30.6			-144.5	
Beginning AOR - Unadjusted		26.3			69.3	
Minus PY Adjustment		-4.1			61.5	
Beginning AOR - Adjusted		22.2			130.8	
AOR (NOR + Adj. AOR)		69.3			-13.7	

*Cost of Goods Sold (CGS) includes change in Work in Process (WIP).

Customer Revenue Rate. In Depot Maintenance, customer revenue rates are set per direct labor hour. These rates are stabilized so that the customer's buying power is protected in the year of execution. Table 6 shows the revenue rate per direct labor hour.

Table 6. Customer Stabilized DLH Rate

DLH	FY96	FY 97
Customer Revenue Rate	$84.24	$90.07
Customer Rate Change	-23.1%	6.9%

The FY 1997 rate increased by 6.9% over FY 1996 in order to recover a $47.6 million accumulated loss from prior years.

Capital Investment Program (CIP). The activity group seeks to maintain and develop capabilities through equipment acquisition and the execution of minor construction projects. The Capital Budget provides for equipment acquisition to replace obsolete and unserviceable equipment, eliminate environmental hazards, and decrease costs through productivity improvements. Table 7 represents the obligation authority of the capital budget. Some of the CIP projects included in the FY 1997 program are:

Table 7. Capital Budget ($M)

Category	FY 96	FY 97
Equipment (except ADPE)	25.7	21.5
Minor Construction	6.9	11.3
ADPE & TELECOM	17.5	7.5
Software	0.1	7.9
Total	50.2	48.2

Bore Drill Machine ($5.4 million). This project replaces current machines that are 43 years old. Machine provides boring overhaul, reclamation, and modification of combat hulls and turrets. It is Computer Numerically Controlled and eliminates intermediate material handling.

Encrypted Trunk Radio Network ($1.5 million). This project upgrades and replaces depot-wide nontactical radios which are at or exceeding their life cycle limits. It delivers state-of-the-art radio communications equipment to the depot.

Replacement Equipment less than $500 thousand ($9.8 million). Many of these CIP projects replace equipment that has become obsolete, uneconomical to repair, or unsafe to operate. The new equipment increases reliability and productivity and meets requirements for environmental hazardous waste reduction or regulatory agency mandated requirements.

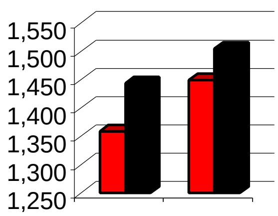
Transmission Test Cells Cooling System ($1.6 million). This system consolidates all transmission test cell cooling systems (seven) into a single, large system with multiple loops serving the transmission test cells at Corpus Christi. This system will be a low maintenance, energy efficient system featuring state-of-the-art tower and the latest water treatment design.

Cash Management. The Army manages AWCF cash at the corporate level. The individual activity groups are measured against planned collections, disbursements and outlays - not cash balances. FY 1997 cash indicators are within tolerance.

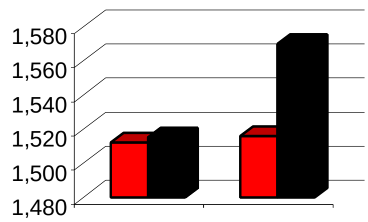
Chart 2. Cash Measurements ($M)

Plan
Actual

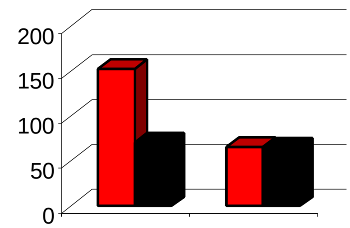
Collections



Disbursements



Outlays



	FY 96	FY 97
Plan	1,359	1,449
Actual	1,444	1,505
Var $	85	56
Var%	6%	4%

	FY 96	FY 97
Plan	1,512	1,516
Actual	1,515	1,570
Var $	3	54
Var%	0%	4%

	FY 96	FY 97
Plan	153	66
Actual	71	65
Var $	-82	-1

PROGRAM PERFORMANCE

There are three program performance measures: (1) production output, (2) schedule conformance, and (3) ammunition short tons.

Production Output. Table 8 lists the quantity and customer price for five representative end items for the last two fiscal years.

Table 8. Production Output

	FY 96		FY 97			
	Actual		Plan	Actual	Dev	
Item (DEPOT)	Qty	Price	Qty			Price
Rear Module, M1A1 (ANAD)	574	$45,051	598	516	-14%	$59,133
Engine, Turb T700-GE (CCAD)	57	$121,856	30	20	-33%	$117,385
Paladin Chassis (LEAD)	181	$217,486	320	212	-34%	$171,043
Wheel, Solid Rubber (RRAD)	17,535	$196	2800	2800	0%	$162
Computer Display, M1A1 (ANAD)	416	$2,934	418	371	-11%	$3,496

The above represent one specific item at each of the major repair depots that are receiving A1 (cyclic, normal overhaul, rebuild) work. The prices are the unit price by year for this type of work. The fluctuations in the prices are due to changes in overhead distribution, changes in material costs, and changes to the depot rate. Reasons for deviations to the FY 1997 quantities are as follows:

Anniston (ANAD) did not receive a sufficient number of parts fast enough to complete the program.

Corpus Christi (CCAD) was unable to get the required bearings and blades/blisks in time to complete the program.

Letterkenny (LEAD) did not complete its programs prior to the end of FY 1997; however, the programs were completed within the three-month carry-over time frame.

Schedule Conformance. This measures the percentage of units completed on schedule compared to the number of units scheduled. Units completed are defined as major end items plus reparables.

Table 9. Schedule Conformance

	FY 96	FY 97
Plan	96%	98%
Actual	83%	97%
Difference	-13%	-1%

The deviation from plan was caused, in part, by late receipt of new orders due to early reprogramming to support Bosnia operations. Some of these customer funds were restored too late in the fiscal year to execute and thus carry over to be executed in FY 1997.

Ammunition Short Tons. This measures the amount of short tons received, issued or demilitarized at the Depot Maintenance installations. The Depot Supply Operations Program Workload Forecasting System was used to develop the FY 1997 forecasts and determine the personnel level and rates. A short ton is 2000 pounds of ammunition.

Table 10. Ammunition Short Tons

	FY 96	FY 97		
	Actual	Plan	Actual	Dev
Receipts	72,652	105,856	97,776	8%
Issues	91,431	110,587	127,477	-15%
Demil	44,823	59,024	59,221	0%

The deviation within the FY 1997 issue category is due to several unforecasted Air Force demands to support the Turbo Cad TRANSCOM exercise.

FINANCIAL ISSUES

Outsourcing/Privatization. The goal of the Army in depot maintenance is to (1) meet peacetime readiness and combat sustainability objectives, and (2) provide for surge and contingency support operations. This requires a structure that retains robust core capabilities in the organic sector while achieving the best value mixture of public and private sources of repair for those things not required to supported core capabilities. The goal of the Army is to privatize and outsource functions that can be provided at a lower cost, and can be performed efficiently by the private sector thereby rechanneling those funds to modernization.

In the near term, we are reviewing outsourcing opportunities at our depots. Some of the areas we are looking at are the missile guidance systems and other noncore workload. In the long term, numerous initiatives are being explored, such as use of credit cards for obtaining parts that fit a certain criteria and "teaming" functional experts. These initiatives will drive down costs and improve the acquisition process.

Summary. The Depot Maintenance activity group operated most of FY 1997 in a deficit position due to nonreceipt of adequate funding for unutilized plant capacity and operating losses at BRAC sites and also due to program slippages caused by parts shortages. This activity group incurred an operating loss of $105.6 million versus a planned loss of only $54.1 million.

Looking ahead, BRAC decisions will significantly affect this activity group. There are five installations either closing completely or realigning some missions and two installations scheduled to gain some workload. All of these installations are experiencing negative impacts of workload falling off earlier than planned; increased overhead (smaller DLH base over which to spread costs), and skill mismatches between personnel on board and workload requirements.

ORDNANCE

DESCRIPTION

Description of Reporting Entity. The Industrial Operations Command (IOC), a major subordinate command of the Army Materiel Command (AMC), manages five Ordnance government-owned and operated manufacturing and ordnance activities from its headquarters at Rock Island, Illinois.

Table 1. Arsenal Description

Installation	Location	
Pine Bluff Arsenal	Pine Bluff, Arkansas	Production and storage of conventional and chemical munitions.
Rock Island Arsenal	Rock Island, Illinois	Manufacture of weapons systems components such as gun mounts and recoil mechanisms.
Watervliet Arsenal	Watervliet. New York	Manufacture of weapons system components such as mortars, recoiless rifles, cannons for tanks and artillery.
Crane Ammunition Activity	Crane, Indiana	Production of conventional ammunition, storage and demilitarization of ammunition.
McAlester Ammunition Plant	McAlester, Oklahoma	Production and storage of ammunition.

Mission. Ordnance manufactures, renovates, and demilitarizes materiel for all branches of DoD. It provides depot operations, depot maintenance, set assembly, tenant support, and national procurement services to customers. The activities are responsible for logistics management including follow-on procurement, production, maintenance, engineering, and integrated logistics support management. They also furnish engineering services in support of production, industrial management, value engineering, configuration management, international logistics, tools and equipment engineering, product assurance, transportation and traffic management for assigned systems and materials, and perform base support host operations.

Customer Revenue (Program Size). Customer requirements drive the Ordnance workload. The revenue from customer sales in FY 1997 was $478 million, $53 million below FY 1996. Table 2 displays customer revenue over the past two fiscal years.

