

Department of Defense  
Department of the Army  
**CONSOLIDATED BALANCE SHEET**  
As of June 30, 2006 and 2005

	<b>2006 Consolidated</b>	<b>2005 Consolidated Restated</b>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 138,012,109,186.51	\$ 130,313,931,791.52
b. Non-Entity Seized Iraqi Cash	35,898,732.31	77,285,422.99
c. Non-Entity-Other	431,437,318.94	261,122,571.02
2. Investments (Note 4)	3,587,208.85	3,552,511.39
3. Accounts Receivable (Note 5)	587,214,247.59	461,530,027.71
4. Other Assets (Note 6)	548,497,080.68	783,297,724.95
5. Total Intragovernmental Assets	<u>\$ 139,618,743,774.88</u>	<u>\$ 131,900,720,049.58</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 1,552,829,960.41	\$ 1,767,614,048.58
C. Accounts Receivable, Net (Note 5)	541,204,718.12	687,231,870.80
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	34,737,594,061.75	35,294,115,215.72
F. General Property, Plant and Equipment, Net (Note 10)	78,922,752,623.58	74,035,465,782.79
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	4,716,907,216.20	3,908,962,797.87
<b>2. TOTAL ASSETS</b>	<u><u>\$ 260,090,032,354.94</u></u>	<u><u>\$ 247,594,109,765.34</u></u>
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 1,771,301,514.95	\$ 2,305,057,678.60
2. Debt (Note 13)	11,148,162.00	0.00
3. Other Liabilities (Note 15 & 16)	3,098,082,173.41	2,720,040,958.53
4. Total Intragovernmental Liabilities	<u>\$ 4,880,531,850.36</u>	<u>\$ 5,025,098,637.13</u>
B. Accounts Payable (Note 12)	\$ 10,139,324,458.35	\$ 9,537,954,144.11
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,663,649,828.85	1,632,842,810.96
D. Environmental and Disposal Liabilities (Note 14)	46,936,597,929.00	39,538,732,000.00
E. Loan Guarantee Liability (Note 8)	988,651.97	12,352,470.32
F. Other Liabilities (Note 15 & Note 16)	7,417,014,386.54	8,429,611,561.77
<b>4. TOTAL LIABILITIES</b>	<u>\$ 71,038,107,105.07</u>	<u>\$ 64,176,591,624.29</u>
<b>5. NET POSITION</b>		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	132,996,487,295.63	120,074,208,762.73
C. Cumulative Results of Operations - Earmarked Funds	39,793,884.61	0.00
D. Cumulative Results of Operations - Other Funds	56,015,644,069.63	63,343,309,378.32
<b>6. TOTAL NET POSITION</b>	<u>\$ 189,051,925,249.87</u>	<u>\$ 183,417,518,141.05</u>
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 260,090,032,354.94</u></u>	<u><u>\$ 247,594,109,765.34</u></u>

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**CONSOLIDATED STATEMENT OF NET COST**  
 For the periods ended June 30, 2006 and 2005

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 135,866,771,014.41	\$ 113,341,754,492.24
B. (Less: Earned Revenue)	(7,782,447,511.51)	(6,758,741,289.37)
C. Net Program Costs	<u>\$ 128,084,323,502.90</u>	<u>\$ 106,583,013,202.87</u>
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	<u><u>\$ 128,084,323,502.90</u></u>	<u><u>\$ 106,583,013,202.87</u></u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated Restated
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<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 115,242,623,448.98	\$ 109,208,001,018.58
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	(44,270,000,000.00)	(43,012,000,000.00)
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<b>3. Beginning balances, as adjusted</b>	70,972,623,448.98	66,196,001,018.58
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc.) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	116,452,051,375.79	104,428,698,000.88
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	7,606,152.84	0.00
4.E.2 All other funds	0.00	9,215,995.23
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	4,390,327.37	0.00
4.F.2 All other funds	0.00	2,764,564.22
4.G. Transfers-in/out without reimbursement (+/-)	431,303,580.00	3,033,534,781.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	(3,861,499,021.45)	(2,877,321,180.07)
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	212,467,589.92	418,421,752.11
5.C. Imputed financing from costs absorbed by others	704,517,439.62	858,601,335.78
5.D. Other (+/-)	(783,699,435.93)	(2,143,593,686.54)
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<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	11,971,581.63	0.00
6.B. All other funds	113,155,166,426.53	103,730,321,562.61
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	7,317,399.67	0.00
7.B. All other funds	128,077,006,103.23	106,583,013,202.87
<b>8. Net Change</b>		
8.A. Earmarked funds	4,654,181.96	0.00
8.B. All other funds	(14,921,839,676.70)	(2,852,691,640.26)
<b>9. Ending Balances</b>		
9.A. Earmarked funds	39,793,884.61	0.00
9.B. All other funds	56,015,644,069.63	63,343,309,378.32

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2006 and 2005

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>10. Total all funds</b>	\$ <u>56,055,437,954.24</u>	\$ <u>63,343,309,378.32</u>

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>1. Beginning Balances</b>	\$ 74,704,745,376.80	\$ 73,238,303,727.98
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	<u>74,704,745,376.80</u>	<u>73,238,303,727.98</u>
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	173,013,505,000.00	149,831,938,000.00
4.B. Appropriations transferred-in/out (+/-)	3,189,856,172.00	1,755,106,329.00
4.C. Other adjustments (rescissions, etc) (+/-)	(1,459,567,877.38)	(322,441,293.37)
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	(116,452,051,375.79)	(104,428,698,000.88)
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	58,291,741,918.83	46,835,905,034.75
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
<b>8. Net Change</b>		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	58,291,741,918.83	46,835,905,034.75
<b>9. Ending Balances</b>		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	132,996,487,295.63	120,074,208,762.73

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2006 and 2005

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>10. Total all funds</b>	\$ <u>132,996,487,295.63</u>	\$ <u>120,074,208,762.73</u>

Department of Defense  
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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 15,477,291,031.75	\$ 22,880,756,443.64
2. Recoveries of prior year unpaid obligations	11,917,012,816.20	18,628,381,959.87
3. Budget authority		
3.A. Appropriation	173,025,758,944.12	149,844,420,514.52
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	15,124,081,326.66	14,468,385,584.43
3.D.1.b. Change in receivables from Federal sources	(1,028,081.12)	(252,363,162.58)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	296,625,743.23	131,494,661.21
3.D.2.b. Without advance from Federal sources	2,765,730,525.26	4,316,996,694.27
3.D.3. Anticipated for rest of year, without advances	1,097,154,280.15	512,033,419.16
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	192,308,322,738.30	169,020,967,711.01
4. Nonexpenditure transfers, net, anticipated and actual	3,189,856,172.00	2,005,106,329.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(1,459,567,877.38)	(322,441,293.37)
<b>7. Total Budgetary Resources</b>	<b>\$ 221,432,914,880.87</b>	<b>\$ 212,212,771,150.15</b>

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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 133,200,475,002.59	\$ 136,461,874,202.75
8.B. Reimbursable	14,218,451,411.15	13,978,113,642.48
8.C. Subtotal	<u>147,418,926,413.74</u>	<u>150,439,987,845.23</u>
9. Unobligated balance:		
9.A. Apportioned	70,885,808,634.83	59,217,097,007.32
9.B. Exempt from apportionment	39,737,472.07	33,931,674.33
9.C. Subtotal	<u>70,925,546,106.90</u>	<u>59,251,028,681.65</u>
10. Unobligated balance not available	3,088,442,360.23	2,521,754,623.27
<b>11. Total status of budgetary resources</b>	<u>\$ 221,432,914,880.87</u>	<u>\$ 212,212,771,150.15</u>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	80,720,879,554.62	71,629,015,757.38
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ (16,351,456,802.92)</u>	<u>\$ (14,606,616,936.16)</u>
12.C. Total unpaid obligated balance	64,369,422,751.70	57,022,398,821.22
13. Obligations incurred net (+/-)	<u>\$ 147,418,926,413.74</u>	<u>\$ 150,439,987,845.23</u>
14. Less: Gross outlays	(137,073,064,287.69)	(124,350,194,104.66)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(11,917,012,816.20)</u>	<u>(18,628,381,959.87)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(2,764,702,444.14)	(4,064,633,531.69)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	79,149,728,864.47	79,090,427,538.08
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(19,116,159,247.06)</u>	<u>(18,671,250,467.85)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>60,033,569,617.41</u>	<u>60,419,177,070.23</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	137,073,064,287.69	124,350,194,104.66
19.B. Less: Offsetting collections	(15,420,707,069.89)	(14,599,880,245.64)
19.C. Less: Distributed Offsetting receipts	<u>(773,848,919.57)</u>	<u>(142,836,984.09)</u>
<b>19.D. Net Outlays</b>	<u>\$ 120,878,508,298.23</u>	<u>\$ 109,607,476,874.93</u>



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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended June 30, 2006 and 2005

	<u>2006 Combined</u>	<u>2005 Combined</u>
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Unobligated balance, brought forward, October 1	\$ 1,525,335.32	\$ 1,424,460.32
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	11,711,937.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	59,500.00
3.D.1.b. Change in receivables from Federal sources	31,031.25	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	100,000.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>11,842,968.25</u>	<u>59,500.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
<b>7. Total Budgetary Resources</b>	<u><u>\$ 13,368,303.57</u></u>	<u><u>\$ 1,483,960.32</u></u>



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**CONSOLIDATED STATEMENT OF FINANCING**  
For the periods ended June 30, 2006 and 2005

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 147,430,362,638.34	\$ 150,439,987,845.23
2. Less: Spending authority from offsetting collections and recoveries (-)	(30,102,453,361.48)	(37,292,955,237.20)
3. Obligations net of offsetting collections and recoveries	117,327,909,276.86	113,147,032,608.03
4. Less: Offsetting receipts (-)	(773,848,919.57)	(142,836,984.09)
5. Net obligations	116,554,060,357.29	113,004,195,623.94
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	212,467,589.92	418,421,752.11
8. Imputed financing from costs absorbed by others	704,517,439.62	858,601,335.78
9. Other (+/-)	(783,699,435.93)	0.00
10. Net other resources used to finance activities	133,285,593.61	1,277,023,087.89
<b>11. Total resources used to finance activities</b>	<b>\$ 116,687,345,950.90</b>	<b>\$ 114,281,218,711.83</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	1,175,453,879.71	(7,957,886,040.57)
12b. Unfilled Customer Orders	3,062,356,268.49	4,448,491,355.48
13. Resources that fund expenses recognized in prior periods	(170,494,483.59)	(1,576,715,369.36)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	773,848,919.57	142,896,484.09
15. Resources that finance the acquisition of assets	(8,789,819,816.49)	(17,780,956,537.98)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	571,231,846.01	(418,421,752.11)
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<b>\$ (3,377,423,386.30)</b>	<b>\$ (23,142,591,860.45)</b>
<b>18. Total resources used to finance the net cost of operations</b>	<b>\$ 113,309,922,564.60</b>	<b>\$ 91,138,626,851.38</b>

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**CONSOLIDATED STATEMENT OF FINANCING**  
For the periods ended June 30, 2006 and 2005

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	392,167,678.82	245,635,846.96
20. Increase in environmental and disposal liability	7,176,083,929.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	116,985,954.79	7,688.37
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<u>7,685,237,562.61</u>	<u>245,643,535.33</u>
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	5,807,165,333.56	11,591,114,576.43
26. Revaluation of assets or liabilities (+/-)	403,187.09	1,073,955.46
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(8,703.16)	(58,496.43)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	1,281,603,558.20	3,606,612,780.70
28. Total components of Net Cost of Operations that will not require or generate resources	<u>7,089,163,375.69</u>	<u>15,198,742,816.16</u>
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<u>\$ 14,774,400,938.30</u>	<u>\$ 15,444,386,351.49</u>
<b>30. Net Cost of Operations</b>	<u>\$ 128,084,323,502.90</u>	<u>\$ 106,583,013,202.87</u>



<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the Department of the Army, as required by the Chief Financial Officers Act of 1990 (CFO Act), amended by the Government Management Reform Act of 1994 (GMRA), and other appropriate legislation. The financial statements have been prepared from the books and records of Army General Fund in accordance with the Department of Defense (DoD) Financial Management Regulation; Office of Management and Budget (OMB) Circular A-136 (formerly OMB Bulletin No. 01-09), "Financial Reporting Requirements"; and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which Army General Fund is responsible. Under the above guidance, classified assets, programs, and operations have been excluded from the statements or aggregated and reported in such a manner that they are no longer classified. The Army General Fund financial statements are in addition to the financial reports prepared by Army General Fund pursuant to OMB directives that are used to monitor and control Army General Fund use of budgetary resources.

The Army General Fund is unable to fully implement all elements of Federal GAAP and OMB Circular A-136, due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The Army General Fund derives its reported values and information for major asset and liability categories largely from nonfinancial feeder systems, such as inventory and logistics systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations, rather than preparing financial statements in accordance with Federal GAAP. As a result, Army General Fund cannot currently implement every aspect of Federal GAAP and OMB Circular A-136. The Army General Fund continues to implement process and system improvements addressing the limitations of its financial and non-financial feeder systems. Further explanation of these financial statement elements is provided in the applicable note.

Fiscal Year (FY) 2006 is the sixteenth year that Army General Fund has prepared financial statements required by the CFO Act, GMRA, and Federal Financial Management Improvement Act of 1996 (FFMIA), (P.L. 104-208). The purpose of the CFO Act was to bring more effective financial and operational management practices to the Federal government through statutory provisions; provide for improvement of accounting, systems, financial management, and internal controls; and provide for the production of complete, reliable, timely, and consistent financial information. GMRA extended the CFO Act to all activities of Executive Branch agencies. FFMIA expanded reporting requirements under the CFO Act. The reporting entities within Army General Fund changed to facilitate these reporting requirements.

### **1.B. Mission of the Reporting Entity**

The overall mission of Army General Fund is to organize, train, equip, and support armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. It is no longer a world in which two hostile superpowers face each other. It is our nation's force of decision a full spectrum force trained and ready to respond to a wide range of crises, from fighting and winning major theater wars, to peacekeeping, humanitarian relief missions, and disaster relief in communities at home.

The primary mission of the Army remains constant: to fight and win the nation's wars. In an uncertain world, the Army performs a wide variety of other missions around the world and at home including deterring potential adversaries, reassuring and lending stability to allies, supporting our communities in times of emergency, preserving peace and security, supporting national policies, and implementing national objectives. During times of war, implementation of planned initiatives may be delayed as funding is redirected toward supporting the primary mission.

In addition to its military operations, the Army is frequently deployed both at home and abroad in response to natural disasters. Nationally, the Army provides substantial support to relief operations associated with storms, tornadoes, and hurricanes. The Army also provides support and relief assistance abroad. Whatever the mission, committing the Army commits the nation.

### **1.C. Appropriations and Funds**

The Army General Fund appropriations and funds are divided into the general, working capital (revolving funds), trust, special, deposit funds and earmarked funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing Army General Fund missions.

