

**UNITED STATES ARMY
INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS**

**CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012**

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INDEPENDENT AUDITOR'S REPORT

Director
U.S. Army Installation Management Command
Family and Morale, Welfare and Recreation Programs

We have audited the accompanying consolidated statements of financial condition of the United States Army Installation Management Command Morale, Welfare and Recreation Programs (IMCOM MWR or the Funds) as of September 30, 2013 and 2012, and the related consolidated statements of revenues and expenses and changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to an express opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described on Note 1 to the financials, the IMCOM MWR was not able to provide supporting documentation for the significant property and equipment balances as a basis for opining on the validity of the reported balances. Quantification of the effects on the financial statements of the preceding practices is not practicable. We were unable to obtain sufficient evidence supporting the value of property and equipment, stated at net amounts of \$803,507,507 and \$808,499,365 as of September 30, 2013 and 2012, respectively, and the amount of depreciation expense for the years then ended, stated at \$114,838,473 and \$114,064,455; nor were we able to satisfy ourselves as to the carrying value of property and equipment by other auditing procedures.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the IMCOM MWR as of September 30, 2013 and 2012, and the related consolidated statements of revenues and expenses and changes in fund balance and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information as listed in the table of contents as of and for the year ended September 30, 2013 and 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of the IMCOM MWR's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Calverton, Maryland
November 12, 2014

CONSOLIDATED FINANCIAL STATEMENTS

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 414,648,414	\$ 339,577,569
	<u>13,469,367</u>	<u>18,221,901</u>
Total cash	428,117,781	357,799,470
Accounts receivable, net (Note 3)	73,930,297	25,419,924
Inventories (Note 1)	17,676,251	16,687,752
Prepaid expenses	<u>6,122,670</u>	<u>7,190,451</u>
Total current assets	525,846,999	407,097,597
PROPERTY AND EQUIPMENT (Note 4)	<u>803,507,507</u>	<u>808,499,365</u>
OTHER ASSETS		
Local payments for NAF major construction (Note 7)	41,413,091	58,324,091
Capital commitments	3,086,893	1,763,753
Employee separation allowance sinking fund	965,142	1,179,663
Miscellaneous other assets	<u>8,052,006</u>	<u>638,502</u>
Total other assets	53,517,132	61,906,009
TOTAL ASSETS	<u>\$ 1,382,871,638</u>	<u>\$ 1,277,502,971</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable and accrued expenses (Note 5)	\$ 197,086,105	\$ 151,254,858
Unearned income (Note 1)	<u>119,498,094</u>	<u>129,926,264</u>
Total current liabilities	316,584,199	281,181,122
LONG-TERM LIABILITIES	<u>965,141</u>	<u>1,206,541</u>
TOTAL LIABILITIES	<u>317,549,340</u>	<u>282,387,663</u>
FUND BALANCE		
Cumulative income	8,547,046	(6,828,010)
Contributed capital (Note 7)	<u>1,056,775,252</u>	<u>1,001,943,318</u>
Net fund balance	1,065,322,298	995,115,308
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,382,871,638</u>	<u>\$ 1,277,502,971</u>

The accompanying notes are an integral part of the consolidated financial statements.

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE
Years Ended September 30, 2013 and 2012

	2013	2012
NET SALES	\$ 152,581,107	\$ 160,370,581
COST OF SALES	<u>70,919,675</u>	<u>74,683,419</u>
Gross profit	<u>81,661,432</u>	<u>85,687,162</u>
OTHER OPERATING REVENUE		
Income from appropriated funds (UFM) (Note 7)	696,732,508	687,273,533
Army recreation machine payments (Note 7)	20,764,342	24,250,552
Customer fees and other operating revenues	<u>388,275,576</u>	<u>394,625,451</u>
Total operating revenues	<u>1,187,433,858</u>	<u>1,191,836,698</u>
OPERATING EXPENSES		
Labor	772,102,512	788,803,569
Depreciation	114,838,473	114,064,455
Other operating expenses	<u>371,279,958</u>	<u>436,950,752</u>
Total operating expenses	<u>1,258,220,943</u>	<u>1,339,818,776</u>
Net operating expenses over operating revenues	<u>(70,787,085)</u>	<u>(147,982,078)</u>
NON-OPERATING REVENUES (EXPENSES) (Note 1)		
Simplified dividend and other AAFES revenue (Note 7)	75,631,608	78,916,122
Interest income (Note 2)	2,320,538	2,618,261
Army Morale, Welfare and Recreation Fund dividends	5,837,987	5,030,151
Donations	1,730,576	1,853,646
Other non-operating income	2,336,869	6,131,559
Other non-operating expense	(494,584)	(394,558)
Loss due to BRAC/restationing (Note 7)	<u>(1,200,853)</u>	<u>(9,220,180)</u>
Net non-operating revenues	<u>86,162,141</u>	<u>84,935,001</u>
Excess (Deficiency) of revenues over expenses	15,375,056	(63,047,077)
Transactions within DoD (Note 7)	<u>-</u>	<u>(60,308,248)</u>
NET CHANGE IN CUMULATIVE INCOME	15,375,056	(123,355,325)
NET CHANGE IN CONTRIBUTED CAPITAL (Note 7)	54,831,934	44,196,377
FUND BALANCE - BEGINNING OF YEAR	<u>995,115,308</u>	<u>1,074,274,256</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,065,322,298</u>	<u>\$ 995,115,308</u>

The accompanying notes are an integral part of the consolidated financial statements.