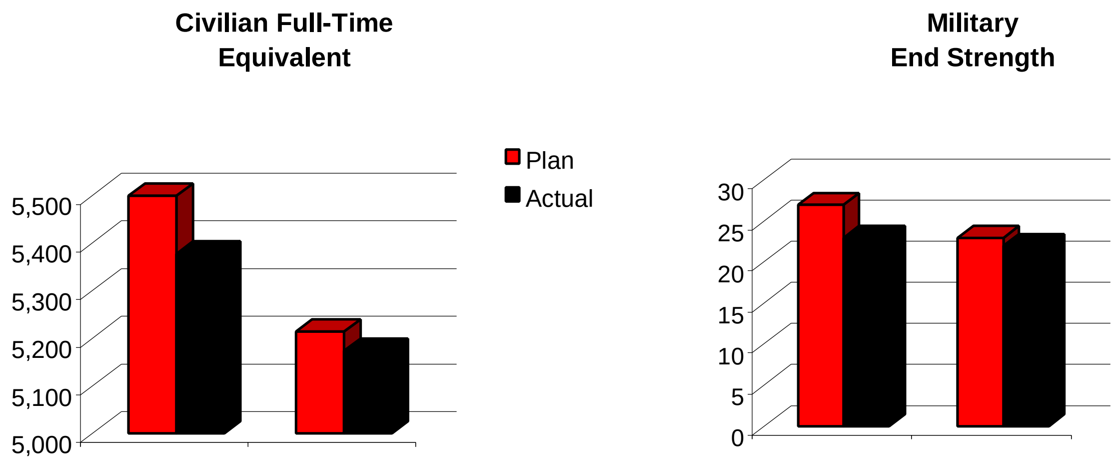
The decrease in revenue between FY 1996 and FY 1997 is due to (1) reduced level of funding for unitized plant capacity (UPC); (2) substantial production delays; and (3) planned FMS orders that did not materialize.

Table 2. Total Revenue by Customer ($M)

Appropriation	FY 96	FY 97
Operations & Maint, Army	227.8	153.2
Procurement, Army	128.0	149.6
AWCF	26.6	42.6
Other Army	10.6	22.4
Other Services	44.6	18.0
Other DoD	57.3	59.2
Foreign Military Sales (FMS)	36.1	24.7
Non-DoD	0.0	8.7
Total Revenue	**531.0**	**478.4**

Personnel. A key objective of the Army is to have the correct number of appropriately skilled people in the right places to support the workload requirements. The declining workforce is a result of decreased workload. The reductions have been achieved through a combination of involuntary separations, Voluntary Separation Incentive Programs (VSIP) and hiring freezes. The last two fiscal years display an overall downward trend in personnel levels consistent with current workload projections.

Chart 1. Personnel Indicators



	FY 96	FY 97
Plan	5,498	5,213
Actual	5,377	5,173
Var	-121	-40
Var%	-2%	-1%

	FY 96	FY 97
Plan	27	23
Actual	23	22
Var	-4	-1
Var%	-15%	-4%

Decreases in Civilian Full-Time Equivalents between FY 1996 and FY 1997 were due to planned downsizing because of declining workload at Rock Island and Watervliet Arsenals.

Decreases in Military End Strength between FY 1996 and FY 1997 were due to imposed reductions in enlisted spaces necessary to comply with Army targets associated with force structure changes and military downsizing.

FINANCIAL PERFORMANCE

There are five fiscal performance measures for Ordnance: (1) cost per Direct Labor Hour (DLH), (2) operations measures, (3) customer revenue rate, (4) capital investment programs, and (5) cash management.

Cost Per Direct Labor Hour. The cost per DLH rate is computed by dividing the sum of all labor and nonlabor expenses (direct, indirect, and general and administrative [G&A]) (less Work in Process) projected to be incurred by the activity during the fiscal year, by the total number of DLHs to be accomplished during the fiscal year.

Table 3. Cost per Direct Labor Hour

		FY97	
	FY 96	Plan	Actual
Cost per DLH	$89.71	$96.95	$99.51
Change from prior year	0.8%	8.1%	10.9%
DLHs(000)	5,635	5,474	5,179

The FY 1997 cost per DLH deviation between the plan in the FY 1998/1999 President's Budget ($96.95) and the actual performance ($99.51) was less than 3%. The actual performance for DLHs (5,179,000) was 5% below the plan in the President's Budget (5,474,000). Generally, in spite of productivity initiatives and transfer of functions, Ordnance's unit costs are rising as a result of fixed costs being spread over a declining order base.

Table 4 shows the composite of the FY 1997 cost per direct labor hour. The Direct Labor and Direct Material elements are the costs of civilian labor; material, supplies, and equipment; and other costs that are directly related to a funded order (travel, training, and purchased services). The Indirect elements are all the costs not directly related to an order. These include: administrative personnel, base support costs, support personnel, and facility repair and maintenance. The DLHs are those hours (including overtime) worked directly on funded orders. DLHs resulting from actual workload are significantly less in FY 1997 than in FY 1996, whereas the cost of goods sold is somewhat higher in FY 1997 than in FY 1996. The increase in cost of goods sold is partly due to completing orders that were in work in process and partly due to the indirect and G&A (fixed overhead) costs not decreasing as rapidly as the workload

Table 4. FY 1997 Cost Elements

Elements	FY 97	
Direct Labor	$ 126.80	M
Indirect Labor	88.9	
G&A Labor	47.1	
Direct Material	59.9	
Indirect Material	20.4	
Indirect Other	133.3	
Total	$476.40	M
Direct Labor Hours (000)	5,179	
Cost per Hour	$91.99	
Change in Work in Process	-54.16	M
Cost of Goods Sold	515.42	M
Cost per Hour (Unit Cost)	$99.51	

Financial Operations Measures. Under the revolving fund full cost recovery concept, stabilized rates are set to cover all costs and achieve a zero accumulated operating result (AOR) at the end of the budget year. During execution, the activity group experiences either a positive (gain) or negative (loss) Net Operating Result (NOR). That gain or loss is then added to the AOR from prior years. Rates are set approximately eight months in advance of execution and "stabilized" so that customers' programs will not be programmatically affected during execution, even though actual costs in the AWCF activity may be higher or lower than planned.

Deviations from the plan impact the activity group to the extent that an unplanned gain or loss must be included in the subsequent year rates to bring the AOR to zero. For the customer, it may result in buying more or less program.

Table 5 shows the operation measures for the past two fiscal years. The FY 1997 revenue was much lower than the FY 1996 revenue due to production slippages or nonreceipt of planned workload. The FY 1997 costs were higher than those in FY 1996 primarily as a result of a decrease in Work in Process. The accepted deviation from the plan is +/- 10%.

Table 5. Operations Measures ($M)

	FY 96			FY 97		
	Plan	Actual	Dev	Plan	Actual	Dev
Revenue	537.5	531.3	-1%	510.3	478.4	-6%
Cost of Goods Sold*	541.0	505.5	-7%	530.7	530.5	0%
Operating Results	-3.5	25.8	29.3	-20.4	-52.1	-31.7
Less Capital Surcharge		0.0			0.0	
Less Extraordinary Items		-7.8			13.6	
Net Operating Results		33.6			-38.5	
Beginning AOR - Unadjusted		2.0			42.5	
PY Adjustment		6.9			12.9	
Beginning AOR - Adjusted		8.9			55.4	
AOR (NOR + Adj. AOR)		42.5			16.8	

*Cost of Goods Sold (CGS) includes change in Work in Process (WIP).

Customer Revenue Rate. In Ordnance, the customer revenue rates are set per direct labor hour. These rates are stabilized so that the customer's buying power is protected in the year of execution. Table 6 shows the revenue rate per direct labor hour.

Table 6. Stabilized DLH Rate

DLH Rate	FY 96	FY 97
Customer Revenue Rate	$84.78	$88.93
Customer Rate Change	-14.1%	4.9%

Rates increased slightly from FY 1996 to FY 1997 because customer orders (and direct labor hours) are declining faster than costs.

Capital Investment Program (CIP). The activity group seeks to maintain and develop capabilities through equipment acquisition and the execution of minor construction projects. The Capital Budget provides for equipment acquisition to replace obsolete and unserviceable equipment, eliminate environmental hazards, and decrease repair costs through productivity improvements. Table 7 represents the obligation authority of the capital budget. Some of the CIP projects included in the FY 1997 program are:

Table 7. Capital Budget ($M)

Category	FY 96	FY 97
Equipment (except ADPE)	8.4	10.2
Minor Construction	2.5	2.2
ADPE & TELECOM	4.5	0.3
Total	15.4	12.7

Replacement Equipment less than $500K ($9.3M): Many of these CIP projects replace equipment that has become obsolete, uneconomical to repair, or unsafe to operate. Some examples are lathes, rail service material handler, robot handling system and turret lathe.

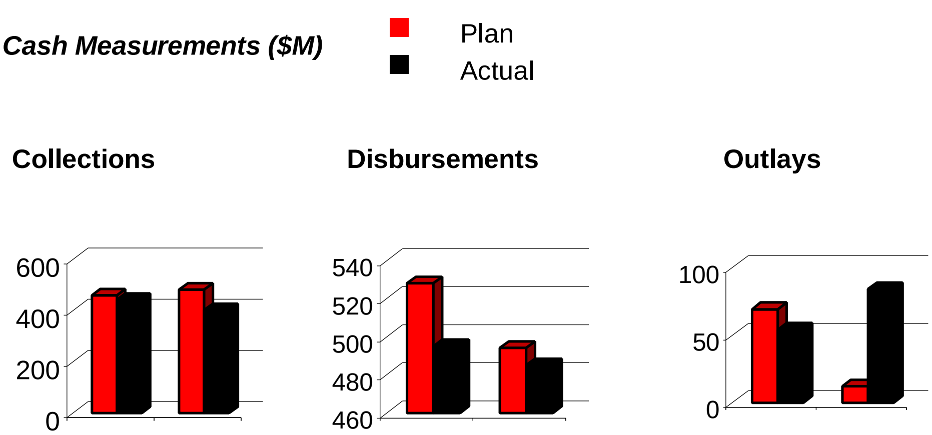
Rework GLATT Material Feed System ($.9M): This project will eliminate operator exposure to hazardous dusts during the weighing and loading of pyrotechnic smoke mixtures. It should also reduce the number of "re-blends" as a result of improved batch consistency.

Law Enforcement Security Telecom System ($.3M): This project will ensure that Rock Island Arsenal (RIA) is in compliance with Federal Communications Commission (FCC) mandates. The FCC requires installations to use low band units. Currently RIA does not have the low band system. The arsenal is located in the center of the Mississippi River and is connected by three bridges to Rock Island, IL, Moline, IL, and Davenport, IA. This radio system is essential for communications for law enforcement and security.

Minor Construction ($2.2M): The minor construction projects are to upgrade facilities to promote production efficiencies and increase energy conservation, or to ensure compliance with regulatory requirements.

Cash Management. The Army manages AWCF cash at the corporate level. Individual activity groups are measured against planned collections, disbursements and outlays - not cash balances. The FY 1997 outlays were above plan as collections failed to materialize due to (1) a Defense Finance and Accounting Service (DFAS) prior year adjustment to correct an advance billing transaction; (2) reduced UPC funding; and (3) program slippages.