General funds are used for financial transactions arising under congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction accounts.

Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. Revolving funds operate with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations are normally available in their entirety for use without further congressional action.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Special fund accounts are used to process government receipts earmarked for a specific purpose.

Deposit funds are generally used to: (1) hold assets for which Army General Fund is acting as an agent or custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

Earmarked Funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish it from general revenues.

#### **1.D. Basis of Accounting**

The Army General Fund generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2006, Army General Fund financial management systems were unable to meet all of the requirements for full accrual accounting. Many of Army General Fund financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. In addition, most of Army General Fund financial management systems do not comply with the US Government Standard General Ledger (USSGL) at the transaction level. The Army General Fund has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of Army General Fund accounting systems to record transactions based on the USSGL. Until such time as Army General Fund systems and processes are updated to collect and report financial information as required by Federal GAAP, Army General Fund financial data will be based on budgetary transactions, nonfinancial feeder system transactions, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. When possible, the financial statements are presented on the accrual accounting basis. One example of information presented on the budgetary basis is data on the Statement of Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, Army General Fund identifies programs costs based upon the major appropriation groups provided by Congress. The Army General Fund does not, however, accumulate costs for major programs based upon the performance measures as required by the Government and Performance and Results Act (GPRA). The Army General Fund



is reviewing available data and attempting to develop a cost reporting methodology that provides the cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

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

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Army General Fund recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Full cost pricing is Army General Fund standard policy for services provided as required by OMB Circular A-25. Revenue is recognized when earned under the reimbursable order process.

The Army General Fund does not include nonmonetary support provided by U.S. Allies for common defense and mutual security in its list of other financing sources that appear in the Statement of Net Cost and the Statement of Financing. The U.S. has agreements with foreign countries that include both direct or indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement or where U.S. troops are stationed. The DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the financial statements in accordance with GAAP. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

#### **1.F. Recognition of Expenses**

For financial reporting purposes, the DoD policy requires recognition of operating expenses in the period incurred; however, Army General Fund financial and nonfinancial feeder systems were not always designed to collect and record financial information on the full accrual accounting basis. Accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in Army General Fund operations until depreciated, in the case of Property, Plant and Equipment (PP&E), or consumed, in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in net position. Certain expenses, such as civilian annual leave and military leave earned but not taken, are financed in the period in which payment is made.

The Army General Fund adjusted operating expenses as a result of the elimination of balances between DoD components. See Note 18, Disclosures Related to the Statement of Net Cost for further information.

### **1.G. Accounting for Intragovernmental Activities**

The Army General Fund, 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 Army General Fund as though the agency was a stand-alone entity.

The Army General Fund's proportionate share of public debt and related expenses of the Federal government are not included. The Federal government does not apportion debt and its related costs to Federal agencies. The Army General Fund financial statements, therefore, do not report any portion of the public debt or interest, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of Army General Fund facilities is obtained through budget appropriations. To the extent this financing was obtained through issuance of public debt, interest costs were not capitalized since the Department of the Treasury does not allocate these interest costs to the benefiting agencies.

The Army General Fund civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under social security. The Army General Fund funds a portion of the civilian and military pensions. Reporting civilian pensions under CSRS and FERS is the responsibility of the Office of Personnel Management (OPM). The Army General Fund recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

Assets, funded actuarial liability, and unfunded actuarial liability for military personnel are reported in the Military Retirement Fund (MRF) financial statements. The actuarial liability for military retirement health benefits is recognized in the Other Defense Organization General Fund column of DoD Agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within Army General Fund must be eliminated; however, Army General Fund, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of Army General Fund. For FYs 1999 and beyond, entities within the DoD provided summary balances for revenue, accounts receivable, and unearned revenue to the trading partner's internal DoD accounting offices. In most cases, the trading partner records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Army General Fund accounting systems do not capture trading partner information at the transaction level. Therefore, current systems cannot produce data necessary for reconciliations between entities, nor eliminate all intragovernmental transactions between trading partners. As a result, Army General Fund balances are compared to trading partner's data summarized at the component trial balance level. Based on these comparisons, the amount of intragovernmental transactions for expenses, accounts payable, and advances is forced to agree with the trading partner's revenue, accounts receivable, and unearned revenue information.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between Army General Fund and other federal agencies. In September 2000, FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Army General Fund was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The Army General Fund, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," issued October 2002, for reconciling intragovernmental transactions. These transactions pertain to investments in Federal securities, borrowings from the Department of the Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with OPM.

#### **1.H. Transactions with Foreign Governments and International Organizations**

Each year, Army General Fund components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, Army General Fund has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

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

The Army General Fund financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the U.S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury account maintained in the Treasury's system. Differences between Army General Fund recorded balance in the Fund Balance with Treasury accounts and Treasury's Fund Balance with Treasury accounts sometimes result and are subsequently reconciled. Material disclosures are provided in Note 3, Fund Balance with Treasury. Differences between accounting offices' detail-level records and Treasury's Fund Balance with Treasury accounts are disclosed in Note 3, Fund Balance with Treasury, Disclosures Related to Problem Disbursements and In-Transit Disbursements, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

### **1.J. Foreign Currency**

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

The majority of cash and all foreign currency is classified as nonentity and, therefore, is restricted. Amounts reported consist primarily of cash and foreign currency held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Cash seized during Operation Iraqi Freedom is restricted for use to assist the Iraqi people and support the restoration of Iraq.

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

### **1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. The Army General Fund bases the allowances for uncollectible accounts that are due from the public upon analysis of collection experience by fund type. The Army General Fund does not recognize an allowance for estimated uncollectible amounts from other federal agencies.

Claims against other Federal agencies are to be resolved between the agencies. See Note 5, Accounts Receivable, for material disclosures.

#### **1.L. Loans Receivable**

Not applicable.

#### **1.M. Inventories and Related Property**

Inventories are reported at approximate historical cost using Latest Acquisition Cost (LAC) adjusted for holding gains and losses.

The Army General Fund uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." They are also unable to directly produce financial transactions using the USSGL, as required by FFMIA of 1996 (P.L. 104-208). DoD is transitioning to a Moving Average Cost methodology for valuing inventory that, when fully implemented, will allow Army General Fund to comply with SFFAS No. 3.

SFFAS No. 3 distinguishes between inventory held for sale and inventory held in reserve for future sale. There is no difference in how these accounts are managed or valued. Normally, Army General Fund manages only military or government-specific material. The Army General Fund does not manage items commonly used in and available from the commercial sector. In addition, operational cycles are irregular, and the military risks associated with stock-out positions have no commercial equivalent. The Army General Fund holds material based on military need and support for contingencies. Therefore, Army General Fund does not attempt to account separately for items held for current or future sale.

Related property includes OM&S and stockpile materials. OM&S, including munitions not held for sale, are valued at standard purchase price. For the most part, Army General Fund uses the consumption method of accounting for OM&S by expensing material when issued to the end user. Where current systems cannot fully support the consumption method, Army General Fund uses the purchase method - that is, items are expensed when purchased. The Army General Fund reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

The Army General Fund accounts for condemned material as excess, obsolete, and unserviceable. The net value of condemned material is zero because disposal costs are greater than potential scrap value.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided in Note 9, Inventory and Related Property.

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

The Army General Fund reports investments in Department of the Treasury securities at cost, net of unamortized premiums or discounts. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Army General Fund intends to hold investments until maturity, unless needed to finance claims or otherwise sustain operations. Consequently, Army General Fund does not make provisions for unrealized gains or losses on these securities.

The Army General Fund invests in both marketable and nonmarketable securities. Marketable securities are investments trading on a public market. The two types of nonmarketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded. Material disclosures related to investments in treasury securities are provided in Note 4, Investments and Related Interest.

#### **1.O. General Property, Plant and Equipment**

General Property, Plant and Equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the DoD capitalization threshold of \$100 thousand. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100 thousand for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

The DoD revised the capitalization threshold from \$100 thousand to \$20 thousand for real property. The Army will validate existing real property values and implement sustainable business processes prior to incorporating the revised capitalization threshold for financial statement reporting. The current \$100 thousand capitalization threshold remains unchanged for the remaining General PP&E categories.

#### **Military Equipment**

The SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," establishes generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The Standard provides for the use of estimated historical cost for valuing military equipment if obtaining actual historical cost information is not practical. The Department estimated historical cost using the Bureau of Economic Analysis (BEA)

estimates to calculate the value of the military equipment for reporting periods from October 1, 2002 through March 31, 2006.

Effective for reporting periods beginning after March 31, 2006, the Department is replacing the BEA estimation methodology with military equipment values based on internal Departmental records. The Department initially identified the universe of military equipment by meeting with program managers to gather information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals. The military equipment baseline is updated using expenditure information, and information from acquisition and logistics personnel to identify acquisitions and disposals.

### **Contractor Provided**

When it is in the best interest of the government, Army General Fund provides government property to contractors that is necessary to complete their contract work. Such property is either owned or leased by Army General Fund, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on Army General Fund Balance Sheet.

DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, Army General Fund reports only the portion of government property in the possession of contractors that is maintained in Army General Fund property systems.

To bring Army General Fund into full compliance with federal accounting standards, the DoD has issued new property accountability and reporting regulations that require the DoD Components to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

Material disclosures related to General PP&E are provided in Note 10, General PP&E, Net.

### **1.P. Advances and Prepayments**

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

### **1.Q. Leases**

Generally, lease payments are for the rental of operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), Army General Fund records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The Army General Fund records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor), or the asset's fair value. The Army General Fund deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. In addition, Army General Fund classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

### **1.R. Other Assets**

The Army General Fund conducts business with commercial contractors under two primary types of contracts fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, Army General Fund provides financing payments. One type of financing payment that Army General Fund makes, for real property, is based upon a percentage of completion. In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

In addition, based on the Federal Acquisition Regulation, Army General Fund makes financing payments under fixed price contracts. The Army General Fund reports these financing payments in the Other Assets line item, because Army General Fund becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, Army General Fund is not obligated to reimburse the contractor for its costs and the contractor is liable to repay Army General Fund for the full amount of the advance.

### **1.S. Contingencies and Other Liabilities**

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



Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but at least a reasonable possibility that a loss or additional loss will be incurred. Loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The Army General Fund loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for Army General Fund assets. This type of liability has two components nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon Army General Fund policies, which are consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management decides to dispose of the asset.

The Army General Fund, by means of the Armament Retooling and Manufacturing Support (ARMS) Initiative legislation, has been authorized to establish a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities and Army General Fund recognizes the loan guarantee liability. The Army General Fund is authorized by Public Law 103-337, the National Defense Authorization Act for Fiscal Year 1995, to enter into this agreement with the U.S. Department of Agriculture Rural Business-Cooperative Service (RBS).

For material disclosures, see:

Notes 8, Direct Loan and/or Loan Guarantee Programs.

Note 14, Environmental Liabilities and Disposal Liabilities.

Note 15, Other Liabilities.

#### **1.T. Accrued Leave**

Civilian annual leave and military leave that have been accrued and not used as of the balance sheet date are reported as a liability. The liability reported at the end of the fiscal year reflects the current pay rates.

#### **1.U. Net Position**

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent budget authority, which is unobligated and has not been rescinded or withdrawn, and funds obligated but for which legal liabilities have not been incurred.

Cumulative results of operations represents the difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue,

and gains). Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

#### **1.V. Treaties for Use of Foreign Bases**

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by DoD. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

#### **1.W. Comparative Data**

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY 2006. Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or greater than ten percent between FY 2005 and FY 2006, are explained within the Notes to the Financial Statements.

#### **1.X. Unexpended Obligations**

The Army General Fund obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered.

#### **1.Y. Undistributed Disbursements and Collections**

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the Department of the Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. In-transit payments are those payments that have been made to other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. The Army General Fund uses specific identification to categorize supported undistributed collections as federal or nonfederal accounts receivable. The Army General Fund allocates all undistributed disbursements based on a comparison of accounts payable to the accounts receivable of federal entities providing goods and services to Army General Fund. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The Army General Fund follows this procedure.

### **1.Z. Development Fund for Iraq**

On June 28, 2004, transfer of power from the Coalition Provisional Authority (CPA) to the Interim Iraqi Government (IIG) occurred. Prior to the transfer, the CPA was responsible for the management and accounting of the Development Fund for Iraq (DFI). Ongoing resolution of issues surrounding transfers of approximately \$1.7 billion of DFI assets, including \$86 million transferred from IIG to the Multi-National Force-Iraq in August 2004, will require additional disclosure in future financial statements. The Army General Fund has established a plan to reconcile and account for these amounts and record DFI funds received. As of the 3rd Quarter, FY 2006, Army General Fund has reconciled the \$86 million transferred from IIG. The Army General Fund has recorded a total of \$136 million in DFI assets, which includes the \$86 million reconciled and a \$50 million transfer in 1st Quarter, FY 2005. See Note 22 for additional discussion on DFI.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2006	2005
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 467,336,051.25	\$ 338,407,994.01
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 467,336,051.25	\$ 338,407,994.01
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 1,552,829,960.41	\$ 1,767,614,048.58
B. Accounts Receivable	38,189,711.19	80,071,007.28
C. Other Assets	0.00	131,632.12
D. Total Nonfederal Assets	\$ 1,591,019,671.60	\$ 1,847,816,687.98
<b>3. Total Nonentity Assets</b>	\$ 2,058,355,722.85	\$ 2,186,224,681.99
<b>4. Total Entity Assets</b>	\$ 258,031,676,632.09	\$ 245,407,885,083.35
<b>5. Total Assets</b>	\$ 260,090,032,354.94	\$ 247,594,109,765.34

Nonentity assets are assets for which Army General Fund maintains stewardship accountability and responsibility to report, but are not available for Army General Fund's operation.

**Definitions**

Nonentity Fund Balance with Treasury consists of receipt accounts, deposit funds, seized Iraqi cash, and development fund for Iraq. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. Development fund for Iraq consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds.

Nonentity Cash and Other Monetary Assets consist of cash held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Foreign currency is valued using the Department of Treasury prevailing rate of exchange.

Nonentity Nonfederal Accounts Receivable are primarily from cancelled year appropriations. These receivables will be returned to the Department of Treasury as miscellaneous receipts once collected.

Nonentity Nonfederal Other Assets reported in 3rd Quarter, FY 2005 consisted of advances to disbursing officers for contingency operations.

## **Fluctuations and/or Abnormalities**

Nonentity Intragovernmental Assets increased \$128.9 million, or 38 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to the fluctuations of Fund Balance with Treasury Nonentity Seized Iraqi Cash and Fund Balance with Treasury Nonentity Other.

Fund Balance with Treasury Nonentity Seized Iraqi Cash, as presented on the Balance Sheet, decreased \$41.4 million, or 54 percent, due to \$41.4 million in disbursements in support of the Iraqi people from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. Disbursements will continue until all cash is liquidated. (See Note 22, Disclosures Related to the Statement of Custodial Activity for detail on disbursements.)