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net change in cumulative income	\$ 15,375,056	\$ (123,355,325)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	114,838,473	114,064,455
Non-cash disposals of property and equipment	(170,858)	15,431,756
Transfers-in/out	19,512,799	(9,626,407)
Effects of changes in operating assets and liabilities:		
Restricted cash - Japan	4,752,534	(511,469)
Accounts receivable	(48,510,373)	(5)
Inventory	(988,499)	861,931
Prepaid items	1,067,781	2,516,320
Local payments for NAF major construction	16,911,000	23,327,297
Capital commitments	(1,323,140)	1,685,370
Employee separation allowance sinking fund	214,521	56,344
Miscellaneous other assets	(7,413,504)	(712)
Accounts payable and accrued expenses	45,831,247	(14,950,359)
Unearned income	(10,428,170)	18,215,883
Long-term liabilities	(241,400)	(78,835)
Super fund	-	-
Net cash provided by operating activities	<u>149,427,467</u>	<u>27,636,244</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(74,356,622)</u>	<u>(101,749,642)</u>
NET INCREASE (DECREASE) IN CASH	75,070,845	(74,113,398)
CASH, BEGINNING OF YEAR	<u>339,577,569</u>	<u>413,690,967</u>
CASH, END OF YEAR	<u><u>\$ 414,648,414</u></u>	<u><u>\$ 339,577,569</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Installation Management Command Region Morale, Welfare and Recreation Programs

The United States Army Installation Management Command - Morale, Welfare and Recreation Programs (IMCOM MWR or the Funds) supplements appropriated funds to finance morale, welfare and recreation programs primarily to benefit U.S. Army personnel and their dependents. These supplemental funds are generally in the form of payments for IMCOM G9 [formally known as Family and Morale, Welfare and Recreation Command (FMWRC)] Administrative Services. IMCOM MWR principally receives supplemental funds from the U.S. Army and Air Force Exchange Service (AAFES).

Uniform Funding and Management

Under the Uniform Funding and Management (UFM) concept, appropriated funds and nonappropriated funds (NAF) are merged to provide MWR services under NAF rules and procedures. The UFM initiative, as authorized under Section 323 of the Bob Stump National Defense Authorization Act of fiscal year 2003, allows for upfront transfers of appropriated funds into the NAF system prior to the Non-Appropriated Fund Instrumentality (NAFI) expending funds based on a memorandum of agreement between the Government and the NAFI. The funds are then used to support appropriated fund authorized requirements and administered in accordance with NAF rules and procedures. The funds remain available until expended.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations. Accounts receivable are stated at the invoice amount. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

A significant portion of the Funds' receivables are from governmental agencies with which the Funds have historically not had receivables that were considered uncollectible, therefore, no allowance for uncollectible amounts has been provided. When a receivable from another party is incurred that in management's estimation has become uncollectible, it is charged-off. Charge-offs recognized in the statement of revenues and expenses, and changes in fund balance for the years ended September 30, 2013 and 2012 were insignificant.

Income Taxes

The IMCOM MWR and related funds are instrumentalities of the United States Government and, therefore, are not subject to income taxes.

Interfund Receivables/Payables

Interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered, to/from a particular garrison. These receivables/payables are eliminated during the aggregation process.

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statements of Cash Flows

The statements of cash flows are prepared on the basis of cash on hand and on deposit with the United States Army Banking and Investment Fund, which is subject to withdrawal on demand.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories Held for Resale

Inventories are stated at the lower of cost or market with cost determined on a first-in, first-out basis. The inventories consist of golf equipment and other items held for resale at IMCOM MWR sales outlets and warehouses.

Unearned Income

Revenues received and related to the period after September 30 have been deferred.

Operating and Non-Operating Revenue and Expense Policy

The Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Funds' principal ongoing operations. Operating revenues include sales generated from Morale, Welfare, and Recreation sponsored activities. Non-operating revenues include dividends from the AAFES revenue and Army Morale, Welfare and Recreation Fund (AMWRF) dividends. The AMWRF dividends include Army-level unit funds and food subsidies for child and youth services programs not receiving subsidies from the U.S. Department of Agriculture. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Property and Equipment

The Funds' buildings are depreciated on the straight-line method over their estimated useful lives of 15 to 40 years. Building improvements are depreciated on the straight-line method over their estimated useful lives, which range from 10 to 30 years.

Equipment consists of various vehicles, computer equipment, and office furniture and equipment. These assets are depreciated on the straight-line method over their estimated useful lives, which range from two to ten years.

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write downs due to impairment are charged to operations at the time the impairment is identified. No write down of capital assets was required for the years ended September 30, 2013 or 2012.

It is noted that the Funds' property and equipment is not valued in accordance with GAAP. The Funds' original policy was to retain property and equipment documentation for three years. Since then, Army has changed and clarified their policy to retain documentation for the life of the asset.

NOTE 2 – CASH ON DEPOSIT WITH THE UNITED STATES ARMY BANKING AND INVESTMENT FUND

The United States Army Banking and Investment Fund (ABIF) acts as a pooling agent for all Army non-appropriated activities and invests principally in U.S. Treasury securities, and U.S. Government Agency securities. The rate of interest paid to depositors is determined monthly by ABIF management. The ABIF paid interest averaging 0.53 percent and 0.70 percent per annum on all deposits in fiscal year 2013 and 2012, respectively. Of the cash amounts shown on the statements of financial condition at September 30, 2013 and 2012, IMCOM MWR had \$398.2 million and \$322.0 million, respectively, invested in ABIF, and earned \$2.3 million and \$2.6 million in interest from ABIF for the years ended September 30, 2013 and September 30, 2012, respectively.

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables consisted of the following at September 30:

	2013	2012
Interest receivable	\$ 189,119	\$ 151,727
Advances receivable	5,240,478	3,999,897
Receivables due to operations at the Garrisons	1,472,054	2,532,568
ARM receivables	3,810,154	1,338,003
NAFI receivables outside IMCOM MWR	48,713,481	4,444,342
Other receivables	14,505,011	12,953,387
Total receivables	\$ 73,930,297	\$ 25,419,924

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 4 – PROPERTY AND EQUIPMENT

The following table summarizes the components of property and equipment at September 30:

	<u>2013</u>	<u>2012</u>
Furniture, fixtures and equipment	\$ 321,197,062	\$ 319,781,110
Vehicles, aircraft and boats	103,514,654	102,979,405
Buildings and land improvements	324,362,478	304,747,063
Maintenance and repair of facilities	35,985,957	33,800,697
Government titled fixed assets	1,394,442,542	1,341,993,327
APF authorized fixed assets	23,319,192	22,331,622
Fixed assets in transit	272,534	400,747
Breeding livestock	33,021	43,771
Construction in progress	<u>30,678,922</u>	<u>41,735,484</u>
Total cost	2,233,806,362	2,167,813,226
Accumulated depreciation	<u>(1,430,298,855)</u>	<u>(1,359,313,861)</u>
Net property and equipment	<u>\$ 803,507,507</u>	<u>\$ 808,499,365</u>