Chart 2. Cash Measurements ($M)



	FY 96	FY 97
Plan	459	482
Actual	441	401
Var $	-18	-81
Var%	-4%	-17%

	FY 96	FY 97
Plan	528	494
Actual	495	485
Var $	-33	-9
Var%	-6%	-2%

	FY 96	FY 97
Plan	69	12
Actual	54	84
Var $	-15	72

PROGRAM PERFORMANCE

There are three program performance measures: (1) production output, (2) schedule conformance and (3) ammunition short tons.

Production Output. The five items listed below show quantities as well as customer prices for the last two fiscal years. For FY 1997, the plan is listed to show the production efficiency.

Table 8. Production Output

	FY 96		FY 97			
	Actual		Plan	Actual	Dev	Price
Item (Installation)	Qty	Price	Qty			
D334 5/54 Projectile (Crane)	9,413	$63	10,752	10,752	0%	$67
F-289 500lb GP Bomb (McAlester)	13,605	$878	0	0	0%	$0
G930 Hand Grenade Smoke (P Bluff)	269,635	$23	0	0	0%	$0
M1A2 Gun Mount (Rock Island)	49	$40,000	60	60	0%	$34,000
120 MM M256 Cannon (Watervliet)	99	$182,535	128	133	4%	$95,000

In two cases the production quantity is zero in FY 1997. This demonstrates the rotational nature of the Ordnance activity group.

Schedule Conformance. This measures the percentage of units completed on schedule compared to the number of units scheduled. Units completed are defined as major end items plus reparable items.

Table 9. Schedule Conformance

	FY 96	FY 97
Plan	96%	96%
Actual	86%	89%
Difference	-10%	-7%

Ammunition Short Tons. This measures the amount of short tons received, issued or demilitarized at the Depot Maintenance installations. The Depot Supply Operations Workload Forecasting System was used to develop the FY 1997 forecasts and determine the personnel level and rates. A short ton is 2000 pounds of ammunition.

Table 10. Ammunition Short Tons

	FY 96	FY 97		
	Actual	Actual	Plan	Dev
Receipts	55,308	68,539	70,918	3%
Issues	73,768	93,321	98,148	5%
Demil	33,480	31,259	29,982	-4%

Outsourcing/Privatization. The goal of the Army is the following: (1) meet peacetime readiness and combat sustainability objectives, and (2) provide for surge and contingency support operations. This requires a structure that retains robust core capabilities in the organic sector while achieving the best value mixture of public and private sources of manufacture and repair for those things not require to support core capabilities. The goal of the Army is to privatize and outsource functions that can be provided at a lower cost and can be performed efficiently by the private sector, thereby allowing those funds to be rechanneled to modernization.

The majority of our ammunition plants are government-owned contractor-operated facilities that were outsourced prior to FY 1987. The remaining ammunition plants are governed by laws which preclude outsourcing of their missions. However, we are looking into changing our ammunition manufacturing processes to more efficiently accommodate the smaller buys required in today's environment.

Summary. Ordnance ended the year in a poor financial position with a Net Operating Result that was $18 million lower than planned and outlays that were $72 million worse than planned. Performance throughout the year was below expectations. The primary reasons for the poor performance are program slippages, corrections to the accounting records, and decreased "workable" work. The impacts were reflected in the revenue and collection accounts:

--collections were negatively impacted by the DFAS adjustment to a prior year advance billing (reversing $32 million of collections)

--Congress reduced funding for unutilized plant capacity, impacting both revenues and collections

--program slippages due to production problems impacted revenues and collections by $28 million

--continuation of working off advanced billings from FY 1994 reduced FY 1997 collections by $30 million.

On the expense side, work in process (WIP) was significantly reduced--moving expenses out of the WIP account and increasing the cost of goods sold. Poor FY 1997 execution and FY 1998 stabilized rates that are significantly below unit costs have caused FY 1999 rates to increase by 28.6% over FY 1998 rates.

INFORMATION SERVICES

DESCRIPTION

Description of Reporting Entity. Army Central Design Activities (CDAs) became part of the existing Information Services activity group of the Defense Working Capital Fund (DWCF) beginning in FY 1996. During FY 1996, CDAs operated on a cost reimbursable basis. During FY 1997, CDAs operated using AWCF rates. The following Army CDAs were chartered in the Information Services activity group for FY 1997:

Table 1. Activity Description.

Installation	Location	Type of Work
Industrial Logistics Systems Center	Chambersburg, PA	Wholesale Logistics/Financial Systems
Logistics Systems Support Center	St. Louis, MO	Wholesale Logistics/Financial Systems
Software Development Center-Lee	Fort Lee, VA	Retail Logistics Systems
Software Development Center-Washington	Fairfax, VA	Personnel/Retail Logistics Systems

The US Army Materiel Command (AMC), located in Alexandria, Virginia, exercises management control over this activity group through a major subordinate command, the Communications and Electronics Command (CECOM) located at Fort Monmouth, NJ. The only Base Realignment and Closure (BRAC) impact on the activity group involves Software Development center (SDC) Washington, which is scheduled to move to Fort Meade, MD effective FY 1999 as part of BRAC 95.

Mission. The Information Services activities group provides for development and operational sustainment of automated information and communication systems. This mission covers a broad range of services such as requirements analysis and definition, system design, development, testing, integration, implementation support, and documentation services in support of DoD and Foreign Military Sales (FMS) customers.

The primary product of this activity group is system design and maintenance for Army wholesale and retail logistics systems. The CDAs also provide system design and maintenance for Army procurement systems, technical automation support for AMC, and system changes generated as a result of BRAC decisions. Activities in this group work on a number of different systems in support of customer orders, to include:

- Commodity Command Standard System (CCSS)
- Standard Depot System (SDS)
- AMC Automated Manpower Management Information System (AAMMIS)
- Standard Installation/Division Personnel System (SIDPERS-3)
- Acquisition Information Management (AIM)
- Housing Operations Management System (HOMES)
- Standard Industrial Fund System (SIFS)
- Military Police Management Information System (MPMIS)
- Total Army Authorization Documentation System - Redesign (TAADS-R). *Now Force Management System*
- Joint Recruiting Information Support System (JRISS)

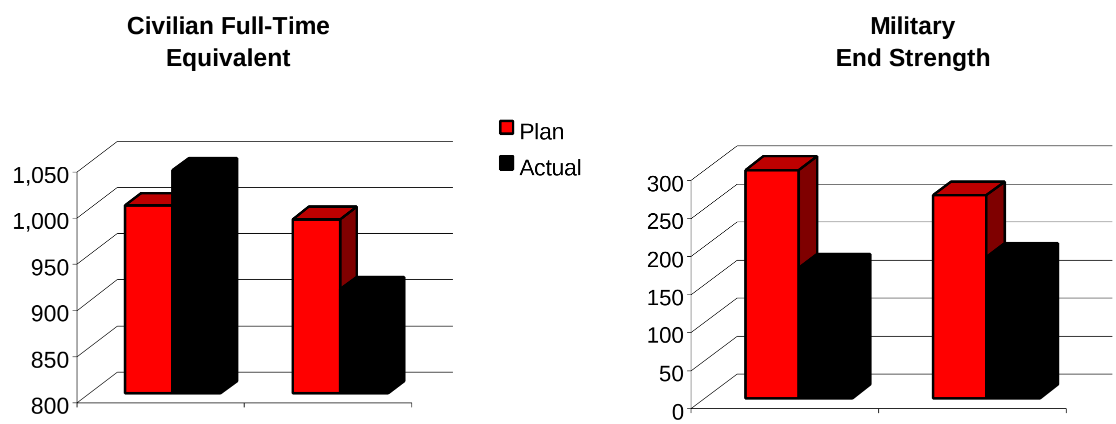
Customer Revenue (Program Size). Customer requirements drive workload. Customers sign Letters of Intent (LOIs) followed up by Support Agreements with the CDAs, identifying projected level of workyears and dollars anticipated for the current and following fiscal years. Revenue from customer orders in FY 1997 was $154.60M. Table 2 provides an analysis of orders by customer for FY 1996 and FY 1997.

Table 2. Total Revenue by Customer ($M)

Appropriation	FY 96	FY 97
OMA	127.1	111.8
Procurement, Army	0.0	0.0
AWCF	9.1	8.5
Other Army	1.4	13.0
Other DoD	13.3	20.3
Foreign Military Sales (FMS)	1.5	1.0
Total Revenues ($M)	152.4	154.6

Army continues to provide the largest source of revenue in FY 1997 (86.2% of the total). Department of Defense activities also comprise a substantial portion of the CDA customer base, particularly the Defense Finance and Accounting System (DFAS) in support of designing, maintaining and testing DoD financial services.

Chart 1. Personnel Indicators



	FY 96	FY 97
Plan	1,004	989
Actual	1,042	913
Var	38	-76
Var%	4%	-8%

	FY 96	FY 97
Plan	300	267
Actual	172	186
Var	-128	-81
Var%	-43%	-30%

Personnel. Actual military end strength continues to be significantly below plan because of poor forecasts. Although projections are based on authorizations, the actual "fill" rates are lower due to competing force structure requirements.

FINANCIAL PERFORMANCE

There are three financial performance measures for the Information Services activity group: cost per Direct Labor Hour, financial operation measures (revenue, costs and net operating results) and cash management.

Cost Per Direct Labor Hour . The direct labor hour rate is computed by dividing the sum of all labor and non-labor expenses (direct, indirect, and general and administrative [G&A]) projected to be incurred by the activity during the fiscal year, by the total number of direct labor hours to be accomplished during the fiscal year. The only exception is contractor support. Contractor costs and labor hours are not part of the direct labor hour computation. They are treated as direct reimbursable costs.

Table 3. Cost Direct Labor Hour

Cost Per DLH	FY 96	FY 97
Direct Labor Hour Rate	$54.27	$78.40
Total DLHs (000)	1,559	1,249

The reason for the increase in the cost per direct labor hour is that more workload is being contracted out as a result of downsizing. As the organic direct labor hours decrease, there is a smaller base over which to spread overhead costs resulting in a higher unit cost. Further, the technology base and customer demand are constantly changing. Workload requirements are creating increasing demands for computer scientists, engineers and network specialists rather than the current organic skill base of programmers. The majority of the organic workforce was trained on mainframe computers and program in COBOL. Today's technology requires knowledge of PCs and a multitude of software. In order to fill this requirement for a different skill mix, the business is being restructured.