Fund Balance with Treasury Nonentity Other, as presented on the Balance Sheet, increased \$170.3 million, or 65 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to recording of receipt accounts and Thrift Savings Plan suspense accounts as nonentity for the first time in 3rd Quarter, FY 2006. Army General Fund erroneously excluded receipt accounts from the Army fund balance with treasury in FY 2005 resulting in a \$116.0 million increase. In addition, Army General Fund implemented Office of the Secretary of Defense guidance to reclassify Thrift Savings Plan suspense accounts as nonentity resulting in a \$41.3 million increase.

Nonentity Nonfederal Assets decreased \$256.8 million, or 14 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to a decrease in cash and foreign currency of \$214.8 million, caused by a reduction in cash on hand by the Central Funding Mission supported by the 50th Finance Battalion in support of Operation Iraqi Freedom. The primary reduction occurred in 4th Quarter, FY 2005.

## **Note Reference**

For additional line item discussion, see:

Note 3, Fund Balance with Treasury

Note 5, Accounts Receivable

Note 6, Other Assets

Note 22, Disclosures Related to the Statement of Custodial Activity

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of June 30	2006	2005
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 137,936,167,119.45	\$ 121,671,058,763.83
B. Revolving Funds	36,534,511.87	49,623,546.86
C. Trust Funds	739,197.70	933,546.86
D. Special Funds	38,668,357.49	42,053,308.81
E. Other Fund Types	467,336,051.25	8,888,670,619.17
F. Total Fund Balances	\$ 138,479,445,237.76	\$ 130,652,339,785.53
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 138,460,825,708.25	\$ 130,629,525,717.23
B. Fund Balance per Army	138,479,445,237.76	130,652,339,785.53
<b>3. Reconciling Amount</b>	\$ (18,619,529.51)	\$ (22,814,068.30)

The Army General Fund reports an additional \$18.6 million in Fund Balance with Treasury than the Department of Treasury reports. This includes \$43.6 million in a transfer fund where Army General Fund executes the funding on behalf of the Executive Office of the President that is not included in Army General Fund's Fund Balance with Treasury. In addition, \$62.2 million in transfer funds where the Department of Transportation and Department of Agriculture execute on behalf of Army General Fund and not reported in the Department of Treasury's reports.

#### Fluctuations and/or Abnormalities

Entity Fund Balance with Treasury, as presented on the Balance Sheet, increased \$7.7 billion, or 6 percent, primarily due to an increase in the DoD appropriations received in 3rd Quarter, FY 2006. The supplemental ensures that resources, equipment, and supplies are available without interruption in support of Operation Iraqi Freedom and Operation Enduring Freedom. The supplemental also funds a military basic pay increase and an increase in basic allowance for housing. Finally the supplemental provides funds for the procurement of equipment to address immediate shortfalls for the National Guard and Reserve, for armor and personal protection equipment, and training and equipment for Afghan and Iraqi Security Forces.

#### Vested Iraqi Cash

The Army General Fund has collected \$1.7 billion of Vested Iraqi Cash. These funds are Iraqi funds in U.S. banks that were frozen by executive order, vested in the Department of Treasury, and authorized for use to benefit the people of Iraq. The Army General Fund has disbursed \$1.7 billion in support of the Iraqi people as follows:

(Amounts in thousands)	<u>Amount</u>
<b>Collected</b>	\$ 1,724,131
<b>Disbursed</b>	
Iraqi Salaries	\$ 1,184,791
Repair/Reconstruction/Humanitarian Assistance	148,974
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	<u>356,818</u>
Total Disbursed	<u>\$ 1,690,583</u>
<b>Remaining Funds</b>	<u>\$ 33,548</u>

### **Other Fund Types**

Other Fund Types consists of deposit funds, seized Iraqi cash development fund for Iraq, and receipt accounts. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. Development fund for Iraq consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds.

### **Note Reference**

For additional line item discussion, see:  
 Note 1.I., Significant Accounting Policies  
 Note 2, Nonentity Assets  
 Note 20, Disclosures Related to the Statement of Budgetary Resources  
 Note 22, Disclosures Related to the Statement of Custodial Activity

## Status of Fund Balance with Treasury

As of June 30	2006	2005
<b>1. Unobligated Balance</b>		
A. Available	\$ 69,829,279,964.00	\$ 58,739,522,539.79
B. Unavailable	3,089,130,663.80	2,521,754,623.27
<b>2. Obligated Balance not yet Disbursed</b>	\$ 79,149,728,864.47	\$ 60,415,639,055.59
<b>3. Nonbudgetary FBWT</b>	\$ 5,531,631,546.96	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (19,120,325,801.47)	\$ 0.00
<b>5. Total</b>	\$ 138,479,445,237.76	\$ 121,676,916,218.65

### Definitions

The Status of Fund Balance with Treasury consists of unobligated and obligated balances. These balances reflect the budgetary authority remaining for disbursements against current or future obligations. In addition, the Status includes various accounts that affect either budgetary reporting or Fund Balance with Treasury, but not both.

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed.

Nonbudgetary Fund Balance with Treasury includes entity and nonentity Fund Balance with Treasury accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

Non Fund Balance with Treasury Budgetary Accounts include budgetary accounts that do not affect Fund Balance with Treasury, such as contract authority, borrowing authority and investment accounts. This category reduces the Status of Fund Balance with Treasury.



## **Fluctuations and/or Abnormalities**

Unobligated Balance – Available increased \$11.1 billion, or 19 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to the increase in appropriations received in FY 2006. Appropriations received increased in Army General Fund’s operation and maintenance to fully fund key readiness programs critical to the Global War on Terror, in military pay due to an overall pay increase and an increase in basic allowance for housing to eliminate out-of-pocket expenses for military personnel, and for the procurement of equipment to address immediate shortfalls for the National Guard and Reserve.

Unobligated Balance - Unavailable increased \$567.4 million, or 23 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to \$374 million in National Guard military construction funds received in FY 2006 that have not yet been apportioned for obligation and \$100.6 million in unobligated authority for expired years that is no longer available for new obligations.

Obligated Balance not yet Disbursed increased \$18.7 billion, or 31 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to the breakout of Non Fund Balance with Treasury Budgetary Accounts into a separate line item in 4th Quarter, FY 2005.

Nonbudgetary Fund Balance with Treasury represents \$4.5 billion in Iraqi Relief and Reconstruction Fund which Army General Fund executes on behalf of the Executive Office of the President, \$251.9 million in deposit funds, \$35.9 million in seized Iraqi cash, \$22.4 million in development fund for Iraq, and \$621.8 million in suspense accounts, \$116.0 in receipt accounts. The change in DoD policy to classify Nonbudgetary Fund Balance with Treasury in this schedule took place in 4th Quarter, FY 2005 consequently causing a \$5.5 billion increase.

Non Fund Balance with Treasury Budgetary Accounts represents \$19.1 billion in reimbursable authority in support of logistical activities and land force readiness support for Army Procurement and Operations and Maintenance. The change in policy to classify Non Fund Balance with Treasury Budgetary Accounts in this schedule took place in 4th Quarter, FY 2005, consequently causing a \$19.1 billion decrease.

<b>Disclosures Related to Suspense/Budget Clearing Accounts</b>
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As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
<b>Account</b>				
F3845 – Personal Property Proceeds	\$ 4,433,498.76	\$ 1,886,109.85	\$ 359,559.33	(1,526,550.52)
F3875 – Disbursing Officer Suspense	(48,259,297.56)	87,572,200.82	609,459,179.69	521,886,978.87
F3880 – Lost or Cancelled Treasury Checks	(4,155,887.31)	8,532,180.31	11,922,892.81	3,390,712.50
F3882 – Uniformed Services Thrift Savings Plan Suspense	(799,477.23)	(983,924.66)	31,209,163.40	32,193,088.06
F3885 – Interfund/IPAC Suspense	(62,734,976.25)	(10,497,564.13)	(41,205,212.52)	(30,707,648.39)
F3886 – Thrift Savings Plan Suspense	161,839.19	177,388.06	10,064,593.27	9,887,205.21
<b>Total</b>	<b>\$ (111,354,300.40)</b>	<b>\$ 86,686,390.25</b>	<b>\$ 621,810,175.98</b>	<b>535,123,785.73</b>

### Definitions

The F3845 suspense account reported a positive balance of \$359.6 thousand. This amount represents the balance of proceeds from the sale of personal property.

The F3875 suspense clearing account reported a positive balance of \$609.5 million that represents the Disbursing Officer's suspense, which includes military pay's Federal Income tax withholding monies.

The F3880 suspense account reported a positive balance of \$11.9 million. This amount represents the balance of Treasury checks that have either been lost by the payee and need to be reissued, have never been cashed by the payee, or have been cancelled by the Treasury and need to be transferred to the original appropriation.

The F3882 suspense account reported a positive balance of \$31.2 million. This account was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the Thrift Savings Plan deductions by the National Finance Center and the posting of these amounts in the military accounting systems in the following month.

The F3885 suspense account includes the Interfund and Intragovernmental Payment and Collections (IPAC) suspense and reported a negative balance of \$41.2 million.

The F3886 suspense account has a positive balance of \$10.1 million represented by the Thrift Savings Plan suspense includes payroll deductions for civilian employees Thrift Savings Plan.

### **Fluctuations and/or Abnormalities**

The F3845 suspense account decreased \$1.5 million, or 81 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily caused due to distribution of proceeds from the sale of personal property to the appropriate agency during FY 2006.

The increases in F3875, F3882, and F3886 of \$521.9 million, or 596 percent; \$32.2 million, or 3,272 percent; and \$9.9 million, or 5,574 percent; respectively, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 is primarily caused by a timing difference in the disbursement of military and civilian payroll. In 3rd Quarter, FY 2006, these accounts included the withholdings for three payrolls whereas 3rd Quarter, FY 2005 included the withholdings for two payrolls. Disbursement for the payroll withholdings related to Federal Income tax withholding and Thrift Savings Plan is expected in July 2006.

The F3880 suspense account increased \$3.4 million, or 40 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to a \$2.2 million military pay residual write off from 4th Quarter, FY 2005. In addition, the suspense account includes a \$1.2 million transfer that was received after the accounting system cutoff and will be processed in July 2006.

The F3885 suspense account decreased \$30.7 million, or 293 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 caused by IPAC transactions, received from other agencies late in 3rd Quarter, FY 2006 after the monthly cutoff date and not able to be processed timely.

<b>Disclosures Related to Problem Disbursements and In-Transit Disbursements</b>
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As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDs)	\$ 318,139,009.18	\$ 90,338,907.82	\$ 128,715,997.07	\$ 38,377,089.25
B. Negative Unliquidated Obligations (NULO)	87,569,608.52	117,825,782.42	82,339,719.86	(35,486,062.56)
<b>2. Total In-transit Disbursements, Net</b>				
	\$ 1,686,961,806.94	\$ 2,133,294,527.21	\$ 2,048,048,957.07	(85,245,570.14)

### Definitions

Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.

Unmatched Disbursements (UMDs) occur when payments do not match to a corresponding obligation in the accounting system.

Negative Unliquidated Obligations (NULOs) occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

In-Transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet attempted to be posted in an accounting system.

### Fluctuations and/or Abnormalities

Absolute UMDs increased \$38.4 million, or 42 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to a change in policy beginning in 2nd Quarter, FY 2006 to include UMDs from Army General Fund allocated foreign military sales and Army General Fund's disbursements disbursed by other entities. Prior to 2nd Quarter, FY 2006 the UMD's were reported never reported for foreign military sales and the disbursements disbursed by other entities were reported on the other entities' financial statements. In addition, an incomplete data file from the Mechanization of Contract Administration Services database located in St. Louis, Missouri was received and processed. Subsequently, additional information was received and the data file was corrected and reprocessed after the June 30, 2006 cutoff.

Absolute NULO decreased \$35.5 million, or 30 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to Military Pay operations change in procedure in

1st Quarter, FY 2006 to report obligations by the specific fiscal station as opposed to open allotment level allowing more oversight of obligations at a detailed level.

#### Aged UMDs and NULOs

The Army General Fund absolute value UMDs, NULOs, and \$28.2 thousand in aged in-transit disbursements represent problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30-day aging category. After 30 days, they are considered as problem disbursements.

**Note 4. Investments and Related Interest**

As of June 30	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based	\$ 3,604,025.00	Effective Interest	\$ (31,251.84)	\$ 3,572,773.16	\$ 3,559,776.16
B. Accrued Interest	14,435.69			14,435.69	14,435.69
C. Total Intragovernmental Securities	<u>\$ 3,618,460.69</u>		<u>\$ (31,251.84)</u>	<u>\$ 3,587,208.85</u>	<u>\$ 3,574,211.85</u>
<b>2. Other Investments</b>					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

As of June 30	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>3. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based	\$ 3,548,025.00	Effective Interest	\$ (8,985.36)	\$ 3,539,039.64	\$ 3,532,873.22
B. Accrued Interest	13,471.75			13,471.75	13,471.75
C. Total Intragovernmental Securities	<u>\$ 3,561,496.75</u>		<u>\$ (8,985.36)</u>	<u>\$ 3,552,511.39</u>	<u>\$ 3,546,344.97</u>
<b>4. Other Investments</b>					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

**Relevant Information for Comprehension**

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

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the Department of the Treasury, which uses the cash for general government purposes. The Department of Treasury securities are issued to Army General Fund as evidence of its receipts. Treasury securities are an asset to Army General Fund and a liability to the Department of Treasury. Because Army General Fund and

the Department of Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. The Department of the Treasury securities provide Army General Fund with authority to draw upon the Department of the Treasury to make future benefit payments or other expenditures. When Army General Fund requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

### **Note Reference**

For additional line item discussion, see:  
Note 1.N., Significant Accounting Policies

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of June 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 587,214,247.59	N/A	\$ 587,214,247.59	\$ 461,530,027.71
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 550,386,146.03	\$ (9,181,427.91)	\$ 541,204,718.12	\$ 687,231,870.80
<b>3. Total Accounts Receivable</b>	\$ 1,137,600,393.62	\$ (9,181,427.91)	\$ 1,128,418,965.71	\$ 1,148,761,898.51

**Allowance Method**

The method to estimate Allowance for Loss on Accounts Receivable was changed from percentage of actual write-offs to percentage of aged receivables by category. The allowance is calculated by using 50 percent of aged receivables except foreign debt and debt as reported in the Defense Debt Management System in the 180-day to 2-year category and 100 percent of aged receivables in the greater than 2-year category. The aged categories are taken from the 3rd Quarter, FY 2005 quarterly accounts receivable report. The Allowance for Loss on Accounts Receivable will be re-estimated annually in compliance with standards.

**Fluctuations and/or Abnormalities**

Intragovernmental Receivables increased \$125.7 million, or 27 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to increases with Defense Agencies for \$88.8 million and the Department of State for \$19.0 million. The receivables with the Defense Agencies increased due to research and development performed for advanced component prototypes in support of Solider Biological and Chemical Command and due to increases in operation support for land force readiness, specifically base operations during FY 2006. Army General Fund can not identify the specific Defense Agency associated with the increases due to the implementation of a change in allocation methodology for intragovernmental receivables to Defense Agencies in 1st Quarter, FY 2006. The receivables with the Department of State increased due to support provided for classified force readiness operations during FY 2006. Collection is expected during FY 2006.