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	<u>2013</u>	<u>2012</u>
Payables due to operations at the Garrisons	\$ 28,732,359	\$ 28,392,243
NAFI payables outside IMCOM MWR	54,941,688	7,595,941
Other payables	12,948,188	13,240,570
Accruals of salaries and benefits	85,622,236	85,228,362
Other accruals	<u>14,841,634</u>	<u>16,797,742</u>
Total payables and accruals	<u>\$ 197,086,105</u>	<u>\$ 151,254,858</u>

NOTE 6 – RETIREMENT AND 401(k) SAVINGS PLANS

The IMCOM MWR participates in the United States Army Non-appropriated Fund Employee Retirement Plan and 401(k) Savings Plan and contributes to the plans for IMCOM MWR employees. The IMCOM MWR incurred costs related to the retirement plan of \$36.2 million and \$34.6 million for the years ended September 30, 2013 and 2012, respectively. The IMCOM MWR incurred costs related to the 401(k) Savings Plan of \$7.7 million and \$7.9 million for the years ended September 30, 2013 and 2012, respectively.

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 7 – TRANSACTIONS WITH RELATED PARTIES

Army Simplified Dividend (ASD) – In fiscal year 2013 and 2012, respectively, the IMCOM MWR was allocated \$75.6 million and \$78.9 million in dividend distributions from AAFES (collectively called ASD). The AAFES Board of Directors determines the amount of dividends monthly and allocates them between the Army and Air Force based upon relative troop strength.

Uniform Funding and Management – IMCOM MWR Funds receive UFM funding through Installation Management Agency Headquarters and is subject to engaging in UFM transactions through entities within the United States Forces. During fiscal year 2013 and 2012, the IMCOM MWR received \$696.7 million and \$687.3 million, respectively, in UFM income. Unearned income from these sources accounted for \$99.9 million and \$112.3 million of the total unearned income balance at September 30, 2013 and September 30, 2012, respectively.

Army Recreation Machine Trust Fund (ARMTF) Profit Distributions and Expense Reimbursement – IMCOM MWR participates in distributions of net income made by ARMTF. Distributions earned for fiscal years 2013 and 2012 totaled \$17.3 million and \$20.3 million, respectively. During the fiscal years 2013 and 2012, the IMCOM MWR also received expense reimbursements totaling \$3.5 million and \$4.0 million, respectively.

General and Administrative Support – IMCOM MWR receives certain indirect engineer, utility and logistical expense support from the appropriated funds of the United States Army. The value of these contributed services and supplies is not determinable and, thus, is not reflected in the accompanying financial statements.

United States Army Central Insurance Fund – In accordance with Army Regulations (AR) 215-1, Chapter 14, the IMCOM MWR participates in the U.S. Army NAF Risk Management Program (RIMP). RIMP is a centralized property and casualty insurance program for NAF activities administered by the U.S. Army Central Insurance Fund (ACIF). Separate programs offered by RIMP in which the IMCOM MWR is eligible to participate include property, tort, workers' compensation, unemployment compensation, and cargo insurance coverage.

Major Construction Funding – Funds such as the IMCOM Major Construction Fund (IMCF) participate in funding major construction projects in various MWR regions. These building projects are primarily large-scale construction and renovation of recreational facilities. The amount of participation in the projects has been determined by the Army Morale, Welfare and Recreation Board of Directors (MWR BOD). Construction prepayments to such funds by IMCOM MWR entities may be shown in the Consolidated Statements of Financial Condition as other assets titled "Local payments for NAF major construction".

Base Realignment and Closure and Joint Basing – The Joint Base initiative was established as part of the Base Realignment and Closure (BRAC) recommendations approved by the Congress. BRAC was implemented to improve security and overall operational effectiveness within the Department of Defense (DoD). The purpose of Joint Basing is to reduce operational costs and improve effectiveness through the use of best practices. Joint Basing has resulted in the transfer of certain Army IMCOM MWR operations to other military services, and certain operations of other military services to the Army IMCOM MWR.

**UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012**

NOTE 7 – TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Contributed Capital – Accumulated contributed capital includes property donated by related parties for use in morale, welfare and recreation programs, such as the cost of major construction funded through IMCF.

As is indicated in the following table, other than revenue and expense transactions summarized in the accompanying financial statements, related party transactions within the DoD were the primary reason for changes in equity balances of IMCOM MWR:

Adjustments to cumulative income

	<u>2013</u>	<u>2012</u>
Major construction funding	\$ -	\$ (96,447,055)
Joint basing	-	39,717,013
Other adjustments	-	<u>(3,578,206)</u>
Total	<u>\$ -</u>	<u>\$ (60,308,248)</u>

Adjustments to contributed capital

	<u>2013</u>	<u>2012</u>
Major construction funding	\$ 50,530,379	\$ (13,141,056)
Joint basing	-	60,226,825
Other adjustments	<u>4,301,555</u>	<u>(2,889,392)</u>
Total	<u>\$ 54,831,934</u>	<u>\$ 44,196,377</u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

From time to time, the Funds are a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Funds.

NOTE 9 – STATUS OF FORCES AGREEMENT WITH JAPAN

The Status of Forces agreement and special agreements between Japan and the United States provide that, among other things, Japan would provide labor sharing support to MWR activities. The U.S. Government, in return, agreed that profits resulting from Government of Japan labor cost sharing support will remain in Japan for the benefit of the U.S. Forces in the Japan community. The balance of cash that was restricted for use in Japan due to this agreement was \$13.5 million and \$18.2 million at September 30, 2013 and September 30, 2012, respectively.

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 10 – SUBSEQUENT EVENTS

Management evaluated subsequent events through November 12, 2014, the date the financial statements were available to be issued. Events or transactions occurring after September 30, 2013, but prior to November 12, 2014, that provided additional evidence about conditions that existed at September 30, 2013, if any, have been recognized in the financial statements for the year ended September 30, 2013. Events or transactions that provided evidence about conditions that did not exist at September 30, 2013, if any, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended September 30, 2013.