Operations Measures. Under the revolving fund full cost recovery concept, stabilized rates are set prior to the fiscal year and are based on anticipated costs, available DLHs, and any prior year gains or losses. The goal for the activity group is to break even over time.

Table 4. Operations Measures ($M)

	FY 96			FY 97		
	Plan	Actual	Dev	Plan	Actual	Dev
Revenue	173.8	152.4	-12.3%	148.5	154.6	4.1%
Expense	173.8	150.9	-13.2%	146.8	159.7	8.8%
Net Operating Results	0.0	1.5		1.7	-8.6	

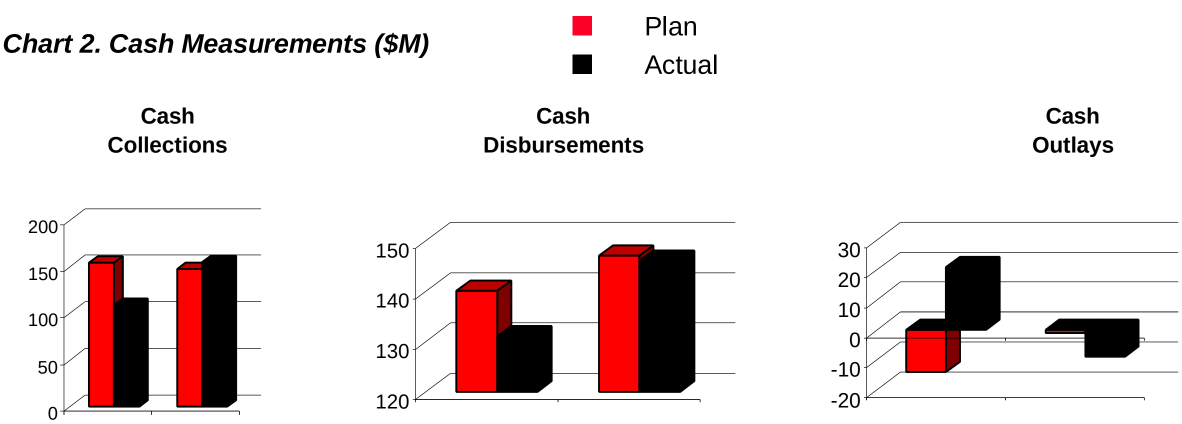
Net Operating Results. Revenue is below plan due to the overstatement of projected military DLHs. Because of the low fill rate of military personnel at SDC-Lee and SDC-Washington, DLHs were not generated as anticipated. Contractors also produced revenue at a lower rate than projected. Unplanned voluntary separations/retirements of civilians and unanticipated delay in billings to customers decreased revenue for SDC-Lee.

All CDAs are now operating on a cost accounting system known as Industrial Fund Accounting System (IFAS). CDAs experienced many problems, which included moving data from the old accounting systems to IFAS, crosswalking Army codes to the new IFAS codes, and hardware problems. While progress was made, a number of issues are still being worked.

All of the CDAs ended the year with negative Net Operating Results. because of underexecution of military direct labor hours and unexpected reductions to new orders. All CDAs had problems with their accounting systems and were not able to bill customers and record revenue in the timeframes they had planned. LSSC, in particular, had many problems which resulted in most of the billing and recording of revenue being done in the final month of the year. ILSC had problems with prior year expenses, which were not recorded in IFAS until FY 1997.

Cash Management. The Army manages AWCF cash at the corporate level. Individual activity groups are measured against planned collections, disbursements and outlays - not cash balances. A positive outlay means the activity group is losing cash; a negative outlay means the activity group is generating cash.

Chart 2. Cash Measurements ($M)



	FY 96	FY 97
Plan	154	147
Actual	109	155
Var $	-45	8
Var%	-29%	5%

	FY 96	FY 97
Plan	140	147
Actual	131	146
Var $	-9	-1
Var%	-6%	-1%

	FY 96	FY 97
Plan	-14	-1
Actual	21	-9
Var $	35	-8

Cash outlays were below plan due to a lag in disbursements and slow billings from vendors.

PROGRAM PERFORMANCE

The Information Services activity group is still relatively new to Working Capital Funds, and only one program performance measures (direct labor hours executed) has been developed. Because of BRAC related moves and restructuring, the goal for FY 1997 was to execute not less than 90% of direct labor hours estimated in the President's Budget.

Direct Labor Hours. DLHs are below target due to the low fill rate of military personnel at SDC-Lee and SDC-Washington and to unplanned VERA/VSIP of civilians due to downsizing.

Table 5. FY 1997 Direct labor Hours

	Plan	Actual	Dev
DLH Execution	1,526	1,249	-18.2%

FINANCIAL MANAGEMENT ISSUES

FY 1997 was the first year that CDAs operated using a fully burdened DLH stabilized rate. During the prior year, CDAs operated on a cost reimbursable basis (which included direct labor plus some overhead) rather than billing customers the fully burdened rate.

The Information Services activity group continues to undergo significant changes both in organizational structure and in implementation of a new cost accounting system (IFAS). Implementation of IFAS has been the single greatest hindrance to effective activity group management as accounting reports have been untimely and inaccurate. However, much work was done in FY 1997 to improve the accounting data, and hopefully accounting reports and management information will be reliable in FY 1998.

DEPARTMENT OF ARMY

WORKING CAPITAL FUND

CONSOLIDATED STATEMENTS

Department of Defense
Army Working Capital Fund - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$405,841	$624,162
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	278,538	194,706
(4) Interest Receivable	0	0
(5) Advances and Prepayments	3,478	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	34,662	32,235
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	254,275	224,603
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	10,186,464	10,760,131
e. Work in Process (Note 9)	296,014	363,307
f. Operating Materials/Supplies, Net (Note 10)	148,798	219,871
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 15)	2,197,140	2,202,679
l. Other Entity Assets	680,951	800,924
m. Total Entity Assets	$14,486,161	$15,422,618
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Army Working Capital Fund - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	**1997**	**1996**
2. Non-Entity Assets:		
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$14,486,161	$15,422,618
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$373,277	$165,191
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	488,129	688,079
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	308,338	490,786
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	82,365	77,009
(b) Annual Accrued Leave	71,733	69,409
(c) Severance Pay and Separation Allowance	0	0
(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)	60,655	66,199
c. Total Liabilities Covered by Budgetary Resources:	$1,384,497	$1,556,673

The accompanying notes are an integral part of these statements.

Department of Defense
Army Working Capital Fund - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	128,876	48,886
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	387,128	3,017
c. Total Liabilities Not Covered By Budgetary Resources	$516,004	$51,903
6. Total Liabilities	$1,900,501	$1,608,576
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	($225,439)	($225,439)
b. Invested Capital	16,780,820	14,724,904
c. Cumulative Results of Operations	(3,453,717)	(633,520)
d. Other	0	0
e. Future Funding Requirements	(516,004)	(51,903)
f. Total Net Position	$12,585,660	$13,814,042
8. Total Liabilities and Net Position	$14,486,161	$15,422,618

The accompanying notes are an integral part of these statements.

Department of Defense
Army Working Capital Fund - Consolidated Statements
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	68,118	424,179
b. Intragovernmental	9,489,006	10,054,573
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)	146,513	(10,425)
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$9,703,637	$10,468,327
EXPENSES		
9. Program or Operating Expenses (Note 23)	$1,264,551	$1,218,950
10. Cost of Goods Sold (Note 24)		
a. To the Public	73,479	154,784
b. Intragovernmental	9,049,980	7,615,091
11. Depreciation and Amortization	54,249	54,163
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	1
14. Other Expenses (Note 25)	1,052,666	1,189,828
15. Total Expenses	$11,494,925	$10,232,817
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($1,791,288)	$235,510
17. Plus (Minus) Extraordinary Items (Note 26)	(22,684)	(13,664)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($1,813,972)	$221,846

The accompanying notes are an integral part of these statements.

Department of Defense
Army Working Capital Fund - Consolidated Statements
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$13,814,042	$12,735,383
20. Adjustments (Note 27)	(1,436,160)	1,239,614
21. Net Position, Beginning Balance, as Restated	$12,377,882	$13,974,997
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(1,813,972)	221,846
23. Plus (Minus) Non Operating Changes (Note 28)	2,021,750	(382,801)
24. Net Position, Ending Balance	$12,585,660	$13,814,042

The accompanying notes are an integral part of these statements.

Department of Defense
Army Working Capital Fund - Consolidated Statements
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($1,813,972)	$221,846
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(86,262)	16,436
4. Decrease (Increase) in Other Assets	2,199,967	(2,219,603)
5. Increase (Decrease) in Accounts Payable	25,637	(125,514)
6. Increase (Decrease) in Other Liabilities	266,289	(33,002)
7. Depreciation and Amortization	54,249	54,163
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(743,640)	2,198,846
10. Total Adjustments	$1,716,240	($108,674)
11. Net Cash Provided (Used) by Operating Activities	($97,732)	$113,172
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(165,228)	58,588
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)	0	0
19. Net Cash Provided (Used) by Investing Activities	($165,228)	$58,588
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	44,639	(107,647)
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	0	0
23. Net Appropriations	$44,639	($107,647)

The accompanying notes are an integral part of these statements.

Department of Defense
Army Working Capital Fund - Consolidated Statements
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
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	0	0
29. Net Cash Provided (Used) by Financing Activities	$44,639	($107,647)
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($218,321)	$64,113
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	624,162	560,049
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$405,841	$624,162

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	1997	1996
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 these statements.

The accompanying notes are an integral part of these statements.

Footnotes to the Consolidated 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 Army managed portion of the Working Capital Fund, as required by the Chief Financial Officers (CFO) Act, and other appropriate legislation. The information used was derived from a consolidation of accounting information reported from various installation systems, Defense Accounting Offices, DFAS Operating Locations, and DFAS-IN. The consolidated information is maintained in the Federal Financing System (FFS) general ledger located at DFAS-IN. The statements have been prepared in accordance with DoD guidance on the form and content of the 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. These statements are therefore different from the financial reports, also prepared by the Army pursuant to OMB directives, that are used to monitor and control Army's use of budgetary resources. Accounts used in preparing these statements are the same accounts as used in preparation of the Consolidated Monthly Report on Operations (1307 Report). Intrafund eliminations were included for Army Materiel Command installations only. The amounts presented in the financial statements are rounded to the thousands of dollars. Consolidating statements showing each of the individual business areas, the component level adjustments and the eliminations used in arriving at the consolidated statements can be found following these footnotes.