Net Non-Federal Receivables (from the Public) decreased \$146.0 million, or 21 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to the receipt of \$235.0 million for the payment of one country's debt under the Multi National Division Agreement in 3rd Quarter, FY 2006 and the direct write-off of \$81.0 million in contractor debt deemed uncollectible in 3rd Quarter, FY 2006. The Allowance for Loss on Accounts Receivables decreased \$39.9 million due to a reduction in delinquent accounts receivable during FY 2006.



Non-Federal Receivables (from the Public) consists of accounts receivable, refund receivable, claims receivable and interest receivable. The following schedule illustrates the major contributors to Gross Amount Due from Non-Federal Accounts Receivable (from the Public), by type of debt:

Type of Debt (Amount in thousands)

Military Pay (In Service Debt Only)	\$104,726
Civilian Pay (In Service Debt Only)	33,291
Individual Out-of-Service	186,047
Contractor Debt	1,908
Contractor Debt	11,629
Vendor Debt	1,518
Non Appropriated Funds	39,410
Foreign Military Sales (FMS)	13,080
Non FMS Foreign Government Indebtedness	56,982
Sales of Goods & Services (Excluding Referrals to CDS - Columbus)	33,699
Interest, Penalty and Administrative	16,802
Other	51,335
Subtotal	<u>\$550,427</u>
Undistributed Collections Public	(41)
Gross Non-Federal Accounts Receivable (Public)	<u>\$550,386</u>

**Relevant Information for Comprehension**

The Army General Fund accounting systems do not capture trading partner data at transaction level in a manner that facilitates trading partner aggregations. Therefore, Army General Fund is unable to reconcile intragovernmental accounts receivable balances with its trading partners. The Army General Fund intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. These improvements will be implemented incrementally through planned fielding of a compliant financial management system for all Army General Fund activities.

## Aged Accounts Receivable

As of June 30	2006		2005	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
<b>CATEGORY</b>				
<b>Nondelinquent</b>				
Current	\$ 1,269,032,214.00	\$ 381,612,018.00	\$ 1,234,171,387.00	\$ 409,085,459.00
Noncurrent	0.00	0.00	45,504.00	0.00
<b>Delinquent</b>				
1 to 30 days	\$ 16,664,328.00	\$ 1,114,128.00	\$ 0.00	\$ 0.00
31 to 60 days	29,701,925.00	24,838,150.00	0.00	0.00
61 to 90 days	1,719,735.00	18,799,228.00	28,753,891.00	81,629,273.00
91 to 180 days	27,622,838.00	19,518,494.00	4,297,063.00	136,921,161.00
181 days to 1 year	9,173,050.00	27,729,475.00	1,774,546.00	89,033,402.00
Greater than 1 year and less than or equal to 2 years	4,186,946.00	39,511,715.00	3,835,089.00	26,944,789.00
Greater than 2 years and less than or equal to 6 years	107,645.00	28,748,304.00	0.00	38,251,889.00
Greater than 6 years and less than or equal to 10 years	0.00	6,522,933.00	0.00	67,489,896.00
Greater than 10 years	0.00	2,032,867.00	0.00	7,523,354.00
<b>Subtotal</b>	<b>\$ 1,358,208,681.00</b>	<b>\$ 550,427,312.00</b>	<b>\$ 1,272,877,480.00</b>	<b>\$ 856,879,223.00</b>
Less Supported Undistributed Collections	(22,922,572.00)	(41,166.00)	63,987,197.00	(43,919,448.00)
Less Eliminations	(748,071,860.00)	0.00	(875,334,648.00)	0.00
Less Other	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 587,214,249.00</b>	<b>\$ 550,386,146.00</b>	<b>\$ 461,530,029.00</b>	<b>\$ 812,959,775.00</b>

Nondelinquent accounts receivable are receivables not yet due under the contract or billing documents pertaining to the receivable. Current nondelinquent accounts receivable are those that are due in the next 12 months. Noncurrent nondelinquent accounts receivable are those amounts that are due beyond the next 12 months. Delinquent accounts receivable shall be aged from the date the account is considered delinquent as outlined in the DoD Financial Management Regulations.

The majority of intragovernmental accounts receivable are in current status. The delinquent debt is largely comprised of the Iraq Provisional Government Corps of Engineer projects that require approval by the Iraq government before payment can be made. The Army General Fund follows the DoD concept of operations for collections which requires follow-up actions at 30-day intervals. The debt over 2 years old is pending additional funds and being submitted for payment. Collection is expected in 4th Quarter, FY 2006.

The majority of nonfederal accounts receivable are in current status. The delinquent debt is largely due to out-of-service debt for \$67.9 million, Non-Foreign Military Sales Foreign Government indebtedness for acquisition cross service and agreement for \$21.1 million, debt to National Guard for \$21.9 million, and debt for damages from transportation and storage of military and civilian personnel household goods for \$1.7 million. The collection actions for the out-of-service debt are being pursued based on DoD concept of operations. The collection actions for debt with foreign governments include regular distribution of delinquent letters and efforts to account for and write off over billings to foreign governments. The debt to National

Guard is being collected based on DoD concept of operations or is expected to be written off by the end of the year. The debt for damages from transportation and storage of military and civilian personnel household goods is being pursued by the Department of Justice or is in bankruptcy court.

**Note Reference**

For additional line item discussion, see:  
Note 1.K., Significant Accounting Policies

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30	2006	2005
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 548,497,080.68	\$ 783,297,724.95
B. Total Intragovernmental Other Assets	\$ 548,497,080.68	\$ 783,297,724.95
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 4,266,187,920.99	\$ 3,470,388,913.45
B. Other Assets (With the Public)	450,719,295.21	438,573,884.42
C. Total Nonfederal Other Assets	\$ 4,716,907,216.20	\$ 3,908,962,797.87
<b>3. Total Other Assets</b>	<b>\$ 5,265,404,296.88</b>	<b>\$ 4,692,260,522.82</b>

### Fluctuation and/or Abnormalities

Intragovernmental advances and prepayments decreased \$234.8 million, or 30 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The entire decrease is a result of advances with the Department of Interior for support of a Franchise Fund. The fund was transferred between bureaus within the Department of Interior from Washington DC to Denver, Colorado in 3rd Quarter, FY 2006.

Nonfederal Other Assets increased \$807.9 million, or 21 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to an increase of \$795.8 million in outstanding contract financing payments. The payments increased primarily due to additional contracts incurred for the procurement of Patriot Missiles and Bradley Combat Vehicles in support of the Global War on Terrorism during FY 2006.

Other assets with the public consist of military pay and other advances.

### Other Relevant Information for Comprehension

The Army General Fund has reported outstanding financing payments for contracts as Other Assets. The Army General Fund becomes liable after the contractor delivers the goods in conformance with the contract terms. The Army General Fund is not obligated to reimburse the contractor for its costs and the contractor is liable to repay Army General Fund the full amount of the outstanding contract financing payments if a satisfactory product is not delivered.

### Intragovernmental Eliminations

In accordance with DoD policy, advances and prepayments were adjusted upward \$673 million to agree with unearned revenue on the books for other federal entities. In addition, \$124.5 million of intra-Army General Fund transactions were eliminated leaving a balance of \$548.5 million. Army General Fund is unable to resolve differences in transaction data with other governmental agencies.

### Note Reference

For additional line item discussion, see:  
Note 1. R., Significant Accounting Policy

For regulatory discussion on other assets, see the Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1008.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of June 30	2006	2005
<b>1. Cash</b>	\$ 877,702,971.99	\$ 1,287,474,233.43
<b>2. Foreign Currency</b>	675,126,988.42	480,139,815.15
<b>3. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$ 1,552,829,960.41	\$ 1,767,614,048.58

**Definitions**

Cash – The total of cash resources under the control of Army General Fund, which includes coin, paper currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use includes petty cash funds and cash held in revolving funds which will not be transferred into the U.S. Government General Fund.

Foreign Currency –The total U.S. dollar equivalent of purchased and non-purchased foreign currencies held in foreign currency fund accounts.

Other Monetary Assets - Gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury and is not used by Army General Fund.

**Fluctuations and/or Abnormalities**

Cash and Other Monetary Assets decreased \$214.8 million, or 12 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to a reduction in cash by the 50th Finance Battalion in support of Operation Iraqi Freedom. The necessity for cash on hand decreased as a result of increased use of electronic commerce and the maturation of the Iraqi fiscal infrastructure. The primary reduction occurred in 4th Quarter, FY 2005.

**Other Information Related to Cash and Other Monetary Assets**

Cash and foreign currency reported consists primarily of cash held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange mission. Foreign currency is valued using the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. All Army General Fund cash and foreign currency is nonentity and is therefore restricted.

During the "Audit of Controls over Army Cash and Other Monetary Assets," the Department of Defense Office of Inspector General raised doubts as to the reliability and auditability of the \$475.5 million reported as Cash in the Custody of Agents. The amount reported as Cash in the

Custody of Agents reflects cash provided to the agents. However, this amount was not properly reduced by agent disbursements thus causing the Disbursing Officer's cash to be subject to material overstatement. As of June 30, 2006, Army General Fund had not determined the exact amount of the overstatement. Efforts are in process to isolate the cause and solution to this overstatement.

**Breakdown of Cash**

(Amounts in thousands)	<b>U.S. \$ / Negotiable Instruments</b>	<b>Foreign Currency</b>
Cash on Deposit in Bank	\$ 192,689	\$ 671,271
Cash on Hand	202,874	3,083
Cash – Undeposited Collections	1,197	0
Cash in Transit	3,087	0
Cash – Other	61	0
Cash adjustments	<u>2,261</u>	<u>0</u>
Total Cash on Hand	\$ 402,169	\$ 674,354
Total Cash in Custody of Agents	<u>475,534</u>	<u>773</u>
Total Cash	<u>\$ 877,703</u>	<u>\$ 675,127</u>

Cash and foreign currency are broken down into the elements shown in the table below:

**Note Reference**

For additional line item discussion, see:  
Note 1.J., Significant Accounting Policies

<b>Note 8.</b>	<b>Direct Loan and/or Loan Guarantee Programs</b>
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As of June 30

**Direct Loan and/or Loan Guarantee Programs** The entity operates the following direct loan and/or Loan guarantee program(s)

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

**Armament Retooling and Manufacturing Support Initiative**

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 United States Code (USC) 4551-4555, is designed to encourage commercial use of Army General Fund's inactive ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. These facilities have production capacity greater than the current military requirements; however, this capacity could be needed in the event of a major war. The revenues from the property rental are used to pay for the operation, maintenance, and environmental clean up at the facilities. This savings in overhead cost lowers the production cost of the goods manufactured and funds the environmental clean up at no cost to the government.

The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army and Department of Agriculture Rural Business-Cooperative Service (RBS) established a Memorandum of Understanding for the RBS to administer the ARMS Initiative Loan Guarantee Program.



Army General Fund

**Direct Loans Obligated After FY 1991**

As of June 30

	2006	2005
Loan Programs		
<b>Military Housing Privatization Initiative</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

Army General Fund

<b>Total Amount of Direct Loans Disbursed</b>		
As of June 30		
	2006	2005
<b>Direct Loan Programs</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

## Subsidy Expense for Post-1991 Direct Loans

As of June 30

2006	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2006	2005		
<b>5. Total Direct Loan Subsidy Expense:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00		

Not applicable.

Army General Fund

## Subsidy Rate for Direct Loans

As of June 30	Interest Differential	Defaults	Fees	Other	Total
Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not applicable.

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans

As of June 30

	2006	2005
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$ 0.00	\$ 0.00
<b>3. Adjustments</b>		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
<b>G. Total of the above Adjustment Components</b>	\$ 0.00	\$ 0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$ 0.00	\$ 0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/default Re-estimate	0.00	0.00
<b>C. Total of the above Re-estimate Components</b>	\$ 0.00	\$ 0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00

Not applicable.

## Defaulted Guaranteed Loans from Post-1991 Guarantees

As of June 30

	2006	2005
<b>Loan Guarantee Program(s)</b>		
<b>1. Military Housing Privatization Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
<b>2. Armament Retooling &amp; Manufacturing Support Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
<b>3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>	\$ 0.00	\$ 0.00

Not applicable.

<b>Guaranteed Loans Outstanding</b>		
As of June 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 20,581,011.85	\$ 18,294,260.07
<b>3. Total</b>	<b>\$ 20,581,011.85</b>	<b>\$ 18,294,260.07</b>
<b>2006</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 2,694,156.51	\$ 2,290,033.03
<b>3. Total</b>	<b>\$ 2,694,156.51</b>	<b>\$ 2,290,033.03</b>
<b>2005</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 739,852.83	\$ 628,874.91
<b>3. Total</b>	<b>\$ 739,852.83</b>	<b>\$ 628,874.91</b>

The FY 2005 disbursements of \$739.9 thousand and \$628.9 thousand are due to an FY 2005 loan closing and disbursement of an FY 2004 loan obligation. The FY 2006 disbursements are due to disbursements on loan obligations incurred in prior years.

## Liability for Post-1991 Loan Guarantees, Present Value

As of June 30

	2006	2005
<b>Loan Guarantee Program</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	988,651.97	12,352,470.32
<b>3. Total</b>	<b>\$ 988,651.97</b>	<b>\$ 12,352,470.32</b>

The Loan Guarantee Program decreased \$11.4 million, or 92 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to a January 2006 payment on a loss claim to a bank for a defaulted loan to make bullet casings.



## Subsidy Expense for Post-1991 Loan Guarantees

As of June 30

2006	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	2005				
<b>5. Total Loan Guarantee:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

There is no subsidy expense in FY 2006.

<b>Subsidy Rate for Loan Guarantees</b>					
	<b>Interest Supplements</b>	<b>Defaults</b>	<b>Fees and other Collections</b>	<b>Other</b>	<b>Total</b>
<b>Loan Guarantees:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	20.00%	0.00%	0.00%	20.00%

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

As of June 30

	2006	2005
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$ 12,393,845.32	\$ 12,292,970.32
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$ 0.00	\$ 0.00
<b>3. Adjustments</b>		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	59,500.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	(11,436,224.60)	0.00
F. Interest Accumulation on the Liability Balance	31,031.25	0.00
G. Other	0.00	0.00
<b>H. Total of the above Adjustments</b>	\$ (11,405,193.35)	\$ 59,500.00
<b>4. Ending Balance of the Loan Guarantee Liability before Re-estimates</b>	\$ 988,651.97	\$ 12,352,470.32
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	0.00	0.00
B. Technical/default Re-estimate	0.00	0.00
<b>C. Total of the above Re-estimate Components</b>	\$ 0.00	\$ 0.00
<b>6. Ending Balance of the Loan Guarantee Liability</b>	\$ 988,651.97	\$ 12,352,470.32

The Fees Received decreased \$59.5 thousand, or 100 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to FY 2005 guaranteed fees on the \$12.3 million in loan obligations that were not received in FY 2006.