SUPPLEMENTARY INFORMATION

**UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
CONUS MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF FINANCIAL CONDITION
September 30, 2013 and 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 177,609,656	\$ 162,157,068
Accounts receivable, net	44,454,172	13,512,019
Inventories	12,022,860	10,803,688
Prepaid expenses	1,914,688	2,990,860
	<u>236,001,376</u>	<u>189,463,635</u>
Total current assets	<u>236,001,376</u>	<u>189,463,635</u>
PROPERTY AND EQUIPMENT	<u>523,835,046</u>	<u>546,816,337</u>
OTHER ASSETS		
Local payments for NAF major construction	8,985,333	24,587,385
Miscellaneous other assets	8,052,006	637,790
	<u>17,037,339</u>	<u>25,225,175</u>
Total other assets	<u>17,037,339</u>	<u>25,225,175</u>
TOTAL ASSETS	<u><u>\$ 776,873,761</u></u>	<u><u>\$ 761,505,147</u></u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 92,358,769	\$ 96,609,204
Unearned income	33,958,671	39,169,131
LONG-TERM LIABILITIES	<u>-</u>	<u>26,878</u>
TOTAL LIABILITIES	<u>126,317,440</u>	<u>135,805,213</u>
FUND BALANCE		
Cumulative loss	(16,987,036)	(27,705,682)
Contributed capital	667,543,357	653,405,616
	<u>650,556,321</u>	<u>625,699,934</u>
Net fund balance	<u>650,556,321</u>	<u>625,699,934</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 776,873,761</u></u>	<u><u>\$ 761,505,147</u></u>

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
CONUS MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
NET SALES	\$ 105,619,682	\$ 111,452,453
COST OF SALES	<u>50,783,265</u>	<u>53,773,346</u>
Gross profit	<u>54,836,417</u>	<u>57,679,107</u>
OTHER OPERATING REVENUE		
Income from appropriated funds (UFM)	414,470,205	431,538,613
Army recreation machine payments	15,085	2,390
Customer fees and other operating revenues	<u>289,282,115</u>	<u>298,723,484</u>
Total operating revenues	<u>758,603,822</u>	<u>787,943,594</u>
OPERATING EXPENSES		
Labor	526,218,031	540,357,726
Depreciation	78,122,356	77,353,035
Other operating expenses	<u>211,871,738</u>	<u>277,188,501</u>
Total operating expenses	<u>816,212,125</u>	<u>894,899,262</u>
Net operating expenses over operating revenues	<u>(57,608,303)</u>	<u>(106,955,668)</u>
NON-OPERATING REVENUES (EXPENSES)		
Simplified dividend and other AAFES revenue	60,495,707	62,794,065
Interest income	974,961	1,252,254
Army Morale, Welfare and Recreation Fund dividends	4,386,374	3,107,093
Donations	1,452,546	1,557,279
Other non-operating income	1,115,149	2,525,236
Other non-operating expense	(97,788)	(204,136)
Loss due to BRAC/restationing	<u>-</u>	<u>(9,218,630)</u>
Net non-operating revenues	<u>68,326,949</u>	<u>61,813,161</u>
Excess (Deficiency) of revenues over expenses	10,718,646	(45,142,507)
Transactions within DoD	<u>-</u>	<u>(11,098,722)</u>
NET CHANGE IN CUMULATIVE INCOME	10,718,646	(56,241,229)
NET CHANGE IN CONTRIBUTED CAPITAL	14,137,741	18,709,601
FUND BALANCE - BEGINNING OF YEAR	<u>625,699,934</u>	<u>663,231,562</u>
FUND BALANCE - END OF YEAR	<u>\$ 650,556,321</u>	<u>\$ 625,699,934</u>

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
CONUS MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF CASH FLOWS
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net change in cumulative income	\$ 10,718,646	\$ (56,241,229)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:		
Depreciation	78,122,356	77,353,035
Non-cash disposals of property and equipment	867,853	13,987,890
Transfers-in/out	8,515,909	(20,049,338)
Effects of changes in operating assets and liabilities:		
Accounts receivable	(30,942,153)	26,228,977
Inventory	(1,219,172)	1,022,602
Prepaid items	1,076,172	1,744,385
Miscellaneous other assets	(7,414,216)	-
Local payments for NAF major construction	15,602,052	19,582,327
Accounts payable and accrued expenses	(4,250,435)	(13,679,867)
Unearned income	(5,210,460)	(1,350,887)
Long term liabilities	(26,878)	(22,490)
Net cash provided by operating activities	<u>65,839,674</u>	<u>48,575,405</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(50,387,086)</u>	<u>(78,455,813)</u>
NET INCREASE (DECREASE) IN CASH	15,452,588	(29,880,408)
CASH, BEGINNING OF YEAR	<u>162,157,068</u>	<u>192,037,478</u>
CASH, END OF YEAR	<u><u>\$ 177,609,656</u></u>	<u><u>\$ 162,157,070</u></u>

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
EUROPE MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF FINANCIAL CONDITION
September 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 42,281,360	\$ 34,954,285
Accounts receivable, net	10,324,048	5,401,870
Inventories	1,755,111	2,013,093
Prepaid expenses	246,077	384,896
Total current assets	54,606,596	42,754,144
PROPERTY AND EQUIPMENT	83,830,611	71,393,976
OTHER ASSETS		
Local payments for NAF major construction	1,083,552	5,068,244
Capital commitments	1,702,874	1,603,592
Employee separation allowance sinking fund	159,363	310,048
Miscellaneous other assets	-	712
Total other assets	2,945,789	6,982,596
TOTAL ASSETS	\$ 141,382,996	\$ 121,130,716
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 18,151,993	\$ 19,463,208
Unearned income	2,427,229	2,923,810
Total current liabilities	20,579,222	22,387,018
LONG-TERM LIABILITIES	159,362	310,048
TOTAL LIABILITIES	20,738,584	22,697,066
FUND BALANCE		
Cumulative loss	(51,411,818)	(55,798,329)
Contributed capital	172,056,230	154,231,979
Net fund balance	120,644,412	98,433,650
TOTAL LIABILITIES AND FUND BALANCE	\$ 141,382,996	\$ 121,130,716