B. Reporting Entity

Historically the Department of the Army has operated a significant number of its organic commercial and industrial facilities to control inventory and provide goods and services used to support both peacetime and wartime operations. Beginning in FY 1991 the funds used to operate these functions were consolidated with the like functions from other Department of Defense Agencies to form the Defense Business Operations Fund subsequently changed to the Defense Working Capital Fund. Fiscal year 1997 represents the sixth year that the Army has prepared audited financial statements for this fund as required by the CFO Act and the Government Management Reform Act (GMRA).

The accompanying audited financial statements account for all Working Capital Funds for which the Army is responsible except for the Conventional Ammunition Working Capital Fund. The information relative to classified assets, programs and operations has been aggregated and reported in such a manner that it is no longer classified. The audited statements are presented on the accrual basis of accounting as required by DoD accounting policies.

C. Budgets and Budgetary Accounting

The DoD expanded the use of business like financial management practices through the establishment of the Defense Business Operations Fund on October 1, 1991. On December 11, 1996 the Defense Business Operations Fund became the Defense Working Capital Fund. The Defense Working Capital Fund (the Fund) operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Fund builds on revolving fund principles previously used for industrial and commercial-type activities.

The Army's working capital funds are primarily included within the Fund. The Supply Management business area provides supplies and inventories to its customers on a commercial type basis. This material is purchased from vendors and held in inventory for sale to authorized recipients. Receipts derived from resale operations are normally available in their entirety for use without further congressional action. In FY 1997, Supply Management recorded an operating deficit of $1.541 billion.

Supply Management
Sales, Cost of Sales and Expenses,
and Net Operating Results
(in thousands)

	Sales	Cost of Sales and Expenses	Net Operating Results
Supply	$9,304,074	$10,845,118	($1,541,044)

The Army's industrial funds are also included within the Fund. These divisions provide industrial and electronic information services to other Army and DoD components through buyer-seller relationships. The Fund recorded an operating deficit of $163 million in fiscal year 1997 due to industrial fund type work.

Other AWCF Activity Groups
Revenues, Expenses and Net Operating Results
by Business Area
(in thousands)

	Revenues	Expenses	Net Operating Results
Depot - Other	$1,448,902	$1,576,396	($127,494)
Depot - Ordnance	478,408	516,036	(37,628)
Information Systems	154,593	159,734	(5,141)
Total	$2,081,903	$2,252,166	($170,263)

Amounts are shown before intra-agency eliminations.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned; expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Revenue recognition is based on percentage of completion or shipment of completed items. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All known intrafund balances have been eliminated.

Accounts payable for goods and services are recognized based on receipt of a receiving report provided notification of acceptance of goods or services. Accountspayable are adjusted for the amount of undistributed disbursements reported to the departmental expenditure system. These transactions represent Army's in-float (undistributed) disbursements for transactions that have not yet been recorded at the responsible station.

Some balances in the consolidated statements contain component-level adjustments. These are adjustments made to the consolidated figures for transactions applicable to the Army Working Capital Fund but not yet been identified to a specific business area. Values can be found in the Consolidating Statement following these footnotes.

E. Revenues and Other Financing Sources

Revenue for business fund activities is recognized at the point the rendered service is completed and billed or at the point inventory items are sold. Revolving fund appropriations are funded by revenues generated by sales of goods or services through a reimbursable order process. This process allows the seller to increase funds available by recording a sale for the cost of the supplies and/or services ordered by the customer. Funds received prior to delivery of the goods or services are treated as unearned revenue and recorded as a liability of the Army.

F. Accounting for Intra-governmental 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. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Fund as though the agency were a stand-alone entity.

1. The Fund's proportionate share of the public debt and related expenses of the Federal Government are not included. Debt issued by the Federal Government and the related interest costs are not apportioned to the Federal agencies. The Fund's financial statements, therefore, do no report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

2. Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury Department does not allocate interest costs to the benefiting agencies.

3. The Fund's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). Additionally, employees and personnel covered by the FERS also have varying coverage under Social Security. The Fund funds a portion of and discloses the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting pension benefits under these retirement systems is the responsibility of the Office of Personnel Management. In fiscal year 1997, the Fund contributed the following amounts to the retirement plans and Social Security.

	(in thousands)
CSRS	$41,708
FERS	31,647
Social Security	35,621
	$108,976

The Fund also contributed $11.5 million to the FERS Thrift Savings Plan on behalf of it participating employees.

4. Most legal actions, other than contract claims, to which the Fund may be 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 Funds assets 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 Funds operations or financial condition.

G. Funds with U. S. Treasury and Cash

The Fund's fund resources are maintained in U.S. Treasury accounts. Its cash receipts and disbursements are processed by the Treasury Department, and the balance with the U.S. Treasury represents the aggregate of all unexpended balances. As of September 30, 1997, the Fund had $406 million in funds with the U.S. Treasury.

H. Foreign Currency

The Fund engaged in no foreign currency transactions in FY 1997.

I. Accounts Receivable

Accounts Receivable are adjusted for the amount of undistributed collections reported in the departmental expenditure system in the amount of ($36.9) million. Of this balance ($35.6) million has been identified to the Fund entity but not yet identified to a particular business area (a corporate level adjustment). These transactions represent Army's in-float (undistributed) transactions that have not yet been recorded at the responsible funded station. Accounts Receivable also includes refunds receivable. Allowances for uncollectible accounts are based upon analysis of collections experience by the fund over the last three years. The results of this analysis are as follows:

FY	Amount
95	$ 316.70
96	-0-
97	28.50

Based on these results, no allowance of uncollectible accounts was recorded.

J. Loans Receivable

The Fund reported no Loans Receivable in FY 1997.

K. Inventories

Inventories, including operating supplies and nonconsumable items, are valued at Latest Acquisition Cost (LAC) as required by DoD accounting policies. Generally, LAC is determined by subtracting appropriate surcharges from the Standard Cost to arrive at the price most recently paid for a carried item. Losses that result from revaluation of excess, obsolete and unserviceable inventory are recognized in the Statement of Operations.

L. Investments in U.S. Government Securities

The Fund has no investments in U.S. Government Securities.

M. Property, Plant, and Equipment

The General Accounting Office (GAO) has determined that real property used by the Fund, but under jurisdiction of the Military Departments, represents an asset of the Fund and such property should be reported on the financial statements to show the full costs of all resources and assets used in the Fund operations.

Land and facilities are valued at cost. Buildings are capitalized when constructed or at the date of acquisition. Significant improvements to land and buildings normally are capitalized and depreciated over their remaining useful life. Audits of the Fund’ s financial statements have shown that documentation to support the recorded acquisition cost of many older properties is no longer available. Obtaining appraisals for older property for which original acquisition records are longer available is not cost effective, especially considering the number and age of many of the Fund’ s real property assets. As a reasonable solution to this dilemma, when original records to support the acquisition cost of property are no longer available, recorded valuations of property, or other available information, if the value has not been formally recorded, would be permitted for financial statement purposes when such valuation represents the best available information.

Routine maintenance and repair costs are expensed when incurred. Depreciation for the Fund property and equipment is calculated using the straight line basis.

N. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges (advances) 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, 1997, the Fund was committed to no operating leases or rental agreements.

P. Contingencies

At any given time, the Fund may be party to various legal and administrative actions and claims brought against it. These relate primarily to tort claims resulting from vehicle accidents, property and environmental damages resulting from Fund activities, and contract disputes.

Most legal actions, other than contract claims, to which the Fund may be named party are covered by the provision 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 Fund's assets 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 Fund's operations or financial condition.

Q. Accrued Leave

Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balance for annual 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. Annual leave is accrued as it is earned and the accrual is adjusted to reflect current pay rates.

R. Equity

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

Cumulative results of operations represents the excess of revenues over expenses and since fund inception, less refunds to customers and returns to the U.S. treasury.

Unexpended appropriations represent amounts of authority which were transferred to the fund at time of fund inception.

S. Aircraft/Ship Crashes

No operating losses were recognized by the Fund in fiscal year 1997.

T. Treaties for Use of Foreign Bases

There were no Fund activities involving the use of foreign bases in FY 1997.

U. Comparative Data

Comparative data from FY 1996 CFO financial statements is provided.

V. Undelivered Orders

The Fund is obligated for goods and services which have been ordered but not yet received (undelivered orders) as of September 30, 1997. Aggregate undelivered orders amounted to $3.031 billion.

NOTE 2: Fund Balances with Treasury (in thousands):

A. Fund and Account Balances

	Entity Assets Revolving Funds
Unobligated Balances Available:	
Available	$1,070,635
Restricted	0
Reserve for Anticipated Resources	0
Obligated (but not expensed)	702,240
Unfunded Contract Authority	(1,367,034)
Unfunded Borrowing Authority	0
Treasury Balance	$405,841

B. Other Information: None

NOTE 3. Cash, Foreign Currency and Other Monetary Assets (in thousands): Not applicable

NOTE 4. Investments (in thousands): Not applicable

NOTE 5. Accounts Receivable, Net (in thousands):

	Gross Amount Due	Allowance For Estimated Uncollectibles	Allowance Method Used	Net Amount Due
A. Entity Receivables				
Intragovernmental	$278,538	$0		$278,538
Governmental	$34,662	$0	See Item C	$34,662
B. Non Entity Receivables				
Intragovernmental	$0	$0		$0
Governmental	$0	$0		$0

C. Other Information: Calculation of allowance for estimated uncollectibles was based on actual uncollectible amounts written off during the past three fiscal years. See Note 1I for additional comments.

NOTE 6. Other Assets (in thousands): Not applicable

NOTE 7. Loans and Loan Guarantees, Non-Federal Borrowers(in thousands): Not applicable

NOTE 8. Inventory, Net (in thousands):

	Inventory Amount	Allowance for Losses	Inventory Amount, Net	Valuation Method
A. Inventory Categories				
(1) Held for Current Sale	$11,589,679	$2,326,510	$9,263,169	See Item B.
(2) Held in Reserve for Future Sale	154,854		154,854	
(3) War Reserve Materiel	786,472	57,820	728,652	
(4) Excess, Obsolete and Unserviceable	39,789		39,789	
(5) Held for Repair			0	
Total	$12,570,794	$2,384,330	$10,186,464	

B. Other Information: Inventory is valued at standard price less surcharge (Latest Acquisition Cost), less the value of potentially excess inventory. Surcharges are based on a percentage of potential excess derived from the March stratification report and applied to the September 30, 1997 inventory balances.