The Claim Payments to Lenders decreased \$11.4 million from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to a January 2006 payment on a loss claim to a bank for a defaulted loan to make bullet casings.

The Interest Accumulation on the Liability Balance increased \$31.0 thousand from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to the implementation of Department of Treasury guidance to include an estimate of accrued interest revenue from Treasury.

Army General Fund

<b>Administrative Expense</b>		
As of June 30	2006	2005
<b>1. Direct Loans</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Loan Guarantees</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	<b>\$ 0.00</b>	<b>\$ 0.00</b>

No administrative expenses were processed in FY 2006.

<b>Note 9.</b>	<b>Inventory and Related Property</b>
----------------	---------------------------------------

As of June 30	2006	2005
1. Inventory, Net	\$ 94,548,099.93	\$ 108,488,085.24
2. Operating Materials & Supplies, Net	34,643,045,961.82	35,185,627,130.48
3. Stockpile Materials, Net	0.00	0.00
4. Total	<u>\$ 34,737,594,061.75</u>	<u>\$ 35,294,115,215.72</u>

## Inventory, Net

As of June 30

	2006			2005		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
<b>1. Inventory Categories</b>						
A. Available and Purchased for Resale	\$ 18,395,446.40	\$ (44,128.07)	18,351,318.33	\$ 18,936,914.42		LAC
B. Held for Repair	0.00	0.00	0.00	0.00		
C. Excess, Obsolete, and Unserviceable	30,123.00	(30,123.00)	0.00	0.00		NRV
D. Raw Materials	0.00	0.00	0.00	0.00		
E. Work in Process	76,196,781.60	0.00	76,196,781.60	89,551,170.82		SP
F. Total	\$ 94,622,351.00	\$ (74,251.07)	94,548,099.93	\$ 108,488,085.24		

### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

### Restrictions of Inventory Use, Sale, or Disposition

There are no restrictions on the use, sale, or disposition of inventory except in the following situations:

- a) Distributions without reimbursements made when authorized by DoD directives;
- b) War Reserve Materiel includes fuels and subsistence items that are considered restricted; and
- c) Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of The President.

### Other Information

Inventory is comprised of ammunition in the Conventional Ammunition Working Capital Fund (CAWCF). Inventory is tangible personal property that is:

- a) Held for Sale, or Held for Repair for eventual sale;
- b) In the process of production for sale; or
- c) To be consumed in the production of goods for sale or in the provision of services for a fee.

Excess, obsolete, and unserviceable inventory is condemned material that must be retained for management purposes. Work in Process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The US Standard General Ledger does not include a separate Work in Process account unrelated to sales.

Managers determine which items are more costly to repair than replace. Items retained for management purposes are coded condemned. The net value of these items is zero, and is shown as excess, obsolete, and unserviceable. The category includes all material held for sale. Economically repairable material is categorized as held for repair.

The Army General Fund expects a year-to-year decrease in CAWCF Inventory as the program progresses toward its final closeout on September 30, 2007. Effective September 30, 1998, CAWCF officially stopped the acceptance of new orders for the procurement of conventional ammunitions. At this time, only undelivered customer orders remain to be shipped.

**Note Reference**

For additional line item discussion, see:  
Note 1.M., Significant Accounting Policies

## Operating Materials and Supplies, Net

As of June 30

	2006			2005	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
<b>1. OM&amp;S Categories</b>					
A. Held for Use	\$ 34,643,045,961.82	\$ 0.00	\$ 34,643,045,961.82	\$ 35,185,627,130.48	LAC
B. Held for Repair	0.00	0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	203,038,138.45	(203,038,138.45)	0.00	0.00	SP
D. Total	\$ 34,846,084,100.27	\$ (203,038,138.45)	\$ 34,643,045,961.82	\$ 35,185,627,130.48	

### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost  
adjusted for holding gains and losses

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

### Relevant Information for Comprehension

Operating Material and Supplies (OM&S) includes spare and repair parts, ammunition, and tactical missiles. The Army General Fund reported \$3.0 billion of OM&S Held for Future Use. This amount represents ammunition held under a host nation treaty agreement and is not intended for use by U.S. Forces. The ammunition is intended for use in defense of the host nation by the host nation. The category Held for Use includes all material able to be issued. Economically repairable material is categorized as held for repair.

Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded condemned. The net value of these items is zero, and is shown as Excess, Obsolete, and Unserviceable.

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

The value of the Army's Government Furnished Material and Contractor Acquired Material in the hands of contractors is normally not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information in other existing logistics systems.

### Note Reference

For additional line item discussion, see:  
Note 1.M., Significant Accounting Policies



## Stockpile Materials, Net

As of June 30

	2006			2005		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
<b>1. Stockpile Materials Categories</b>						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	0.00	
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	

### Legend for Valuation Methods:

LAC= Latest Acquisition Cost

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

**Note 10. General PP&E, Net**

As of June 30	2006					2005	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
<b>1. Major Asset Classes</b>							
A. Land	N/A	N/A	\$ 475,797,441.36	N/A	\$ 475,797,441.36	\$ 466,565,249.98	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	44,573,613,568.94	\$ (28,744,473,487.95)	15,829,140,080.99	15,162,094,432.74	
C. Leasehold Improvements	S/L	lease term	16,019,733.00	(10,852,084.00)	5,167,649.00	2,217,096.00	
D. Software	S/L	2-5 Or 10	1,023,233,253.70	(234,722,451.89)	788,510,801.81	335,985,064.21	
E. General Equipment	S/L	5 or 10	3,395,534,206.12	(2,185,402,096.83)	1,210,132,109.29	912,814,870.30	
F. Military Equipment	S/L	Various	110,680,000,000.00	(56,980,000,000.00)	53,700,000,000.00	51,558,000,000.00	
G. Assets Under Capital Lease	S/L	lease term	166,616,689.13	(144,986,936.50)	21,629,752.63	30,125,494.87	
H. Construction-in- Progress	N/A	N/A	6,872,490,444.50	N/A	6,872,490,444.50	5,549,215,592.69	
I. Other			19,884,344.00	0.00	19,884,344.00	18,447,982.00	
J. Total General PP&E			<u>\$ 167,223,189,680.75</u>	<u>\$ (88,300,437,057.17)</u>	<u>\$ 78,922,752,623.58</u>	<u>\$ 74,035,465,782.79</u>	

<sup>1</sup> Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

**Other Information Related to General PP&E**

The Army changed its method of valuing military equipment in 3rd Quarter, FY 2006. Previously, military equipment was valued using Bureau of Economic Analysis (BEA) data. Beginning 3rd Quarter, FY 2006, military equipment is valued based on internal records. The value of military equipment for the 3rd Quarter, FY 2005 was restated from \$94.6 billion to \$51.6 billion for comparative purposes using the new valuation method. See Note 19 for further disclosures.

For 3rd Quarter, FY 2006, military equipment is valued at \$53.7 billion based on internal records. Under the previously used BEA valuation methodology, this equipment would have been valued at \$98.5 billion.

Other includes the projected value of forest product sales (timber reserve).

Currently, there are no restrictions for General PP&E.

**Other Information Related to Heritage Assets and Stewardship Land**

In accordance to the FASAB, SFFAS No. 29, Heritage Assets and Stewardship Land, note disclosures are required for heritage assets and stewardship land. The Army General Fund is committed to preserving and accounting for its heritage asset's historical, cultural, educational, or artistic importance. Additionally, Army General Fund maintains land not acquired in connection with General PP&E, land donated to the Federal Government, and land previously recorded as public domain. The Army General Fund follows policy outlined in the DoD Financial Management Regulation which governs predominant uses of stewardship land and heritage asset accountability. Major categories of heritage assets and stewardship land are listed below.

**Heritage Assets**

- Historical Buildings and Structures
- Museums
- Memorial/Monuments
- Cemeteries
- Major Collections
- Archeological Collections

**Stewardship Land**

- Mission
- Parks
- Historic Sites

**Note Reference**

For additional line item discussion, see:  
Note 1.O., Significant Accounting Policies

<b>Assets Under Capital Lease</b>
-----------------------------------

As of June 30	2006	2005
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 166,070,564.45	\$ 166,070,564.45
B. Equipment	546,124.68	546,124.68
C. Accumulated Amortization	(144,986,936.50)	(136,491,194.26)
D. Total Capital Leases	\$ 21,629,752.63	\$ 30,125,494.87

**Fluctuations and/or Abnormalities**

Assets Under Capital Lease decreased by \$8.5 million, or 28 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to straight-line amortization of leased assets during FY 2006.

**Relevant Information Related to Assets under Capital Lease**

The Army General Fund is the lessee in eight Section 801 Family Housing Leases which consist of two on-post and six off-post housing facilities. These leases have between two and eight years remaining on their terms. In addition, the Eighth U.S. Army G3 Aviation leases equipment for a training simulator first reported in 3rd Quarter, FY 2005. As shown in a combined form in Note 15, the liability is valued at \$13.2 million for current and \$23.5 million for noncurrent. The future executory and imputed interest costs, as shown in a combined form in Note 15 Capital Lease Liability section, are \$8.5 million and \$6.5 million, respectively. Future executory costs are estimates based on historical data. The imputed interest that was necessary to reduce the net minimum lease payments to the present value was calculated at the incremental borrowing rate at the inception of the leases.

**Note Reference**

For additional line item discussion, see:  
Note 1.Q., Significant Accounting Policies, Leases.

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30	2006	2005
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	483,747,435.12	454,927,536.45
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 483,747,435.12</b>	<b>\$ 454,927,536.45</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 167,718,177.42	\$ 73,139,707.35
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,663,649,828.85	1,632,842,810.96
C. Environmental Liabilities	44,774,048,929.00	37,479,864,000.00
D. Other Liabilities	4,573,585,623.18	4,524,399,480.32
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 51,179,002,558.45</b>	<b>\$ 43,710,245,998.63</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 51,662,749,993.57</b>	<b>\$ 44,165,173,535.08</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 19,375,357,111.50</b>	<b>\$ 20,011,418,089.21</b>
<b>5. Total Liabilities</b>	<b>\$ 71,038,107,105.07</b>	<b>\$ 64,176,591,624.29</b>

**Relevant Information for Comprehension**

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered funded by realized budgetary resources as of the balance sheet date.

**Intragovernmental Liabilities**

Intragovernmental Liabilities Other represents liabilities associated with Federal Employees Compensation Act, unemployment benefits, and canceled accounts receivable.

**Nonfederal Liabilities**

Total Nonfederal Liabilities Not Covered by Budgetary Resources increased \$7.5 billion, or 17 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to a \$7.1 billion increase in environmental liabilities reported in FY 2006 for the Chemical Weapons Disposal Program. The program implemented the use of a new cost estimation process beginning in 3rd Quarter, FY 2006.

Nonfederal Liabilities Other represents unfunded annual leave, contingent liabilities, capital lease liabilities, and custodial liabilities.

## **Note Reference**

For additional line item discussion, see:

Note 1.Z, Significant Accounting Policies, Development Fund for Iraq

Note 8, Direct Loan and/or Loan Guarantee Programs

Note 12, Accounts Payable

Note 13, Debt

Note 14, Environmental Liabilities and Disposal Liabilities

Note 15, Other Liabilities

Note 16, Commitments and Contingencies

Note 17, Military Retirement Benefits and Other Employment Related, Actuarial Liabilities

Note 22, Disclosures Related to the Statement of Custodial Activity

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of June 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
<b>1. Intragovernmental Payables</b>	\$ 1,771,301,514.95	\$ N/A	\$ 1,771,301,514.95	\$ 2,305,057,678.60
<b>2. Non-Federal Payables (to the Public)</b>	10,139,271,837.80	52,620.55	10,139,324,458.35	9,537,954,144.11
<b>3. Total</b>	<u>\$ 11,910,573,352.75</u>	<u>\$ 52,620.55</u>	<u>\$ 11,910,625,973.30</u>	<u>\$ 11,843,011,822.71</u>

**Definitions**

Intragovernmental Payables consists of amounts owed to other federal agencies for goods or services ordered and received but not paid. Interest, penalties, and administrative fees are not applicable to intragovernmental payables.

Non-Federal payables (to the Public) are payables for debts owed to individuals and entities outside the federal government.

**Fluctuations and/or Abnormalities**

Intragovernmental Payables with entities other than Army General Fund decreased \$533.8 million, or 23 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006, primarily due to a \$448.1 million decrease with General Services Administration. The decrease is primarily a result of declining services performed for facilities closing beginning 2nd Quarter, FY 2006, mandated by the Base Realignment and Closure program.

**Other Information Related to Payables**

The Army General Fund accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales; therefore, Army General Fund was unable to reconcile intragovernmental accounts payable to the related intragovernmental account receivable that generated the payable.

Accounts receivable reported by other government agencies was compared to Army General Fund's accounts payable. An adjustment was posted to accounts payables based on the comparison with the accounts receivable of the other agencies providing goods and services to Army General Fund. Intragovernmental payables were adjusted downward for \$808.6 million while Non-federal payables were adjusted upward for the same amount. The Army General Fund intends to develop long-term systems improvements that will include sufficient upfront edits and controls to eliminate the need for after-the-fact reconciliations. In addition, \$748.1 million of Intra-Army General Fund transactions were eliminated leaving a balance of \$1.7 billion.

#### **Note Reference**

For additional line item discussion, see:  
See Note 1.G., Significant Accounting Policies



<b>Note 13.</b>	<b>Debt</b>
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As of June 30	2006			2005	
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance	
<b>1. Agency Debt</b>					
A. Debt to the Treasury	\$ 11,148,162.00	\$ 0.00	\$ 11,148,162.00	\$	0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00		0.00
C. Total Agency Debt	\$ 11,148,162.00	\$ 0.00	\$ 11,148,162.00	\$	0.00
<b>2. Total Debt</b>	\$ 11,148,162.00	\$ 0.00	\$ 11,148,162.00	\$	0.00

Debt to the Treasury increased \$11.1 million from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 for borrowing authority received from the Department of Treasury in 2nd Quarter, FY 2006 for a loan default relating to the Armament Retooling and Manufacturing Support Initiative (ARMS). This initiative is designed to encourage commercial use of Army General Fund's inactive ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army General Fund and Department of Agriculture Rural Business-Cooperative Service (RBS) established a Memorandum of Understanding for the RBS to administer the ARMS Initiative Loan Guarantee Program.