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
EUROPE MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE
Years Ended September 30, 2013 and 2012

	2013	2012
NET SALES	\$ 13,904,866	\$ 16,435,247
COST OF SALES	<u>5,946,017</u>	<u>6,858,887</u>
Gross profit	<u>7,958,849</u>	<u>9,576,360</u>
OTHER OPERATING REVENUE		
Income from appropriated funds (UFM)	100,425,744	91,574,515
Army recreation machine payments	10,035,761	12,361,470
Customer fees and other operating revenues	<u>38,176,795</u>	<u>43,486,708</u>
Total operating revenues	<u>156,597,149</u>	<u>156,999,053</u>
OPERATING EXPENSES		
Labor	114,603,911	124,603,967
Depreciation	9,901,587	11,247,569
Other operating expenses	<u>36,263,273</u>	<u>35,743,004</u>
Total operating expenses	<u>160,768,771</u>	<u>171,594,540</u>
Net operating expenses over operating revenues	<u>(4,171,622)</u>	<u>(14,595,487)</u>
NON-OPERATING REVENUES (EXPENSES)		
Simplified dividend and other AAFES revenue	8,170,334	9,478,313
Interest income	209,635	233,502
Army Morale, Welfare and Recreation Fund dividends	1,260,590	1,342,003
Donations	158,434	168,575
Other non-operating income	98,061	160,764
Other non-operating expense	(280,161)	(15,585)
Loss due to BRAC/restationing	<u>(1,058,760)</u>	<u>(1,550)</u>
Net non-operating revenues	<u>8,558,133</u>	<u>11,366,022</u>
Excess (Deficiency) of revenues over expenses	4,386,511	(3,229,465)
Transactions within DoD	<u>-</u>	<u>(29,717,216)</u>
NET CHANGE IN CUMULATIVE INCOME	4,386,511	(32,946,681)
NET CHANGE IN CONTRIBUTED CAPITAL	17,824,251	-
FUND BALANCE - BEGINNING OF YEAR	<u>98,433,650</u>	<u>131,380,331</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 120,644,412</u></u>	<u><u>\$ 98,433,650</u></u>

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
EUROPE MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF CASH FLOWS
Years Ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net change in cumulative income	\$ 4,386,511	\$ (32,946,681)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:		
Depreciation	9,901,587	11,247,569
Non-cash disposals of property and equipment	1,196,762	179,314
Transfers-in/out	9,150,597	4,772,740
Effects of changes in operating assets and liabilities:		
Accounts receivable	(4,922,178)	14,488,843
Inventory	257,982	131,291
Prepaid items	138,819	63,091
Local payments for NAF Major Construction	3,984,692	3,025,304
Capital commitments	(99,282)	841,156
Employee separation allowance sinking fund	150,685	(70,685)
Miscellaneous other assets	712	(712)
Accounts payable and accrued expenses	(1,311,215)	(3,758,801)
Unearned income	(496,581)	315,818
Long-term liabilities	(150,686)	70,685
Net cash provided by (used in) operating activities	<u>22,188,405</u>	<u>(1,641,068)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(14,861,330)</u>	<u>(10,769,417)</u>
NET INCREASE (DECREASE) IN CASH	7,327,075	(12,410,485)
CASH, BEGINNING OF YEAR	<u>34,954,285</u>	<u>47,364,770</u>
CASH, END OF YEAR	<u><u>\$ 42,281,360</u></u>	<u><u>\$ 34,954,285</u></u>

**UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
PACIFIC MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF FINANCIAL CONDITION
September 30, 2013 and 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 51,320,226	\$ 48,413,718
Restricted cash - Japan	13,469,367	18,221,901
Total cash	64,789,593	66,635,619
Accounts receivable, net	19,055,462	6,118,170
Inventories	3,898,280	3,870,971
Prepaid expenses	3,917,327	3,738,190
Total current assets	91,660,662	80,362,950
PROPERTY AND EQUIPMENT	195,832,504	190,289,052
OTHER ASSETS		
Local payments for NAF major construction	31,344,206	28,668,462
Capital commitments	1,384,019	160,161
Employee separation allowance sinking fund	805,779	869,615
Total other assets	33,534,004	29,698,238
TOTAL ASSETS	\$ 321,027,170	\$ 300,350,240
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 29,251,738	\$ 28,953,179
Unearned income	3,483,236	6,268,339
Total current liabilities	32,734,974	35,221,518
LONG-TERM LIABILITIES	805,779	869,615
TOTAL LIABILITIES	33,540,753	36,091,133
FUND BALANCE		
Cumulative income	70,230,520	69,953,384
Contributed capital	217,255,897	194,305,723
Net fund balance	287,486,417	264,259,107
TOTAL LIABILITIES AND FUND BALANCE	\$ 321,027,170	\$ 300,350,240

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
PACIFIC MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE
Years Ended September 30, 2013 and 2012

	2013	2012
NET SALES	\$ 33,056,559	\$ 32,482,881
COST OF SALES	<u>14,190,393</u>	<u>14,051,186</u>
Gross profit	<u>18,866,166</u>	<u>18,431,695</u>
OTHER OPERATING REVENUE		
Income from appropriated funds (UFM)	87,316,948	71,849,219
Army recreation machine payments	10,713,496	11,886,692
Customer fees and other operating revenues	<u>48,473,827</u>	<u>48,744,493</u>
Total operating revenues	<u>165,370,437</u>	<u>150,912,099</u>
OPERATING EXPENSES		
Labor	108,114,212	115,094,763
Depreciation	26,807,296	25,463,851
Other operating expenses	<u>38,706,304</u>	<u>36,221,805</u>
Total operating expenses	<u>173,627,812</u>	<u>176,780,419</u>
Net operating expenses over operating revenues	<u>(8,257,375)</u>	<u>(25,868,320)</u>
NON-OPERATING REVENUES (EXPENSES)		
Simplified dividend and other AAFES revenue	6,965,574	6,643,745
Interest income	434,220	574,771
Army Morale, Welfare and Recreation Fund dividends	191,023	581,055
Donations	119,503	127,792
Other non-operating income	1,079,849	3,440,709
Other non-operating expense	(113,565)	(174,857)
Loss due to BRAC/restationing	<u>(142,093)</u>	<u>-</u>
Net non-operating revenues	<u>8,534,511</u>	<u>11,193,215</u>
Excess of revenues over expenses	277,136	(14,675,105)
Transactions within DoD	<u>-</u>	<u>(19,492,310)</u>
NET CHANGE IN CUMULATIVE INCOME	277,136	(34,167,415)
NET CHANGE IN CONTRIBUTED CAPITAL	22,950,174	25,486,776
FUND BALANCE - BEGINNING OF YEAR	<u>264,259,107</u>	<u>272,939,746</u>
FUND BALANCE - END OF YEAR	<u>\$ 287,486,417</u>	<u>\$ 264,259,107</u>

UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
PACIFIC MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF CASH FLOWS
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net change in cumulative income	\$ 277,136	\$ (34,167,415)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	26,807,296	25,463,851
Non-cash disposals of property and equipment	(2,235,473)	1,264,553
Transfers-in/out	1,926,525	5,628,189
Effects of changes in operating assets and liabilities:		
Restricted cash - Japan	4,752,534	(511,469)
Accounts receivable	(12,937,292)	8,701,964
Inventory	(27,309)	(291,962)
Prepaid items	(179,137)	785,348
Local payments for NAF major construction	(2,675,744)	719,665
Capital commitments	(1,223,858)	844,214
Employee separation allowance sinking fund	63,836	127,029
Accounts payable and accrued expenses	298,559	2,025,555
Unearned income	(2,785,103)	2,122,245
Long term liabilities	<u>(63,836)</u>	<u>(127,029)</u>
Net cash provided by operating activities	<u>11,998,134</u>	<u>12,584,738</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(9,091,626)</u>	<u>(12,524,412)</u>
NET INCREASE IN CASH	<u>2,906,508</u>	<u>60,326</u>
CASH, BEGINNING OF YEAR	<u>48,413,718</u>	<u>48,353,392</u>
CASH, END OF YEAR	<u><u>\$ 51,320,226</u></u>	<u><u>\$ 48,413,718</u></u>

**UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
HEADQUARTERS MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF FINANCIAL CONDITION
September 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 143,437,172	\$ 94,052,499
Accounts receivable, net	96,615	387,866
Prepaid expenses	<u>44,578</u>	<u>76,504</u>
Total current assets	<u>143,578,365</u>	<u>94,516,869</u>
PROPERTY AND EQUIPMENT	<u>9,346</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 143,587,711</u>	<u>\$ 94,516,869</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 57,323,605	\$ 6,229,267
Unearned income	<u>79,628,958</u>	<u>81,564,985</u>
TOTAL LIABILITIES	<u>136,952,563</u>	<u>87,794,252</u>
FUND BALANCE		
Cumulative income	6,715,380	6,722,617
Contributed capital	<u>(80,232)</u>	<u>-</u>
Net fund balance	<u>6,635,148</u>	<u>6,722,617</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 143,587,711</u>	<u>\$ 94,516,869</u>

**UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
HEADQUARTERS MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE
Years Ended September 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
OTHER OPERATING REVENUE		
Income from appropriated funds (UFM)	\$ 94,519,611	\$ 92,311,186
Customer fees and other operating revenues	<u>12,342,839</u>	<u>3,670,765</u>
Total operating revenues	<u>106,862,450</u>	<u>95,981,951</u>
OPERATING EXPENSES		
Labor	23,166,357	8,747,112
Depreciation	7,234	-
Other operating expenses	<u>84,438,651</u>	<u>87,797,447</u>
Total operating expenses	<u>107,612,242</u>	<u>96,544,559</u>
Net operating expenses over operating revenues	<u>(749,792)</u>	<u>(562,608)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	701,722	557,734
Donations	93	-
Other non-operating income	43,810	4,853
Other non-operating expense	<u>(3,070)</u>	<u>21</u>
Net non-operating revenues	<u>742,555</u>	<u>562,608</u>
Deficiency of revenues over expenses	<u>(7,237)</u>	<u>-</u>
NET CHANGE IN CUMULATIVE INCOME	(7,237)	-
NET CHANGE IN CONTRIBUTED CAPITAL	(80,232)	-
FUND BALANCE - BEGINNING OF YEAR	<u>6,722,617</u>	<u>6,722,617</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 6,635,148</u></u>	<u><u>\$ 6,722,617</u></u>

**UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
HEADQUARTERS MORALE, WELFARE AND RECREATION PROGRAMS
SCHEDULES OF CASH FLOWS
Years Ended September 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net change in cumulative income	\$ (7,237)	\$ -
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	7,234	-
Transfers-in/out	(80,232)	-
Effect of changes in operating assets and liabilities:		
Accounts receivable	291,251	477,540
Prepaid items	31,926	(76,504)
Accounts payable and accrued expenses	51,094,338	(49,412,571)
Unearned income	<u>(1,936,027)</u>	<u>17,128,707</u>
Net cash provided by operating activities	<u>49,401,253</u>	<u>(31,882,828)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(16,580)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	49,384,673	(31,882,828)
CASH, BEGINNING OF YEAR	<u>94,052,499</u>	<u>125,935,327</u>
CASH, END OF YEAR	<u><u>\$ 143,437,172</u></u>	<u><u>\$ 94,052,499</u></u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Director
U.S. Army Installation Management Command
Family and Morale, Welfare and Recreation Programs

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the United States Army Installation Management Command, Morale, Welfare and Recreation Programs (IMCOM MWR) as of and for the year ended September 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the IMCOM MWR's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IMCOM MWR's internal control. Accordingly, we do not express an opinion on the effectiveness of the IMCOM MWR's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the A-1 section of the attachment to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the IMCOM MWR's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We developed certain recommendations concerning other matters relating to the IMCOM MWR's internal control and certain other accounting, administrative, or operating matters. Our observations and recommendations are discussed in the AAA and BBB sections of the attachment, as are IMCOM MWR management's responses to our observations and recommendations.