During the 1970's, $56.774 million was provided to the Army and Air Force Exchange Service to provide supplies to the soldiers. The Exchange Service used this money to establish an inventory and it requisitions merchandise directly from DLA. This process isn't in accordance with accounting principles or regulations. Actions are currently underway to identify and remove it from the inventory balances.

NOTE 9. Work in Process (in thousands):

	Work In Process Amount	Valuation Method
A. Work in Process:		
1. In House	$296,014	Other
2. Contractor	0	
3. Other Government Activities	0	
4. Government Furnished Materiel	0	
Total	$296,014	

B. Other Information: Work In Process represents labor, material and overhead cost incurred during the period but not recognized as revenue.

NOTE 10. Operating Materials and Supplies (OM&S), Net (in thousands):

	OM&S Amount	Allowance for Losses	OM&S Net	Valuation Method
A. OM&S Categories				
1. Held for Use	$145,791	$0	$145,791	Other
2. Held in Reserve for Future Use	2,088	0	2,088	
3. Excess, Obsolete & Unserviceable	919	0	919	Other
Total	$148,798	$0	$148,798	

B. Other Information: Inventories are valued at the standard prices established by the National Inventory Control Point. Excess, obsolete and unserviceable material is valued at estimated net realizable value.

NOTE 11. Stockpile Materials, Net (in thousands): Not applicable

NOTE 12. Seized Property (in thousands): Not applicable

NOTE 13. Forfeited Property, Net (in thousands): Not applicable

NOTE 14. Goods Held Under Price Support and Stabilization Programs, Net (in thousands): Not applicable

NOTE 15. Property, Plant, and Equipment, Net (in thousands):

	Depreciation Method*	Service Life*	Acquistion Values	Accumulated Depr.	Net Book Value
Classes of Fixed Assets					
A. Land			$12,109	$0	$12,109
B. Structure, Facilities, and					$0
Leasehold Improvements	SL	11-20	2,071,214	664,804	$1,406,410
C. Military Equipment	SL	6-10	1,274,035	601,466	$672,569
D. ADP Software	SL	1-5	78	56	$22
E. Equipment			58,286	41	$58,245
F. Assets Under Capital					$0
Lease	SL	6-10	42	31	$11
G. Other			2,887	1,457	$1,430
H. Natural Resources			35,749	0	$35,749
I. Construction-in-Progress			10,595	0	$10,595
Total			$3,464,995	$1,267,855	$2,197,140

J. Other Information: Line E. Equipment includes the amount of equipment intransit. Equipment intransit is not depreciated.

* Keys:

Depreciation Methods	Range of Service Life
SL - Straight Line	1-5 - 1 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years Digits	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	
OT - Other	

NOTE 16. Debt: Not applicable

NOTE 17. Other Liabilities (in thousands):

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
a. Unearned Revenue, Advances From Gov't and Funds	$0	$294,112	$294,112
b. Unearned Revenue, Intra-Army	0	0	0
c. Deposit Fund Liabilities	0	0	0
d. Contingent Liabilities	0	0	0
e. Liability for Property Furnished by Others	0	194,017	194,017
f. Progress Billings to Others	0	0	0
Total	$0	$488,129	$488,129

	Non-Current Liabilities	Current Liabilities	Total
2. Governmental			
a. Contract Holdbacks	$0	$21,090	$21,090
b. Unearned Revenue, Advances From Public	0	35,059	35,059
c. Deferred Credits	0	4,506	4,506
d. Prior Liens on Acquired Collateral	0	0	0
Total	$0	$60,655	$60,655

B. Other Information: None

C. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
a. Canceled Budget Authority	$0	$0	$0
2. Governmental			
a. Environmental Liabilities	381,049	0	381,049
b. Acquired Leave Liability	0	6,079	6,079
Total	$381,049	$6,079	$387,128

D. Other Information: Leave liability was acquired when the Information Services business entity was capitalized.

Footnotes

NOTE 18. Leases (in thousands): Not applicable

NOTE 19. Pensions and Other Actuarial Liabilities (in thousands):

Activities	Plan Benefits	Rate (%)	Benfits	Liability
A. Pension and Health Plans				
B. Insurance/Annuity Programs:				
C. Other:				
1. Workman's Compensation	$128,876	See Item E.	$0	$128,876
D. Total	$128,876		$0	$128,876

E. Other Information: Future workers' compensation figures are provided by the Department of Labor. The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's, June 10, 1997 economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1997

6.24 % in year 1
5.82 % in year 2
5.60 % in year 3
5.45 % in year 4
5.40 % in year 5 and thereafter

NOTE 20. Net Position (in thousands):

	Revolving Funds	Trust Funds	Appro-priated Funds	Total
A. Unexpended Appropriations				
1. Obligated				
a. Available	$0	$0	$0	$0
b. Unavailable	(225,439)	0	0	(225,439)
2. Undelivered				0
Orders	0	0	0	0
B. Invested Capital	16,780,820	0	0	16,780,820
C. Cumulative Results				0
of Operations	(3,453,717)	0	0	(3,453,717)
D. Other	0	0	0	0
E. Future Funding Requirements	(516,004)	0	0	(516,004)
F. Total	$12,585,660	$0	$0	$12,585,660

G. Other Information: The balance shown for unavailable appropriations was carried forward from the initial capitalization of the maintenance and ordnance depots into the Army Industrial Fund. The balance in Future Funding Requirements is composed of estimated costs for environmental cleanup, pensions and actuarial liabilities, and accrued annual leave. The annual leave was brought forward from the capitalization of the Information Services business area.

NOTE 21. Taxes (in thousands): Not applicable

Footnotes

NOTE 22. Other Revenues and Financing Sources (in thousands):

A. Other Revenues and Financing Sources:	1997	1996
1. Pensions/ORB's	$142,109	$0
2. Other Miscellaneous Gains	4,404	(10,425)
Total	$146,513	($10,425)

B. Other Information: Imputed Pension and Other Retirement Benefits (ORB):

CSRS/FERS Retirement	$109,329
Health	$32,661
Life Insurance	$119

The $142,109 represents the imputed financing for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

NOTE 23: Program or Operating Expenses (in thousands):

	1997	1996
A. Operating Expenses by Object Classification:		
1. Personal Services	$326,304	$282,026
2. Travel and Transportation	8,056	18,889
3. Rental, Communication and Utilities	5,526	39
4. Printing and Reproduction	441	25
5. Contractual Services	918,346	904,195
6. Supplies and Materiels	3,236	5,725
7. Equipment not Capitalized	2,642	8,051
8. Grant, Subsidies and Contributions	0	0
9. Insurance Claims and Indemnities	0	0
10. Other (describe)	0	0
11. Total Expenses by Object Class	$1,264,551	$1,218,950

C. Other Information: Repair costs for Depot Level Reparables was $916,208 and is included in line 5, Contractual Services.

NOTE 24. Cost of Goods and Services Sold (in thousands):

A. Cost of Goods Sold	
1. Beginning Work-in-Process	$363,307
2. Plus: Operating Expenses	2,124,132
3. Minus: Ending Work-in-Process	296,014
4. Minus: Completed Work for Activity Retention	0
Cost of Services Sold	$2,191,425
B. Cost of Material Sold from Inventory	
1. Beginning Inventory - L.A.C.	$11,905,759
2. Less: Beginning Allowance for Unrealized Holding Gains (Losses)	1,145,628
3. Plus: Purchases at Cost	6,523,536
4. Plus: Customer Returns - Credit Given	2,971,370
5. Plus: DLR Exchange Credits	0
6. Less: Inventory Losses Realized	1,172,193
7. Less: Ending Inventory - L.A.C.	12,570,793
8. Plus: Ending Allowance for Unrealized Holding Gains (Losses)	2,384,329
9. Less: Equity Transfers of Inventory to Others	331,943
10. Plus: Equity Transfers of Inventory from Others	192,046
11. Equals Cost of Goods Sold from Inventory	$8,756,483
C. Intra eliminations	1,824,449
D. Total	$9,123,459

E. Other Information: Beginning and ending inventories are shown at standard less the surcharge for calculation of the cost of goods sold. The break-out between Cost of Goods Sold to the Public and Cost of Goods, Intragovernmental was calculated by proration based on revenues generated. Intra eliminations are subtracted to exclude transactions between Army Working Capital Fund entities. The reflected amount is from footnote 29 schedule B.

NOTE 25. Other Expenses (in thousands):

	1997	1996
A. Other Expenses		
1. Transfers to Property Disposal	$1,628,215	$1,420,323
2. Potential Excess Inventory Loss	(456,022)	(80,083)
3. Operating Materials and Supplies Variance	(12,063)	3,059
4. Payroll Variances	(17,422)	4,171
5. Losses on Sale of Fixed Assets	3,196	2,010
6. Retirement/ORB	142,109	
7. Other Miscellaneous Losses	(235,347)	(159,652)
Total Other Expenses	$1,052,666	$1,189,828

B. Other Information: Imputed Pension and Other Retirement Benefits (ORB):

CSRS/FERS Retirement	$109,329
Health	$32,661
Life Insurance	$119

The $142,109 represents the imputed financing for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing

NOTE 26. Extraordinary Items (in thousands):

A. Extraordinary Items:

1. BRAC Cost	($22,684)

B. Other Information: None

NOTE 27. Prior Period Adjustments (in thousands):

A. Prior Period Adjustments	
1. Change in Inventory Valuation	($1,129,426)
2. Write-off of Prior Year Accounts Receivable and Payable	0
3. Environmental Cleanup Liabilities	(381,049)
4. Funding for Prior Period Unfunded BRAC Costs	62,852
5. Other	11,463
Total	($1,436,160)

B. Other Information: 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.

NOTE 28. Non-Operating Changes - (Transfers and Donations) (in thousands):

	1997	1996
A. Increases		
1. Transfers-In:		
a. Cash	$307,213	$160,420
b. Property	2,873,178	230,819
2. Unexpended Appropriations	0	0
3. Donations Received	0	0
4. Other Increases	0	60,040
5. Total Increases	$3,180,391	$451,279
B. Decreases		
1. Transfers-Out		
a. Cash	$262,573	$0
b. Property	816,078	782,178
2. Donations	0	0
3. Other Decreases	79,990	51,902
4. Total Decreases	$1,158,641	$834,080
C. Net Non-Operating Changes (Transfers)	$2,021,750	($382,801)

D. Other Information: Balance shown as Other Decreases includes the changes in unfunded liability for future workers compensation benefits.