### Note Reference

For additional line item discussion, see:  
Note 8, Direct Loans and/or Loan Guarantee Programs

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of June 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities--</b>				
<b>Nonfederal</b>				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 351,371,000.00	\$ 2,630,777,000.00	\$ 2,982,148,000.00	\$ 3,258,729,000.00
2. Active Installations—Military Munitions Response Program (MMRP)	9,778,000.00	5,161,521,000.00	5,171,299,000.00	5,494,040,000.00
3. Formerly Used Defense Sites—IRP and BD/DR	110,653,000.00	3,995,541,000.00	4,106,194,000.00	4,197,957,000.00
4. Formerly Used Defense Sites--MMRP	65,266,000.00	14,472,298,000.00	14,537,564,000.00	13,907,053,000.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	12,962,000.00	362,305,000.00	375,267,000.00	259,034,000.00
2. Environmental Closure Requirements	2,759,000.00	94,088,000.00	96,847,000.00	51,215,000.00
3. Environmental Response at Operational Ranges	6,489,000.00	297,596,000.00	304,085,000.00	267,632,000.00
4. Other	0.00	28,699,929.00	28,699,929.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	59,962,000.00	463,481,000.00	523,443,000.00	597,347,000.00
2. Military Munitions Response Program	20,549,000.00	613,544,000.00	634,093,000.00	480,122,000.00
3. Environmental Corrective Action / Closure Requirements	5,909,000.00	48,237,000.00	54,146,000.00	24,965,000.00
4. Other	145,891,000.00	0.00	145,891,000.00	167,924,000.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	1,370,960,000.00	16,605,961,000.00	17,976,921,000.00	10,832,714,000.00
6. Other	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities</b>	<b>\$ 2,162,549,000.00</b>	<b>\$ 44,774,048,929.00</b>	<b>\$ 46,936,597,929.00</b>	<b>\$ 39,538,732,000.00</b>

## Environmental Disclosures

As of June 30	2006	2005
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	40,432,873.00	371,473,877.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	96,847.00	51,215.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

### Other Disclosures

<b>Others Category Disclosure Comparative Table</b>		
(Amounts in thousands)	2006	2005
<b>Other Accrued Environmental Costs - Other</b>		
Low Level Radio Active Waste	\$ 28,700	\$ 0
<b>Base Realignment and Closure - Other</b>		
BRAC Unliquidated Liabilities	145,891	167,924
<b>Total</b>	<b>\$ 174,591</b>	<b>\$ 167,924</b>

Amounts are presented in the Note 14 Environmental Liabilities and Disposal Liabilities schedule. See Environmental Disclosures section of this note for additional information.

### Applicable Laws and Regulations for Cleanup Requirements

#### Defense Environmental Restoration Program

The Army General Fund is required to cleanup contamination resulting from past waste disposal practices, leaks, spills and other past activity prior to 1986 from hazardous substances and wastes that created a public health or environmental risk and prior to FY 2003 from unexploded ordnance (UXO), discarded military munitions, and munitions constituents at other than operational ranges under the Defense Environmental Restoration Program (DERP), established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code (USC) 2701. Related sections in Title 10 of the USC, 2701-2706 and 2810-2811 further define the program. The DERP is implemented in accordance with the DoD Directive 4715.1E, Environmental Security, March 2005; and DoD Instruction 4715.7, Environmental Restoration Program, April 22, 1996, and the Management Guidance for the Defense Environmental Restoration Program, September 28, 2001. Environmental liabilities for the Department of the Army DERP (Active Installations and Formerly Used Defense Sites (FUDS) are prepared in accordance with the Management Guidance for the Defense Environmental Restoration Program and the DoD Financial Management Regulation (FMR) 7000.14. DERP generally follows the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

### **Non-Defense Environmental Restoration Program**

The Army General Fund is also required to cleanup contamination resulting from waste disposal practices, leaks, spills and other activity after 1986 from hazardous substances and wastes and after FY 2003 from UXO, discarded military munitions, and munitions constituents migrating from an operational range under the Army Compliance Cleanup Program. The Resource Conservation and Recovery Act (RCRA), as well as host nation requirements for overseas installations, require Army General Fund to take corrective actions to clean up areas where there has been a release related to hazardous material/waste handling and/or storage activities. The Safe Drinking Water Act provides the legal driver for cleanup of munitions constituents on the operational range at the Massachusetts Military Reservation. The Army General Fund is also required to close facilities with permits in accordance with environmental laws when operation of that facility ceases. The Army Compliance Cleanup Program addresses environmental requirements reported under RCRA Subtitle C, RCRA Subtitle D, and RCRA Subtitle I to characterize, investigate and cleanup active Army installations within the United States; and, for overseas installations, requirements in accordance with DoD policy as prescribed in DoD Instruction 4715.8, Environmental Remediation for DoD Activities Overseas. Environmental liabilities for the Department of the Army "Other Accrued Environmental Costs" are prepared in accordance with the Guidance for Recognizing, Measuring and Reporting Environmental Liabilities Not Eligible for Defense Environmental Restoration Program Funding (November 2005) and the DoD FMR 7000.14.

### **Base Realignment and Closure**

The Base Realignment and Closure (BRAC) program identifies environmental restoration costs in accordance with the DERP established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the USC 2701 and environmental costs in accordance with RCRA that require the Army to take corrective actions to clean up areas where there has been a release related to hazardous material/waste handling and/or storage activities. Environmental liabilities for the Department of the Army BRAC are prepared in accordance with the Management Guidance for the Defense Environmental Restoration Program, the draft Guidance for Recognizing, Measuring and Reporting Environmental Liabilities Not Eligible for Defense Environmental Restoration Program Funding (November 2005) and the DoD FMR 7000.14.

### **Low Level Radioactive Waste**

The Low Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

### **Chemical Demilitarization Program**

There are two primary public laws that required the chemical stockpile and non-stockpile chemical materiel destruction efforts being carried out as part of the Chemical Demilitarization Program. The first is the 1986 Defense Authorization Act (Public Law (PL) 99-145, as amended by subsequent acts) that directed the DoD to destroy the unitary chemical stockpile while providing for maximum protection of the environment, public, and personnel involved in the destruction effort by April 29, 2004. The deadline for completion of destruction was amended by subsequent acts to April 29, 2007. The second is the 1993 Defense Authorization Act (PL 102-484) which required the establishment of the Non-Stockpile Chemical Material Project to safely dispose of all non-stockpile chemical materiel.

The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations. The major regulations applicable to the program are as follows:

- CERCLA
- Clean Water Act
- Clean Air Act
- RCRA

- Toxic Substances Control Act (TSCA)

## **Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods**

### **DERP, Non-DERP, and BRAC**

The Army General Fund uses engineering estimates and independently validated models to estimate environmental liabilities. The RACER is the Army's preferred model. The Army General Fund relies upon the Air Force, which is the RACER executive agent, to validate the model in accordance with DoD Instruction 5000.61 and primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Army primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project. Once the environmental cost estimates are complete, the Army complies with accounting standards to assign costs to current operating periods.

In compliance with accounting standards, Army General Fund expenses the costs for cleanup associated with general property, plant and equipment (PP&E) placed into service prior to October 1, 1997 unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then Army General Fund, expenses the portion of the asset that has passed since the general PP&E was placed into service and systematically recognizes the remaining cost over the life of the asset.

For general PP&E placed into service after September 30, 1997, Army General Fund is required to expense the associated environmental costs systematically over the life of the asset. The Army expenses the full cost to cleanup contamination for Stewardship PP&E at the time the asset is placed into service. The Army General Fund will use two methods for systematic recognition: physical capacity for operating landfills and life expectancy in years for all other assets.

### **Chemical Demilitarization Program**

The basis for calculating environmental liabilities for the Chemical Demilitarization Program is an estimate developed using several procedures. The schedule component of the estimate is based on analysis of historical processing rates with down time adjustments. The cost methodology is based on the historical costs of the project and utilizes the Army cost analysis community directed Automated Cost Estimating Integrated Tools software as the platform for cost modeling. To the greatest extent possible, actual costs are broken down to produce a site-specific model based on actual or analogous costs. Inclusion of site-specific schedules in the model results in the current working estimate.

## **Types of Environmental Liabilities and Disposal Liabilities Identified**

### **DERP, Non-DERP, and BRAC**

The Army General Fund has clean up requirements for the DERP sites at active installations, BRAC installations, Formerly Used Defense Sites (FUDS), non-DERP sites at active installations, weapon systems programs, and chemical weapons disposal programs. The DERP and non-DERP sites are required to clean up contamination in coordination with regulatory agencies, other responsible parties, and current property owners. For Army General Fund, environmental disposal for weapons systems programs consists of chemical weapons disposal.

### **Chemical Demilitarization Program**

The Army, as Executive Agent within the DoD, provides policy, direction, and oversight for the Chemical Demilitarization Program, except at the Pueblo, Colorado and Blue Grass, Kentucky locations. The disposal program for these locations is managed separately by the Program Manager for Assembled Chemical Weapons Alternatives that reports directly to the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics).

The Chemical Demilitarization Program mission is to safely and effectively destroy the entire U.S. stockpile of chemical agents and munitions located at Johnston Island in the Pacific and in Utah, Alabama, Oregon, Arkansas, Indiana, and Maryland in accordance with public law. The Johnston Island facility has completed its mission and facility closure. The Maryland facility has completed the disposal mission and is currently undergoing closure. The other five facilities are currently in operation and working to complete their disposal missions. The Chemical Demilitarization Program mission also includes the safe disposal of non-stockpile chemical materiel. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations, and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance, and disposal. The Chemical Demilitarization Program does not include the mission to recover and dispose of buried chemical weapons.

### **Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to inflation, deflation, technology, or applicable laws and regulations**

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

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

#### **DERP, Non-DERP, and BRAC**

The environmental liabilities for Army General Fund are based on accounting estimates which require certain judgments and assumptions that we believe are reasonable based upon information available to us at the time of calculating the estimates. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.

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

#### **Chemical Demilitarization Program**

The schedules and cost estimates in the approved baseline for this liability estimate are the best available and have been through the formal Acquisition Program Baseline approval process at the time of report submission. It should be noted that they are subject to fact of life changes and impacts from program risks and uncertainties inherent to the task of chemical demilitarization and the political sensitivity of the program. These risks may include processing changes required to meet the operational schedules due to the deteriorating condition of the stockpile and additional schedule time and/or cost to address changes in environmental laws or Congressional requirements.

#### **Fluctuations and Abnormalities**

#### **Other Accrued Environmental Liabilities—Active Installations (Non-DERP)**

Active Installations - Environmental Corrective Action increased \$116.2 million, or 45 percent, and Response at Active Ranges increased \$36.5 million, or 14 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to implementation of a new Compliance Cleanup (CC) reporting database that specifically targets corrective actions at an installation. Installations previously reported these requirements in the Environmental

Program Requirements (EPR) database along with all other installation environmental program requirements. The installation must use site-level detail and a standard estimating tool, the RACER. This reporting change began in 3rd Quarter, FY 2005.

Active installations – Closure Requirements increased \$45.6 million, or 89 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to identification and reporting of previously omitted closure requirements from an Army Major Command. This omission was identified during the transition to the new CC reporting database 3rd Quarter, FY 2005.

Other Accrued Environmental Liabilities - Other increased \$28.7 million, or 100 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to a reclassification by program managers of the Low Level Radioactive Waste (LLRW) environmental liability in the 3rd Quarter, FY 2006. This information was formerly disclosed on Note 16 – Commitments and Contingencies as a contingent liability during 4th Quarter, FY 2005.

### **Base Realignment and Closure**

Installation Restoration Program decreased \$73.9 million, or 12 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to improved cost estimating while using the RACER tool at the site-level during 4th Quarter, FY 2005.

Military Munitions Response Program (MMRP) requirements increased \$154 million, or 32 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 because mandated use of RACER and site level data provided better cost estimates beginning in 3rd Quarter, FY 2005. This increase is primarily due to an agreement concerning the Resource Conservation and Recovery Act (RCRA) post-closure permit at a BRAC location which resulted in an additional \$135 million being added to the liability. This event was initially identified during 4th Quarter, FY 2005.

Environmental corrective action increased \$29.2 million, or 117 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. This increase is primarily due to a new agreement with a state organization to cleanup contamination related to former Army housing locations for \$22.6 million. This event was initially identified during 4th Quarter, FY 2005.

The BRAC Other decreased \$22.0 million, or 13 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The BRAC program processed more disbursements during FY 2006 as a result increased program activity which reduced unliquidated obligations for this reporting period.

### **Chemical Demilitarization Program**

The Chemical Weapons Disposal Program liability increased \$7.1 billion, or 66 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. This increase is attributable to the initial use of the program cost estimate based on the Automated Cost Estimator software in 3rd Quarter, FY 2006 rather than an inflationary adjusted FY 2003 Acquisition Program Baseline as the basis for the liability estimate. It is expected that the total liability will fluctuate as a result of program execution and revised program cost estimates.

### **Environmental Disclosures**

The Army is working on processes to more accurately disclose information in the environmental disclosures table. Specifically, the amount of resources disbursed to remediate legacy waste; the unrecognized portion of the estimated cleanup costs associated with general PP&E; and changes in estimates due to changes in laws, regulations and/or technology.

Meanwhile, the estimated cleanup costs associated with general PP&E include the costs to cleanup contamination resulting from post-1986 waste disposal practices, leaks, and spills which have created a public health or environmental risk. Also, the estimated closure costs associated with general PP&E include only the costs of

closing permitted landfills. The liability estimates for other environmental closure requirements are under development. Closure requirements are prepared and submitted by Army installations on an as-needed basis and reported on the Army Financial Statements under Active Installations – Environmental Closure Requirements. These estimates are point estimates to close the facility in accordance with a closure plan and are entered into a database. The Army does not yet have an auditable system to capture closure requirements. The previous EPR system, which provided an estimate of closure costs, was eliminated in 1st Quarter, FY 2006. The EPR system was replaced with a model for predicting environmental compliance requirements, but the new model is not site specific for predicting closure requirements. The estimated closure costs associated with general PP&E, reported since 1st Quarter, FY 2006 include only the costs of closing permitted landfills. The liability estimates for other environmental closure requirements are under development.

The assigned current liability for environmental closure costs includes an estimation of expenditure based on the disbursement goals for the current year appropriation only. The Army General Fund is currently developing a reporting system to track total prior year unliquidated obligations for “Other Accrued Environmental Costs” and anticipates having this system in the future as outlined in the Army Chief Financial Officer’s Strategic Plan.

The Army General Fund does not have unrecognized costs associated with general property, plant, and equipment under its Compliance Cleanup Program. Army General Fund is constantly researching sites for possible issues that would result in liability recognition. Through the continued research, Army General Fund recognizes a liability as they are identified. Once identified, the costs are recognized and recorded, resulting in no unrecognized costs for the period.

According to the RCRA, Army General Fund records an expense and liability for each asset placed in service during the year that would affect the environment. For each subsequent year, environmental costs are expensed to remain RCRA compliant. As a result, no amortization costs are recognized for assets placed in service in FY 2006.

There have been no changes in the law or technology that caused a material change in the “Other Accrued Environmental Costs” total estimated liability. There are varying material changes to all “Other Accrued Environmental Costs” due to implementation of corrective measures to attain an unqualified audit opinion on the environmental liability portion of the Army’s Financial Statement. These corrective measures include identifying the universe of sites under each non-DERP category, estimating the liability for each site, and showing a reduction in liability as funds are spent to address the liability. The Army plans to implement all corrective measures for reporting “Other Accrued Environmental Costs” during FY 2006.