IMCOM MWR's Response to Finding

IMCOM MWR's responses to the findings identified in our audit are described in the attachment. IMCOM MWR's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Calverton, Maryland
November 12, 2014

**MATERIAL WEAKNESS, RECOMMENDATION AND MANAGEMENT'S RESPONSE FOR THE
UNITED STATES ARMY INSTALLATION MANAGEMENT COMMAND
MORALE, WELFARE AND RECREATION PROGRAMS
Fiscal Year 2013**

PROPERTY AND EQUIPMENT DOCUMENTATION

A-1 Observation (Repeat Finding):

Auditing standards require that we conduct sufficient tests of the supporting documentation for significant property and equipment balances as a basis for opining on the validity of the reported balances. In 2008, our tests included reviews of all property items with significant net book value at the beginning of the first year of our audit coverage, and use of techniques such as Monetary Unit Sampling for selecting from property transactions occurring after the beginning of our first year of audit coverage.

We were not provided supporting documentation for 72 of the property items tested with a net book value totaling \$68.3 million at September 30, 2013. Also, where we were provided supporting documentation, we were not provided assurance that the documentation was complete, and the cost shown on the supporting documentation we were provided did not always reconcile to the amount recorded in the property, plant, and equipment accounting records. Acquisition dates for these items predated the Army's clarification of its three-year documentation retention policy. It is expected that the Army's clarification that documentation for fixed assets is to be retained for the life of the assets which will eventually eliminate this issue.

The testing of acquisitions and disposals of fixed assets, and associated depreciation noted above are items prior to fiscal year 2010. We noted no significant problems in our testing of recorded total values and related depreciation for fixed assets acquired during fiscal years 2012 and 2013.

Recommendation:

We recommend that IMCOM MWR consider whether it should take additional actions to determine the value of significant assets where there is no documentation to support recorded amounts, such as the feasibility of commissioning qualified appraisers to determine the value of the assets.

Management Response to Recommendation:

G9 Response: Concur. As stated in last two years' responses to this repeat finding, management, in consultation with NAF Financial Services (NFS), determined there was no need to engage an appraiser to determine the value of the fixed assets in question. As noted in the auditors' observation, finding relates to testing of items acquired prior to 2010. Auditors noted no significant problems in testing of recorded values and related depreciation for fixed assets acquired during fiscal years 2012 and 2013. Over time, the number of fixed assets without adequate documentation on file will diminish and going forward adequate controls and documentation are in place to provide management with a high level of assurance that acquisitions, disposals, and depreciation are being appropriately recorded on the financial records.

Auditor's Evaluation of Management's Response:

We believe that management's response is consistent with our recommendation.

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OTHER MATTERS**Accounting Systems****AAA-1 Observation (Repeat Finding):**

The Non-Appropriated Funds Information Standard System (NAFISS) is used for all IMCOM MWR funds except for Europe. It is an old system that requires skilled programmers to make changes to accommodate special accounting and reporting needs. Rather than revising NAFISS, staff from Garrison to headquarters level have devised their own techniques to track and accumulate accounting transactions, and transfer them to NAFISS. At the headquarters level another system named Standard Management Information Reports for Finance (SMIRF) was developed to consolidate financial reports using the NAFISS data. Moreover, other techniques have been developed for reconciling property and other transactions that occur during the accounting period. Accountability can be lost in the process, as staff at various levels can make adjustments that are not consistent with proper accounting policies and procedures. For these reasons IMCOM MWR has had difficulty producing timely information that is in compliance with Generally Accepted Accounting Principles (GAAP).

In order to make NAFISS information auditable, it was initially necessary to reformat the information. Both the auditors and client staff spent extensive time to establish a process for reconciling financial data, and there were unusual delays, particularly for the initial years of our audits, until sufficient information was available to proceed. A property manager told us that they have developed extensive electronic spreadsheets and manual processes to insure accountability over property because NAFISS as it is currently structured does not meet their needs. The NAFISS system continues to require labor intensive reconciliation processes, but NAF Texarkana has undertaken procedures which substantially reduced the significant audit delays encountered in the past.

Recommendations:

We recommend that IMCOM MWR assure that:

1. A comprehensive accounting system is developed and implemented for non-appropriated fund activities.
2. Alternative systems are evaluated for potential use as a bridge until a comprehensive system can be implemented.

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Management Response to Recommendations:

1. G9 response: Concur. This is an ongoing Army-wide project. IMCOM G9 continues to work with Army system integration proponents, and, after approval to proceed with the project is received from ASA-IE&E and ASA-FM, will utilize a selected systems expert consulting firm to meet the requirements for the implementation of an Army-wide NAF Financial system for nonappropriated funds. Implementation of the new NAF Financial System is projected by the end of FY 2016.
2. G9 response: Concur. Due to the aggressive timeline established (FY 2014-FY 2016) for the NAF Financial System, it is not anticipated that fielding interim systems or bridges would be practical, achievable or cost effective.

Auditor's Evaluation of Management's Response:

Management's response above indicates continued progress in development and use of accounting systems and is consistent with our recommendations.

Access Control Considerations

Access controls should be in place to consistently limit, detect, or monitor access to financial applications, computer programs, data, equipment, and facilities thereby protecting against unauthorized modification, disclosure, loss, or impairment. Such controls include both logical and physical security controls to ensure that employees, contractors, and staff will be granted only the access privileges necessary to perform business functions. We found the following issues concerning access controls:

BBB-1 Observation (Repeat Finding):

Installation Management Command G-9 [formerly Family, Morale, Welfare and Recreation Command (FMWRC)] Application Services Provider (ASP) Identification and Authentication (I&A) standards were not enforced uniformly throughout the Pacific Region in the RecTrac/GolfTrac and Child Youth Management System (CYMS) applications.

We noted that RecTrac and/or CYMS applications did not have password parameter settings compliant with I&A standards. Enforcing password parameters would restrict access to the application and ensure accountability for the individuals creating the transactions.

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Recommendations:

All Army Regions and Garrisons should follow G-9 ASP I&A standards for application password parameters. Password devices for the RecTrac/GolfTrac and CYMS applications should be applied to the default settings for all users, and these requirements should be uniform throughout the world.

Also, mainframe password parameters should adhere to the Army Password Standards.