NOTE 29. Intrafund Eliminations (in thousands):

Intrafund eliminations were included for Wholesale Supply Management, Depot Maintenance - Other, Depot Maintenance - Ordnance, and Information Services business areas. Revenues/Expenses eliminations may be misstated as the general ledger data used to produce the revenue figure did not included material returns (gross revenue) while status report data used to generate the elimination's included material returns (net revenue).

Schedule A Not applicable

Schedule B

Selling Activity:	Accounts Receivable	Revenue	Unearned Revenue	Collections
Supply Management	$40,950	$1,481,666	n/a	$1,507,089
Depot Maintenance	14,073	341,869	n/a	342,278
Information Services	129	914	n/a	3,615
Total	$55,152	$1,824,449	n/a	$1,852,982

Customer Activity:	Accounts Payable	Expenses	Advances	Disbursements
Supply Management	$39,307	$1,553,143	n/a	$1,564,458
Depot Maintenance	15,716	271,118	n/a	288,464
Information Services	129	188	n/a	60
Total	$55,152	$1,824,449	n/a	$1,852,982

Schedule C

Selling Activity:	Accounts Receivable	Revenue	Unearned Revenue	Collections
Army - WCF	$199,109	$6,426,642	n/a	$6,299,686
Unearned Revenue	0	0	$224,878	0
Total	$199,109	$6,426,642	$224,878	$6,299,686

Customer Activity:	Accounts Payable	Expenses	Advances	Disbursements
Department of the Army	$157,244	$5,277,759	n/a	$5,133,053
Department of the Navy	9,064	174,823	n/a	193,225
Department of the Airforce	1,232	43,204	n/a	42,737
Army WCF	0	0	n/a	0
Navy WCF	2,264	63,355	n/a	63,496
Airforce WCF	3,384	161,067	n/a	164,586
DLA WCF	9,853	44,728	n/a	40,661
DISA WCF	717	6,298	n/a	7,007
DFAS WCF	478	2,971	n/a	3,695
DeCA WCF	330	287	n/a	466
JLSC WCF	0	(425)	n/a	(395)
U.S. TRANSCOM WCF	60	387	n/a	1,045
Other WCF	1,240	10,969	n/a	12,811
DoD Military Retirement Trust Fund	0	0	n/a	0
National Defense Stockpile	0	0	n/a	0
U.S. Army Corps of Engineers	392	905	n/a	915
Other Defense Organizations	12,851	640,314	n/a	636,384
Advances	0	0	$224,878	0
Total	$199,109	$6,426,642	$224,878	$6,299,686

Schedule D

Selling Activity:	Accounts Receivable	Revenue	Unearned Revenue	Collections
Army - WCF	$7,862	$11,713	n/a	$35,132
Unearned Revenue	0	0	$356	0
Total	$7,862	$11,713	$356	$35,132

Customer Activity:	Accounts Payable	Expenses	Advances	Disbursements
Defense Security Assistance Agency	$0	$0	n/a	$0
General Services Administration	3,473	4,817	n/a	7,824
Agriculture	137	142	n/a	115
Interior	723	432	n/a	1,157
NASA	33	62	n/a	62
State	29	1,482	n/a	1,474
Transportation	1,481	2,948	n/a	1,918
Treasury	187	169	n/a	131
Veterans Administration	0	0	n/a	16
Other	1,799	1,661	n/a	22,435
Advances	0	0	$356	0
Total	$7,862	$11,713	$356	$35,132

NOTE **30. Contingencies (in thousands):** Not applicable

NOTE 31. Other Disclosures

Problem Disbursements (in thousands):

The Fund 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. The following table shows the unmatched disbursements and Negative Unliquidated Obligations (NULO's) as of September 30, 1997. The dramatic increase in unmatched disbursements is attributable mainly to a change in reporting criteria during the year. In FY 1996 only the uncleared rejects were reported while in FY 1997 both uncleared rejects and the partial clearances are being used. If only the uncleared amount is considered for FY 1997, the increase is $2,044 or 22.42%. This increase and the increase in NULO balances can be attributed to implementation of controls during FY 1997 to insure collection of data from all reporting stations. These controls should result in more accurate reporting and greater decreases in problem disbursements in future years.

	1996	1997	Change	Percentage Change
Unmatched Disbursements	$9,118	$51,647	$42,529	466.43%
Negative Unliquidated Obligations	$11,384	$17,396	$6,012	52.81%

Footnotes

DEPARTMENT OF ARMY

WORKING CAPITAL FUND

CONSOLIDATING STATEMENTS

Consolidating Statements

Department of Defense
Army Working Capital Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	**SUPPLY MANAGEMENT**	**DEPOT MAINTENANCE OTHER**
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($47,722)	($52,111)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	127,741	94,961
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	32,564	1,522
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	252,754	557
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	10,186,464	0
e. Work in Process (Note 9)	0	250,753
f. Operating Materials/Supplies, Net (Note 10)	0	76,027
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 15)	15,345	1,502,219
l. Other Entity Assets	619,474	44,649
m. Total Entity Assets	$11,186,620	$1,918,577
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	0	0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$11,186,620	$1,918,577

DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
($84,692)	$8,782	$581,584	$0	$405,841
0	0	0	0	0
32,664	42,716	35,608	(55,152)	278,538
0	0	0	0	0
0	3,478	0	0	3,478
0	0	0	0	0
0	0	0	0	0
576	0	0	0	34,662
0		0	0	0
0	0	0	0	0
925	39	0	0	254,275
0	0	0	0	0
0	0	0	0	0
0	0	0	0	10,186,464
45,261	0	0	0	296,014
72,771	0	0	0	148,798
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
677,648	1,928	0	0	2,197,140
16,828	0	0	0	680,951
$761,981	$56,943	$617,192	($55,152)	$14,486,161
$0	$0	$0	$0	$0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$0	$0	$0	$0	$0
$761,981	$56,943	$617,192	($55,152)	$14,486,161

Department of Defense
Army Working Capital Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES	**SUPPLY MANAGEMENT**	**DEPOT MAINTENANCE OTHER**
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$288,859	$120,232
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	193,684	208,454
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	314,572	7,137
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	17,352	42,667
(b) Annual Accrued Leave	4,804	47,397
(c) Severance Pay and Separation Allowance	0	0
(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)	54,825	9
c. Total Liabilities Covered by Budgetary Resources:	$874,096	$425,896
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	344,485
c. Total Liabilities Not Covered By Budgetary Resources	$0	$344,485
6. Total Liabilities	$874,096	$770,381
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	($170,477)
b. Invested Capital	13,677,858	1,677,873
c. Cumulative Results of Operations	(3,365,334)	(14,715)
d. Other	0	0
e. Future Funding Requirements	0	(344,485)
f. Total Net Position	$10,312,524	$1,148,196
8. Total Liabilities and Net Position	$11,186,620	$1,918,577

DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
$4,386	$14,952	$0	($55,152)	$373,277
0	0	0	0	0
0	0	0	0	0
85,991	0	0	0	488,129
13,597	9,593	(36,561)	0	308,338
19,315	3,031	0	0	82,365
18,025	1,507	0	0	71,733
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
5,821	0	0	0	60,655
$147,135	$29,083	($36,561)	($55,152)	$1,384,497
$0	$0	$0	$0	$0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	128,876	0	128,876
36,564	6,079	0	0	387,128
$36,564	$6,079	$128,876	$0	$516,004
$183,699	$35,162	$92,315	($55,152)	$1,900,501
($54,962)	$0	$0	$0	($225,439)
659,855	31,500	733,734	0	16,780,820
9,953	(3,640)	(79,981)	0	(3,453,717)
0	0	0	0	0
(36,564)	(6,079)	(128,876)	0	(516,004)
$578,282	$21,781	$524,877	$0	$12,585,660
$761,981	$56,943	$617,192	($55,152)	$14,486,161

Consolidating Statements

Department of Defense
Army Working Capital Fund
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(Thousands)

ASSETS	**SUPPLY MANAGEMENT**	**DEPOT MAINTENANCE OTHER**
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$224,212	($88,192)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	139,775	133,004
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	30,120	1,463
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	223,337	747
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	10,760,131	0
e. Work in Process (Note 9)	0	263,880
f. Operating Materials/Supplies, Net (Note 10)	0	112,371
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 15)	2,815	1,511,982
l. Other Entity Assets	777,065	1,085
m. Total Entity Assets	$12,157,455	$1,936,340
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0
b. Transactions With Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	0	0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$12,157,455	$1,936,340

DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
($53,752)	($21,640)	$563,534	$0	$624,162
0	0	0	0	0
37,107	65,808	30,043	(211,031)	194,706
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
650	2	0	0	32,235
0	0	0	0	0
0	0	0	0	0
457	62	0	0	224,603
0	0	0	0	0
0	0	0	0	0
0	0	0	0	10,760,131
99,427	0	0	0	363,307
107,500	0	0	0	219,871
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
685,954	1,928	0	0	2,202,679
22,774	0	0	0	800,924
$900,117	$46,160	$593,577	($211,031)	$15,422,618
$0	$0	$0	$0	$0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$0	$0	$0	$0	$0
$900,117	$46,160	$593,577	($211,031)	$15,422,618

Consolidating Statements

Department of Defense
Army Working Capital Fund
Statement of Financial Position
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LIABILITIES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE OTHER
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$253,453	$31,973
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	361,552	246,405
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	395,977	62,132
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	9,825	40,185
(b) Annual Accrued Leave	4,757	47,204
(c) Severance Pay and Separation Allowance	0	0
(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)	65,877	9
c. Total Liabilities Covered by Budgetary Resources:	$1,091,441	$427,908
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered By Budgetary Resources	$0	$0
6. Total Liabilities	$1,091,441	$427,908
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	($170,477)
b. Invested Capital	11,764,009	1,609,557
c. Cumulative Results of Operations	(697,995)	69,352
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	$11,066,014	$1,508,432
8. Total Liabilities and Net Position	$12,157,455	$1,936,340

DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
$3,146	$5,175	$82,475	($211,031)	$165,191
0	0	0	0	0
0	0	0	0	0
80,122	0	0	0	688,079
3,928	10,772	17,977	0	490,786
23,050	3,949	0	0	77,009
17,292	156	0	0	69,409
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
313	0	0	0	66,199
$127,851	$20,052	$100,452	($211,031)	$1,556,673
$0	$0	$0	$0	$0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	48,886	0	48,886
0	3,017	0	0	3,017
$0	$3,017	$48,886	$0	$51,903
$127,851	$23,069	$149,338	($211,031)	$1,608,576
($54,962)	$0	$0	$0	($225,439)
784,721	24,606	542,011	0	14,724,904
42,507	1,502	(48,886)	0	(633,520)
0	0	0	0	0
0	(3,017)	(48,886)	0	(51,903)
$772,266	$23,091	$444,239	$0	$13,814,042
$900,117	$46,160	$593,577	($211,031)	$15,422,618

Department of Defense
Army Working Capital Fund
Statement of Operations and Changes in Net Position
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(Thousands)

REVENUES AND FINANCING SOURCES	**SUPPLY MANAGEMENT**	**DEPOT MAINTENANCE OTHER**
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	35,841	14,329
b. Intragovernmental	9,263,829	1,434,573
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)	4,404	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$9,304,074	$1,448,902
EXPENSES		
9. Program or Operating Expenses (Note 23)	$1,184,570	$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	37,075	14,865
b. Intragovernmental	8,719,408	1,501,411
11. Depreciation and Amortization	839	38,252
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	903,226	21,868
15. Total Expenses	$10,845,118	$1,576,396
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($1,541,044)	($127,494)
17. Plus (Minus) Extraordinary Items (Note 26)	(22,684)	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($1,563,728)	($127,494)
19. Net Position, Beginning Balance, as Previously Stated	$11,066,014	$1,508,432
20. Adjustments (Note 27)	(1,103,611)	(301,059)
21. Net Position, Beginning Balance, as Restated	$9,962,403	$1,207,373
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(1,563,728)	(127,494)
23. Plus (Minus) Non Operating Changes (Note 28)	1,913,849	68,317
24. Net Position, Ending Balance	$10,312,524	$1,148,196

DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
$0	$0	$0	$0	$0
17,948	0	0	0	68,118
460,460	154,593	0	(1,824,449)	9,489,006
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	142,109	0	146,513
0	0	0	0	0
$478,408	$154,593	$142,109	($1,824,449)	$9,703,637
$0	$0	$79,981	$0	$1,264,551
21,539	0	0	0	73,479
493,876	159,734	0	(1,824,449)	9,049,980
15,158	0	0	0	54,249
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
(14,537)	0	142,109	0	1,052,666
$516,036	$159,734	$222,090	($1,824,449)	$11,494,925
($37,628)	($5,141)	($79,981)	$0	($1,791,288)
0	0	0	0	(22,684)
($37,628)	($5,141)	($79,981)	$0	($1,813,972)
$772,266	$23,091	$444,239	$0	$13,814,042
(31,490)	0	0	0	(1,436,160)
$740,776	$23,091	$444,239	$0	$12,377,882
(37,628)	(5,141)	(79,981)	0	(1,813,972)
(124,866)	3,831	160,619	0	2,021,750
$578,282	$21,781	$524,877	$0	$12,585,660

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

REVENUES AND FINANCING SOURCES	**SUPPLY MANAGEMENT**	**DEPOT MAINTENANCE OTHER**
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	358,600	53,334
b. Intragovernmental	10,156,975	1,499,281
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)	(10,425)	
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$10,505,150	$1,552,615
EXPENSES		
9. Program or Operating Expenses (Note 23)	$1,170,064	$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	93,536	49,423
b. Intragovernmental	7,874,063	1,383,223
11. Depreciation and Amortization	490	39,969
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	1,164,800	32,846
15. Total Expenses	$10,302,953	$1,505,461
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$202,197	$47,154
17. Plus (Minus) Extraordinary Items (Note 26)	(13,664)	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$188,533	$47,154
19. Net Position, Beginning Balance, as Previously Stated	$10,694,256	$1,251,331
20. Adjustments (Note 27)	1,236,744	(4,062)
21. Net Position, Beginning Balance, as Restated	$11,931,000	$1,247,269
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	188,533	47,154
23. Plus (Minus) Non Operating Changes (Note 28)	(1,053,519)	214,009
24. Net Position, Ending Balance	$11,066,014	$1,508,432

	DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
	$0	$0	$0	$0	$0
	11,669	576	0	0	424,179
	519,606	151,826	0	(2,273,115)	10,054,573
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	(10,425)
	0	0	0	0	0
	$531,275	$152,402	$0	($2,273,115)	$10,468,327
	$0	$0	$48,886	$0	$1,218,950
	10,747	1,078	0	0	154,784
	481,099	149,821	0	(2,273,115)	7,615,091
	13,704	0	0	0	54,163
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	1	0	0	1
	(7,818)	0	0	0	1,189,828
	$497,732	$150,900	$48,886	($2,273,115)	$10,232,817
	$33,543	$1,502	($48,886)	$0	$235,510
	0	0	0	0	(13,664)
	$33,543	$1,502	($48,886)	$0	$221,846
	$541,659	$0	$248,137	$0	$12,735,383
	6,932	0	0	0	1,239,614
	$548,591	$0	$248,137	$0	$13,974,997
	33,543	1,502	(48,886)	0	221,846
	190,132	21,589	244,988	0	(382,801)
	$772,266	$23,091	$444,239	$0	$13,814,042

Department of Defense
Army Working Capital Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE OTHER
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($1,563,728)	($127,494)
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	9,589	37,983
4. Decrease (Increase) in Other Assets	2,095,524	19,678
5. Increase (Decrease) in Accounts Payable	(46,000)	33,265
6. Increase (Decrease) in Other Liabilities	(171,345)	309,209
7. Depreciation and Amortization	839	38,252
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(334,118)	(301,059)
10. Total Adjustments	$1,554,489	$137,328
11. Net Cash Provided (Used) by Operating Activities	($9,239)	$9,834
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(122)	(44,945)
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)	0	0
19. Net Cash Provided (Used) by Investing Activities	($122)	($44,945)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	0	0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	(262,573)	71,192
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	0	0
23. Net Appropriations	($262,573)	$71,192

DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
($37,628)	($5,141)	($79,981)	$0	($1,813,972)
0	0	0	0	0
4,517	23,094	(5,566)	(155,879)	(86,262)
88,220	(3,455)	0	0	2,199,967
10,909	8,598	(137,014)	155,879	25,637
44,939	3,496	79,990	0	266,289
15,158	0	0	0	54,249
0	0	0	0	0
(31,489)	3,016	(79,990)	0	(743,640)
$132,254	$34,749	($142,580)	$0	$1,716,240
$94,626	$29,608	($222,561)	$0	($97,732)
$0	$0	$0	$0	$0
(179,318)	(20,825)	79,982	0	(165,228)
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
($179,318)	($20,825)	$79,982	$0	($165,228)
0	0	0	0	0
0	0	0	0	0
53,752	21,639	160,629	0	44,639
0	0	0	0	0
0	0	0	0	0
$53,752	$21,639	$160,629	$0	$44,639

Department of Defense
Army Working Capital Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	SUPPLY MANAGEMENT	DEPOT MAINTENANCE OTHER
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	0	0
29. Net Cash Provided (Used) by Financing Activities	($262,573)	$71,192
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($271,934)	$36,081
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	224,212	(88,192)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($47,722)	($52,111)

Supplemental Disclosure of Cash Flow Information:

33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:

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

	DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
	$0	$0	$0	$0	$0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
					0
	$53,752	$21,639	$160,629	$0	$44,639
	($30,940)	$30,422	$18,050	$0	($218,321)
	(53,752)	(21,640)	563,534	0	624,162
	($84,692)	$8,782	$581,584	$0	$405,841
	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0

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

CASH FLOWS FROM OPERATING ACTIVITIES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE OTHER
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$188,533	$47,154
Adjustments affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(16,315)	(31,539)
4. Decrease (Increase) in Other Assets	(2,119,399)	(25,940)
5. Increase (Decrease) in Accounts Payable	(9,003)	1,686
6. Increase (Decrease) in Other Liabilities	98,446	(69,228)
7. Depreciation and Amortization	490	39,969
8. Other Unfunded Expenses	0	0
9. Other Adjustments	2,195,976	(4,062)
10. Total Adjustments	$150,195	($89,114)
11. Net Cash Provided (Used) by Operating Activities	$338,728	($41,960)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(333)	(52,489)
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)	0	0
19. Net Cash Provided (Used) by Investing Activities	($333)	($52,489)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	(643,196)	200,709
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	0	0
23. Net Appropriations	($643,196)	$200,709

DEPOT MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
$33,543	$1,502	($48,886)	$0	$221,846
0	0	0	0	0
(346)	(65,810)	(14,771)	145,217	16,436
(69,611)	(62)	0	(4,591)	(2,219,603)
(6,905)	15,948	17,977	(145,217)	(125,514)
(124,565)	8,868	48,886	4,591	(33,002)
13,704	0	0	0	54,163
0	0	0	0	0
6,932	0	0	0	2,198,846
($180,791)	($41,056)	$52,092	$0	($108,674)
($147,248)	($39,554)	$3,206	$0	$113,172
$0	$0	$0	$0	$0
93,496	17,914	0	0	58,588
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$93,496	$17,914	$0	$0	$58,588
$0	$0	$0	$0	$0
0	0	0	0	0
89,852	0	244,988	0	(107,647)
0	0	0	0	0
0	0	0	0	0
$89,852	$0	$244,988	$0	($107,647)

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

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	SUPPLY MANAGEMENT	MAINTENANCE OTHER
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	0	0
29. Net Cash Provided (Used) by Financing Activities	($643,196)	$200,709
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($304,801)	$106,260
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	$529,013	($194,452)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$224,212	($88,192)
Supplemental Disclosure of Cash Flow Information:		
33. Total Interest Paid	$0	$0
Supplemental Schedule of Financing and Investing Activity:		
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

MAINTENANCE ORDNANCE	INFORMATION SERVICES	COMPONENT LEVEL ADJUSTMENTS	ELIMINATIONS	TOTAL
$0	$0	$0	$0	$0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$89,852	$0	$244,988	$0	($107,647)
$36,100	($21,640)	$248,194	$0	$64,113
(89,852)	0	315,340	0	560,049
(53,752)	(21,640)	563,534	0	624,162
$0	$0	$0	$0	$0
$0	$0	$0	$0	$0
$0	$0	$0	$0	$0
$0	$0	$0	$0	$0