Liabilities for reporting “Other Accrued Environmental Costs” are reported in constant dollars. There were no changes to the total “Other Accrued Environmental Costs” liability cost due to inflation or deflation.

## **Note Reference**

For additional line item discussion, see:  
Note 1, Significant Accounting Policies.



<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 114,558,552.07	\$ 0.00	\$ 114,558,552.07	\$ 140,921,249.89
B. Deposit Funds and Suspense Account Liabilities	873,675,303.79	0.00	873,675,303.79	273,178,695.77
C. Disbursing Officer Cash	1,552,829,960.41	0.00	1,552,829,960.41	1,767,745,680.70
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	153,682,057.94	126,556,277.38	280,238,335.32	243,443,564.93
F. Other Liabilities	272,050,543.82	4,729,478.00	276,780,021.82	294,751,767.24
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 2,966,796,418.03</b>	<b>\$ 131,285,755.38</b>	<b>\$ 3,098,082,173.41</b>	<b>\$ 2,720,040,958.53</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 853,879,402.24	\$ 3,407,797.00	\$ 857,287,199.24	\$ 1,737,705,604.66
B. Advances from Others	1,147,321,373.84	0.00	1,147,321,373.84	944,841,753.88
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(17,797.23)	0.00	(17,797.23)	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	1,180,676,053.96	1,180,676,053.96	1,250,389,444.92
G. Accrued Unfunded Annual Leave	3,118,893,661.59	0.00	3,118,893,661.59	2,902,144,063.31
H. Capital Lease Liability	13,191,064.62	23,467,837.97	36,658,902.59	50,347,798.70
I. Other Liabilities	872,596,853.55	203,598,139.00	1,076,194,992.55	1,544,182,896.30
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 6,005,864,558.61</b>	<b>\$ 1,411,149,827.93</b>	<b>\$ 7,417,014,386.54</b>	<b>\$ 8,429,611,561.77</b>
<b>3. Total Other Liabilities</b>	<b>\$ 8,972,660,976.64</b>	<b>\$ 1,542,435,583.31</b>	<b>\$ 10,515,096,559.95</b>	<b>\$ 11,149,652,520.30</b>

## **Fluctuations and/or Abnormalities**

### **Intragovernmental**

Intragovernmental Other Liabilities increased \$378.0 million, or 14 percent, primarily due to fluctuations in Advances from Others, Deposit Funds and Suspense Accounts Liabilities, and Disbursing Officer Cash.

Advances from Others decreased \$26.4 million, or 19 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to a timing difference in the receipt of the military personnel direct care advances from the Medicare Eligible Healthcare Fund. Army General Fund received \$28.3 million in advances during 3rd Quarter, FY 2005.

Deposit Funds and Suspense Account Liabilities increased by \$600.5 million, or 220 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 due to a timing difference for military payroll. In 3rd Quarter, FY 2006, the deposit funds included three payroll withholdings; whereas, 3rd Quarter, FY 2005 included two payroll withholdings. The deposit funds operate as a temporary holding account for various transactions such as withheld income taxes, thrift savings plans, escrow accounts, life insurance, and other such items until later paid by or refunded to the appropriate government or public entity. Suspense accounts reflect unidentified remittances that are presumed to apply to budget accounts, but must be held in suspense because the specific appropriation or fund account to be credited is not yet known.

Disbursing Officer Cash decreased \$214.9 million, or 12 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to a reduction in cash by the 50th Finance Battalion in support of Operation Iraqi Freedom. The necessity for cash on hand decreased as a result of increased use of electronic commerce and the maturation of the Iraqi fiscal infrastructure. The primary reduction occurred in 4th Quarter, FY 2005.

Intragovernmental Other Liabilities, Other consists of unemployment compensation; cancelled accounts receivable; employee benefits for retirement, health and life insurance; and education benefits trust fund.

### **Nonfederal**

Nonfederal Other Liabilities decreased \$1.0 billion, or 12 percent, primarily due to \$880.4 million decrease in accrued funded payroll and benefits from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006.

Nonfederal Other Liabilities, Other consists of employer contributions and payroll taxes, contingent liabilities, contract holdbacks, and custodial liabilities for Iraqi seized cash and development fund for Iraq.

### **Other Information**

The FECA Reimbursement to the Department of Labor includes a delinquent amount of \$36.2 million. The Army General Fund expects to pay this amount in the 4th Quarter, FY 2006.

### **Note Reference**

For additional line item discussion, see:  
Note 11, Liabilities Not Covered by Budgetary Resources  
Note 12, Accounts Payable

## Capital Lease Liability

As of June 30	2006				2005
	Asset Category				Total
	Land and Buildings	Equipment	Other	Total	Total
<b>1. Future Payments Due</b>					
A. 2006	\$ 5,196,231.28	\$ 36,873.00	\$ 0.00	\$ 5,233,104.28	\$ 26,160,801.37
B. 2007	18,009,100.98	149,952.00	0.00	18,159,052.98	18,159,052.99
C. 2008	8,528,654.77	155,951.00	0.00	8,684,605.77	8,684,605.77
D. 2009	5,375,522.96	93,058.00	0.00	5,468,580.96	5,468,580.96
E. 2010	5,375,522.96	0.00	0.00	5,375,522.96	5,375,522.96
F. 2011	4,509,788.83	0.00	0.00	4,509,788.83	0.00
G. After 5 Years	4,172,606.44	0.00	0.00	4,172,606.44	8,682,395.27
H. Total Future Lease Payments Due	\$ 51,167,428.22	\$ 435,834.00	\$ 0.00	\$ 51,603,262.22	\$ 72,530,959.32
I. Less: Imputed Interest Executory Costs	14,835,265.88	109,093.76	0.00	14,944,359.64	22,183,160.61
J. Net Capital Lease Liability	\$ 36,332,162.34	\$ 326,740.24	\$ 0.00	\$ 36,658,902.58	\$ 50,347,798.71
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 24,492,295.70	\$ 26,558,328.05
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 12,166,606.89	\$ 23,789,470.65

The Army General Fund is the lessee in eight capital leases for military family housing and one equipment lease. The Office of Management and Budget Circular A-136 directs that any capital leases entered into during FY 1992 or later are required to be fully funded in the first year of the lease.

### Capital Lease Liabilities Covered by Budgetary Resources

The present value of the lease payments, \$24.5 million, for leases originating after FY 1991 plus the current portion of the Pre-1992 leases are shown as Covered by Budgetary Resources.

### Capital Lease Liabilities Not Covered by Budgetary Resources

The remaining six leases, that originated before FY 1992, are funded on a fiscal year basis causing the noncurrent amount of \$12.2 million to be included as Not Covered by Budgetary Resources.

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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Disclosures Related to Commitments and Contingencies

**Relevant Information for Comprehension**

The Army General Fund is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The Army General Fund has accrued contingent liabilities for legal actions where the Army's Office of the General Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund.

**Nature of Contingency**

The Army General Fund has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army's financial statements.

As of June 30, 2006, Army General Fund has approximately \$320.1 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Estimates for litigations, claims and assessments are required to be fully supported. Additionally, Army General Fund is working to ensure that estimates agree with the legal representation letters and management summary schedule.

Estimate of the Possible Liability

(Amounts in thousands)

<b>Title of Contingent Liabilities</b>	<b>Estimate</b>
Litigation Division	\$140,672
Administrative Tort Claims (Army Fund)	50,000
European Environmental Claims (Army Fund)	50,000
Army Environmental Law Division	46,226
Army Contract Appeals Division	32,576
Network Enterprise Technology Command	400
Army Personnel Claims	234
<b>Total</b>	<b>\$320,108</b>

**Other Information Pertaining to Commitments**

The Army General Fund has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations, undelivered orders, and cancelled accounts payable. The amount of contractual commitments for 3rd Quarter, FY 2006 is presented in the following schedule.

(Amounts in thousands)

**Title of Contractual Commitments**

Long-term lease obligations	\$36,659
Undelivered orders	\$70,349,571
Cancelled accounts payable	\$167,718

**Note Reference**

For additional line item discussion, see:

Note 1.S, Significant Accounting Policies

Note 15, Other Liabilities

Note 20, Disclosures Related to the Statement of Budgetary Resources

<b>Note 17.</b>	<b>Military Retirement Benefits and Other Employment Related Actuarial Liabilities</b>
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As of June 30	2006				2005
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits</b>					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Other</b>					
A. FECA	\$ 1,663,649,828.85	4.53%	\$ 0.00	\$ 1,663,649,828.85	\$ 1,632,842,810.96
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other	\$ 1,663,649,828.85		\$ 0.00	\$ 1,663,649,828.85	\$ 1,632,842,810.96
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>					
	\$ 1,663,649,828.85		\$ 0.00	\$ 1,663,649,828.85	\$ 1,632,842,810.96

Actuarial Cost Method Used: See below

Assumptions: See below

Market Value of Investments in Market-based and Marketable Securities: Not applicable

**Military Retirement Pensions:** The portion of the military retirement benefits actuarial liability applicable to Army General Fund is reported on the financial statements of the Military Retirement Fund.

**Military Retirement Health Benefits:** Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to Army General Fund is reported only on the DoD Agency-wide financial statements.

**Medicare-Eligible Retiree Benefits:** Not reported by Military Retirement Systems.

**Federal Employees Compensation Act (FECA)**

Actuarial Cost Method Used: Army General Fund's actuarial liability for Workers' Compensation benefits is developed by the Department of Labor and provided to Army General Fund each fiscal year end. The liability 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 to predict the ultimate payments.

Assumptions: The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors provided by the Department of Labor are also applied to the calculation of projected future benefits.

**Note Reference**

For additional line item discussion, see:

Note 11, Total Liabilities Not Covered by Budgetary Resources

Note 15, Other Liabilities

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

<b>Intragovernmental Costs and Exchange Revenue</b>		
<b>As of June 30</b>	<b>2006</b>	<b>2005</b>
1. Intragovernmental Costs	\$ 32,979,240,303.28	\$ 31,571,167,358.55
2. Public Costs	102,887,530,711.13	81,770,587,133.69
<b>3. Total Costs</b>	<b>\$ 135,866,771,014.41</b>	<b>\$ 113,341,754,492.24</b>
4. Intragovernmental Earned Revenue	\$ (6,870,706,192.72)	\$ (5,875,810,184.25)
5. Public Earned Revenue	(911,741,318.79)	(882,931,105.12)
<b>6. Total Earned Revenue</b>	<b>\$ (7,782,447,511.51)</b>	<b>\$ (6,758,741,289.37)</b>
<b>7. Net Cost of Operations</b>	<b>\$ 128,084,323,502.90</b>	<b>\$ 106,583,013,202.87</b>

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven by understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

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

**Definitions**

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

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

**Fluctuation and/or Abnormalities**

Gross Costs increased \$22.5 billion, or 20 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to an \$8.1 billion increase in future funded expenses, \$6.4 billion increase in procurement, and \$1.9 billion increase in military construction. The increase in future funded expense is for environmental liabilities reported in FY 2006 for the Chemical Weapons Disposal



Program. The program implemented the use of a new cost estimation process beginning in 3rd Quarter, FY 2006.

The increase in procurement cost is primarily comprised of a \$2.8 billion in procurement of equipment to address immediate shortfalls in the National Guard and Reserve during FY 2006 and \$3.6 billion procurement of communication equipment and tactical vehicles in support of the Operation Enduring Freedom and Iraqi Freedom Fund during FY 2006.

The increase in military construction is due to the construction, modifications, and procurement of facilities and attendant items for the Army during FY 2006 specifically due to modifications required for the Fort Bragg, Fort Lewis, Fort Wainwright, and other Army installations.

Earned Revenue increased \$1.0 billion, or 15 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 primarily due to a \$457.7 million increase in Defense Health Program due to reimbursable medical support labor and construction in support of Katrina Relief during FY 2006. Additional increases to revenue include a \$172.6 million increase with Defense Logistics Agency, \$128.4 million increase with Department of Homeland Security, and \$108.1 million increase with Department of State. The increase with Defense Logistics Agency is due to their use of the new Business Systems Modernization system starting 4th Quarter, FY 2005 which provides better trading partner data. The increase in Department of Homeland Security is primarily caused by reimbursable activities for management of material and equipment along with applied research in materials technology and ground combat identification technology during FY 2006. The increase in Department of State results from reimbursable authority in support of logistical activities and land force readiness support for Army General Fund during FY 2006.

### **Other Information Regarding Costs**

The Army General Fund's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales; therefore, the Army was unable to reconcile intragovernmental costs to the related intragovernmental revenue that generated the cost.

Revenue from federal entities associated with the DoD was compared to Army General Fund expenses. An adjustment was posted to expenses based on the comparison with the revenue of the DoD Components providing goods and services to Army General Fund. Intragovernmental expenses were adjusted downward for \$20.1 billion while nonfederal expenses were adjusted upward for the same amount. The Army General Fund intends to develop long-term systems improvements as outlined in the Army Chief Financial Officer's Strategic Plan that will include sufficient upfront edits and controls to eliminate the need for after-the-fact reconciliations. In addition, \$7.3 billion of intra-Army General Fund transactions were eliminated leaving a balance of \$32.8 billion.

The FY 2005 total costs have not been restated for the FY 2005 portion of the net cost adjustment related to the prior period adjustment for military equipment. This adjustment will be

incorporated into the 4<sup>th</sup> Quarter FY 2006 financial statements. Refer to Notes 10 and 19 for further disclosures.

Intragovernmental costs above are understated and public costs overstated by \$144.6 million due to errors in the reporting of intragovernmental costs with the U.S. Postal Service. The errors will be corrected in 4<sup>th</sup> Quarter FY 2006.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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As of June 30	2006	2006	2005	2005
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	(44,270,000,000.00)	0.00	(43,012,000,000.00)	0.00
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	\$ (44,270,000,000.00)	\$ 0.00	\$ (43,012,000,000.00)	\$ 0.00
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 225,568,740.52	\$ 0.00	\$ 232,633,158.94	\$ 0.00
B. Civilian Health	418,630,680.00	0.00	390,043,623.15	0.00
C. Civilian Life Insurance	1,297,369.47	0.00	1,195,603.13	0.00
D. Judgment Fund	59,020,649.63	0.00	234,728,950.56	0.00
E. Intra-Entity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 704,517,439.62	\$ 0.00	\$ 858,601,335.78	\$ 0.00

### Prior Period Adjustments: Errors and Omissions in Prior Year Accounting Reports

The Army General Fund recorded \$44.3 billion in a prior period adjustment for the reporting of military equipment. The Army General Fund, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 23, Eliminating the Category National Defense Property, Plant, and Equipment, reported military equipment using data available from the Bureau of Economic Analysis (BEA) on an interim basis. Effective for the reporting period beginning after March 31, 2006, the Department is replacing the BEA estimation methodology with a valuation based on internal Departmental records. The Department initially identified the universe of military equipment by meeting with program managers to gather information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals. The military equipment baseline is updated using expenditure information, and information from acquisition and logistics personnel to identify acquisitions and disposals. The Department considers this a correction of a material error as we determined that the BEA estimates failed to consider disposals, thresholds, and construction in process, and thus not GAAP compliant.