Management Response to Recommendations:

G9 Response: Concur. G9 FMWR program managers will continue efforts to address all ASP I&A standards in their program areas to ensure that they are enforced uniformly. While the policy for password strength and length is contained in the DoD Information Assurance Certification and Accreditation Process (DIACAP) documentation available on the AKO website, IMCOM will re-emphasize these password requirements to the Garrisons.

Auditor's Evaluation of Management Response:

Effective implementation of actions noted in management's response should resolve the conditions that led to our recommendation.

BBB-2 Observation (Repeat Finding):

We noted that the servers for the applications (RecTrac and CYMS) in the Pacific Region were often located in offices and did not have dedicated cooling, fire protection, physical access controls, or water damage protection.

Recommendations:

IMCOM should provide all Regions guidance on the protection of financial management servers. Environmental controls should include proper cooling, fire protection, physical access controls, and water damage measures.

Management Response to Recommendations:

G9 Response: Concur. The Army Data Center Consolidation Program (ADCCP) has established requirements for all local servers on the Garrisons to be placed in the Installation Processing Node (IPN) Data Center on the Garrison. The ADCCP requirements were specifically established to address the primary concerns identified by the Audit for the inherited Information Assurance Controls. Each Garrison Network Enterprise Center (NEC) is developing a Plan of Actions and Milestones (POAM) to reflect this transition. The ADCCP transition spans FYs 2012-2015.

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Auditor's Evaluation of Management Response:

Effective implementation of actions noted in management's response should resolve the conditions that led to our recommendation.

BBB-3 Observation (Repeat Finding):

We noted that there are no formal procedures in place for review of security and violation audit logs for RecTrac and CYMS at the Pacific Region. Information is automatically gathered by the applications that could be used to review for anomalous or suspicious activity. Review of audit logs provides valuable information regarding application user activity, enhances accountability, and can detect and prevent inappropriate actions from being taken.

Recommendation:

IMCOM should implement formal procedures and schedules for review of application audit logs to ensure that transactions are processed appropriately and are valid. Guidance should be provided to Regional Garrisons regarding what logs need to be reviewed, how often the reviews should take place, and what they should be looking for (i.e. suspicious activity, excessive overrides etc.).

Management Response to Recommendation:

G9 Response: Concur. G9 Program Managers for RecTrac and CYMS, in coordination with G6, will continue to develop and refine operating procedures for the review of security and violation audit logs. These procedures will mandate designation of individuals to review the audit logs, identification of which audit logs need to be reviewed, and periodic frequency required for these reviews. Target date NLT 30 Sep 15.

Auditor's Evaluation of Management Response:

Effective implementation of actions noted in management's response should resolve the conditions that led to our recommendation.

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BBB-4 Observation (New Finding):

It was noted that there were instances of administrator accounts being shared within the RecTrac/CYMS applications at the Pacific Region. Initially only one user had access to the account so only one account was needed, but as more individuals required elevated privileges within the application they were all given credentials to one account. This presents a risk of accountability where several users are accessing one account so the actions taken by that account could not be assigned to one specific individual. The issue was addressed by management once it was identified.

Recommendations:

IMCOM should ensure that all user accounts including elevated privilege and administrator accounts are assigned to one specific individual and that accounts are not shared among several users. A review should take place to identify any accounts that are currently being shared and to remediate any issues that are found.

Management Response to Recommendations:

G9 Response: Concur. G9 Program Managers for RecTrac and CYMS, in coordination with G6, will provide guidance to IMCOM garrisons to ensure proper segregation of elevated privilege and administrator accounts to preclude account sharing among users and eliminate any current account sharing. Target date NLT 30 Sep 15.

Auditor's Evaluation of Management Response:

Effective implementation of actions noted in management's response should resolve the conditions that led to our recommendation.

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MWR Portion of Army Recreation Machine Program (ARMP) Revenue

CCC-1 Observation (New Finding):

During our discussions with the Europe region, there were three instances where the IMCOM MWR ARMP revenue and/or change funds have gone missing or were stolen. The occurrences of these instances were at Bamberg, Schweinfurt, and Schinnen in the amounts of roughly \$27 thousand, \$90 thousand, and \$45 thousand, respectively. As a result of these losses, actions were taken to tighten cash deposit and accounting controls over the MWR 10 percent share and there have been no losses of this share discovered since. Part of these losses, however, consisted of the change funds required at MWR facilities to support the ARMP program. Currently, MWR management is required to perform periodic surprise cash counts of these funds and to review MWR facility cash internal control performance. However, an additional theft of change funds associated with this program occurred in FY14.

Recommendations:

The MWR should perform higher frequency of surprise cash counts of sizable change funds used to support the ARMP program.

The MWR should work with ARMP and DFAS to determine if the MWR 10 percent share reconciliation process can be improved upon. The current MWR process is very similar to the one used by ARMP for its 90 percent share. The ARMP reconciliation process, however, is generally automated whereas the MWR process is manual and, therefore, labor intensive. One possibility worth considering is that 100% of MWR ARMP revenue cash drops be deposited into the ARMP bank account and then the applicable MWR allocation (20 percent of the total effective 01 Oct 14) be transferred to the MWR via wire within a set period of time.

Also, the MWR should review current change fund levels in coordination with ARMP semiannually to determine the proper levels of cash required to support the ARMP program and adjust balances accordingly.

Management Response to Recommendations:

G9 Response. Management concurs that a higher frequency of cash counts needs to occur however using ARMP to transfer the funds back to the MWR location does not address the root of the problem. To address the serious nature of these incidents G9 is working together with IMCOM Internal Review to provide a focused audit on the internal controls of safeguarding cash resources within the facility. Primary efforts will start in the Europe Region where these occurrences have been most observed. In addition specific emphasis on internal controls has been inserted into the FY15 IMCOM-MWR SOP and is part of the command inspection program.

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Auditor's Evaluation of Management Response:

Effective implementation of actions noted in management's response should help resolve the conditions that led to our recommendation.

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THE FOLLOWING ARE MATTERS DISCLOSED AS FINDINGS FOR THE PRIOR FISCAL YEAR AUDIT BUT NOT FOR FISCAL YEAR 2013:

Formal policies and procedures have been put in place regarding the administration of new system access rights as well as the removal of system access for terminated/separated employees. (Prior Year BBB-2)