## Imputed Financing

The \$175.7 million, or 75 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006 decrease in Judgment Fund is attributable to a decrease in the number of court of claims and torts filed during FY 2006 and the dollar amount of the claims filed for each appropriation account and the adjudication of those claims as follows:

(Amounts in Thousands)	<b>Number of Claims</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>Difference</b>
Court of Claims	1	\$ 0.3	\$ 51.5	\$ (51.2)
Torts	295	58.3	182.2	(123.9)
Small Claims	1	0.4	1.0	(0.6)
Totals	297	\$ 59.0	\$ 234.7	\$ (175.7)

## Cumulative Results of Operations

Other Budgetary Financing Sources (All other funds) and Other Financing Sources (Other) represent adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. The net effect of these adjustments is reflected on Other budgetary financing sources and Other Financing Sources on the Statement of Net Position.

## Unexpended Appropriations

Appropriations Received (All other funds) on the Statement of Changes in Net Position does not agree with the Appropriations Received on the Statement of Budgetary Resources due to differences between proprietary and budgetary accounting concepts and reporting requirements. The Statement of Budgetary Resources includes \$12.0 million in receipts for Trust and Special Funds and \$255 thousand in anticipated – indefinite funds that are not included in the Statement of Changes in Net Position.

Other Adjustments represents recessions enacted during FY 2006.

## Note Reference

For additional line item discussion, see:

Note 18, Disclosures Related to the Statement of Net Cost

Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 21, Disclosures Related to the Statement of Financing

Note 23, Earmarked Funds

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 70,349,571,097.17	\$ 68,539,017,047.99
2. Available Borrowing and Contract Authority at the End of the Period	11,711,937.00	0.00

**Undelivered Orders**

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

**Supplemental Appropriations Received**

Appropriations received increased primarily due to the enactment of Public Law 109-234, FY 2006 Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery. This appropriation will fund ongoing military, diplomatic, and intelligence operations in the Global War on Terror; stabilization and counter-insurgency activities in Iraq and Afghanistan; and other humanitarian assistance.

**Breakdown of Emergency Supplemental Appropriations (in billions)**

<b>Appropriation</b>	<b>Total</b>
Military Personnel	6.8
Operations & Maintenance	18.0
Afghanistan Security Forces	1.9
Iraqi Security Forces	3.0
Joint Improvised Explosive Device Defeat Fund	2.0
Procurement	8.9
Research, Development, Test and Evaluation	0.1
<b>Total Army Supplemental</b>	<b>\$ 40.7</b>

**Reporting of Appropriations Received**

Appropriations received on the Statement of Budgetary Resources do not agree with appropriations received on the Statement of Changes in Net Position because of differences between proprietary and budgetary accounting concepts and reporting requirements. The differences are made up of the recording of receipts for trust and special funds and the appropriations anticipated-indefinite accounts.

## **Presentation of Statement of Budgetary Resources**

The Statement of Budgetary Resources does not include eliminating entries because the statements are presented as combined and combining. Therefore, a Disaggregated Statement of Budgetary Resources is included in the Required Supplementary Information section of the financial statements.

## **Breakdown of Apportionment Categories**

Office of Management and Budget Circular A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment. Obligations incurred consists of \$127.3 billion in Category A, Direct; \$5.9 billion in Category B, Direct; \$10.9 billion in Category A, Reimbursable; and \$3.3 billion in Category B, Reimbursable. This disclosure agrees with the aggregate of the related information as reported on the Budgetary Execution Report and Obligations Incurred on the Statement of Budgetary Resources.

## **Terms of Borrowing Authority**

Borrowing authority increased due to a loan default relating to the Armament Retooling and Manufacturing Support Initiative (ARMS). This initiative is designed to encourage commercial use of inactive Army General Fund ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army General Fund and Department of Agriculture Rural Business-Cooperative Service (RBS) established a Memorandum of Understanding for the RBS to administer the ARMS Initiative Loan Guarantee Program. The borrowing authority was received from Treasury to pay for a loan 90 percent guaranteed by ARMS to make bullet casings. The loan was defaulted in August 1999 and Army General Fund was in litigation to determine the actual amount of debt owed. In January 2006, Army General Fund used the borrowing authority to pay for the guaranteed loan.

## **Differences with the Budget of the United States Government**

A Nonbudgetary Credit Program Finance Account section allows for a clear distinction between budgetary and nonbudgetary credit program financing. Nonbudgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the United States Government. Separate reporting on the Statement of Budgetary Resources enhances reconciliation of the two sets of information.

Offsetting Receipts are collections that are credited to the general, special, suspense or trust fund receipt accounts. In addition, they represent offsetting receipts distributed to Army General Fund. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government. Offsetting receipts must be included in the

Statement of Budgetary Resources to reconcile it to information in the Budget of the United States Government.

**Note Reference**

For additional line item discussion, see:

Note 16, Commitments and Contingencies

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

Note 21, Disclosures Related to the Statement of Financing

<b>Note 21.</b>	<b>Disclosures Related to the Statement of Financing</b>
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The Statement of Financing is intended to articulate and detail the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. The following Statement of Financing lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated: Obligations Incurred, Less: Spending Authority from Offsetting collections and Recoveries, Obligations Net of Offsetting Collections and Recoveries, Less: Offsetting Receipts, Net Obligations, undelivered Orders, and Unfilled Customer Orders.

Other Resources – Other, and Other resources or adjustments to net obligated resources that do not affect net cost operations – Other includes Other Gains and Losses which represents adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. In addition, Other resources or adjustment to net obligated resources that do not affect net cost operations – Other includes transfers in and out without reimbursement.

Other Components Requiring or Generating Resources in Future Period represents increases in future funded expense for various liabilities such as Federal Employment Compensation Act, Judgment Fund, Unemployment Compensation, and Closed Accounts Payable.

Other Components not Requiring or Generating Resources is comprised of Other Expenses not Requiring Budgetary Resources for the Iraqi Relief and Reconstruction Fund. The Iraqi Relief and Reconstruction Fund is a transfer fund where Army General Fund executes the funding on behalf of the Executive Office of the President. The Department of Treasury requires that the execution for this type of transfer is presented on Army General Fund's financial statements except for the Statements of Budgetary Resources. A reconciling item is included in Other because Obligations incurred on the Statement of Financing does not include expenses related to the Iraqi Relief and Reconstruction Fund.

Components Requiring or Generating Resources in Future Period reports unfunded expenses that were incurred during FY 2006. The cumulative total of unfunded expenses from all fiscal years is reported as "Liabilities Not Covered by Budgetary Resources" in Note 11.

### **Note Reference**

For additional line item discussion, see:

- Note 8, Direct Loan and/or Loan Guarantee Programs
- Note 10, General Property Plant & Equipment, Net
- Note 11, Liabilities Not Covered By Budgetary Resources
- Note 14, Environmental Liabilities and Disposal Liabilities
- Note 16, Commitments and Contingencies
- Note 20, Disclosures Related to the Statement



<b>Note 22.</b>	<b>Disclosures Related to the Statement of Custodial Activity</b>
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The Statement of Custodial Activity displays current year collections and disbursements for two custodial accounts: Development Fund for Iraq and Iraqi Seized Assets. Funds held in a Custodial Activity are only used for their stated purposes and are not available for the Department's use.

**Development Fund for Iraq (DFI)**

The DFI is for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. In the current year, there were \$31.0 million in disbursements by the Multi-National Force Iraq with no additional deposits. Some of the disbursements for FY 2005 were incorrectly classified. Disbursements during FY 2006 were processed to correct the misclassification which caused negative disbursements for Education, Refugees, Human Rights, and Governance. As of June 30, 2006 \$22.4 million remains to be disbursed.

	(Amounts in Thousands)	
	<b>During FY 2006</b>	<b>Cumulative from Inception</b>
<b>Source of Collections</b>		
Deposits By Foreign Governments	\$ 0	\$ 136,000
<b>Disposition of Collections</b>		
Security and Law Enforcement	\$ 216	\$ 979
Electric Sector	18,322	42,689
Oil Infrastructure	36	466
Water Resources and Sanitation	9,501	16,163
Transportation and Telecommunications	264	5,472
Roads, Bridges and Construction	794	5,024
Health Care	154	2,874
Private Sector Development	3,364	7,181
Education, Refugees, Human Rights, and Governance	<u>(1,617)</u>	<u>32,799</u>
<b>Total Disbursed on Behalf of Foreign Governments</b>	<u>31,034</u>	<u>113,647</u>
Retained for Future Support of Foreign Governments *	<u>(31,034)</u>	<u>22,353</u>
<b>Total Disposition of Collections</b>	<u>\$ 0</u>	<u>\$ 136,000</u>
<b>Net Custodial Collection Activity</b>	<u>\$ 0</u>	<u>\$ 0</u>

\*Retained for Future Support of Foreign Governments is reflected as an Increase/(Decrease) in Amounts to be Transferred on the Statement of Custodial Activity

## Seized Assets

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi Government that are used in support of the Iraqi people. In FY 2006, \$25.5 million was disbursed with no additional seized assets. As of June 30, 2006, \$35.9 million of seized monetary assets remain to be disbursed in support of the Iraqi people as shown in the table below.

	(Amounts in Thousands)	
	<b>During FY 2006</b>	<b>Cumulative from Inception</b>
<b>Source of Collections</b>		
Seized Iraqi Cash	\$ 0	\$ 927,215
<b>Disposition of Collections</b>		
Iraqi Salaries	\$ 0	\$ 30,838
Repair/Reconstruction/Humanitarian Assistance	25,471	520,431
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	0	264,736
Fuel/Supplies	<u>0</u>	<u>75,311</u>
<b>Total Disbursed on Behalf of Iraqi People</b>	25,471	891,316
Retained for Future Support of the Iraqi People	<u>(25,471)</u>	<u>35,899</u>
<b>Total Disposition of Collections</b>	<u>\$ 0</u>	<u>\$ 927,215</u>
<b>Net Custodial Collection Activity</b>	<u>\$ 0</u>	<u>\$ 0</u>

<b>Note 23.</b>	<b>Earmarked Funds</b>
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<b>BALANCE SHEET</b> As of June 30				
	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds

**ASSETS**

Fund balance with Treasury	\$	0.00	\$	0.00	\$	40,644,827.91	\$	40,644,827.91
Investments		0.00		0.00		3,587,208.85		3,587,208.85
Accounts and Interest Receivable		0.00		0.00		10,899,541.25		10,899,541.25
Other Assets		0.00		0.00		0.00		0.00
<b>Total Assets</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>55,131,578.01</b>	<b>\$</b>	<b>55,131,578.01</b>

**LIABILITIES and NET POSITION**

Military Retirement Benefits and Other Employment Related Actuarial Liabilities	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Other Liabilities Unexpended Appropriations		0.00		0.00		15,337,693.40		15,337,693.40
Cumulative Results of Operations		0.00		0.00		0.00		0.00
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>39,793,884.61</b>	<b>\$</b>	<b>39,793,884.61</b>
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>55,131,578.01</b>	<b>\$</b>	<b>55,131,578.01</b>

**STATEMENT OF NET COST**

Program Costs	\$	0.00	\$	0.00	\$	7,326,102.83	\$	7,326,102.83
Less Earned Revenue		0.00		0.00		(8,703.16)		(8,703.16)
<b>Net Program Costs</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>7,317,399.67</b>	<b>\$</b>	<b>7,317,399.67</b>
Less Earned Revenues Not Attributable to Programs		0.00		0.00		0.00		0.00
<b>Net Cost of Operations</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>7,317,399.67</b>	<b>\$</b>	<b>7,317,399.67</b>

**STATEMENT OF CHANGES IN NET POSITION**

Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	35,139,702.65	\$	35,139,702.65
Net Cost of Operations		0.00		0.00		7,317,399.67		7,317,399.67
Other Nonexchange Revenue		0.00		0.00		11,971,581.63		11,971,581.63
<b>Change in Net Position</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>4,654,181.96</b>	<b>\$</b>	<b>4,654,181.96</b>
<b>Net Position End of Period</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>39,793,884.61</b>	<b>\$</b>	<b>39,793,884.61</b>

Earmarked Funds are presented in this footnote as combined and do not reflect eliminations within Army General Fund. All intragovernmental earmarked assets, liabilities, revenue, and costs reflect transactions with entities outside of the DoD.

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

- Sale of Hunting and Fishing Permits. Fees are received from individuals for the issuance of special hunting and fishing permits. The funds for this account are used for wildlife, fish, and game conservation, and rehabilitation on military reservations.
  
- Restoration of Rocky Mountain Arsenal. Funds are received from private industry for the cleanup of contamination areas of Rocky Mountain Arsenal. Public Law 99-661, Section 1367 provides the authority for this explicit use.
  
- Royalties for Use of DoD-Military Insignia and Trademarks. Funds are received from the sale of commemorative memorabilia, trademarks, and licensing activities. The funds are used to replenish inventory stock for such items and other related Commemorative Program expenses. The authority to create expenditures originates from Public Law 102-484, Section 378.
  
- Forest and Wildlife Conservation, Military Reservations. These funds are produced from the sale of forest products that are in excess of operation and maintenance expenses at fiscal year-end for the payment of entitlements to States.
  
- National Science Center, Funds received from the collection of fees for the use of the National Science Center and use for the operation and maintenance of the National Science Center as authorized under Public Law 99-145, Defense Authorization Act 1986, and Section 1459.
  
- Bequest of Major General Fred C. Ainsworth to Walter Reed Army Medical Center. Funds received from interest on investments for the use of purchasing supplies and equipment for the library at Walter Reed Army Medical Center.
  
- Department of the Army Gift Fund. Funds are received from private parties and estates and used for various purposes.

Other Assets consist of interest revenue for loan guarantees related to the Armament Retooling and Manufacturing Support Initiative.

#### **Note Reference**

For additional line item discussion, see:

Note 1, Significant Accounting Policies

Note 3, Fund Balance with Treasury

Note 4, Investments

Note 5, Accounts Receivable

Note 6, Other Assets

Note 7, Cash and Other Monetary Assets

Note 8, Direct Loan and/or Loan Guarantee Programs

Note 11, Liabilities Not Covered by Budgetary Resources

Note 12, Accounts Payable

Note 13, Debt

Note 15, Other Liabilities

Note 18, Disclosures Related to the Statement of Net Cost  
Note 19, Disclosures Related to the Changes in Net Position  
Note 21, Disclosures Related to the Statement of Financing

<b>Note 24.</b>	<b>Other Disclosures</b>
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As of June 30	2006			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

**1. ENTITY AS LESSEE-  
Operating Leases**

Future Payments Due

Fiscal Year

2006	\$ 1,574,513.21	\$ 0.00	\$ 0.00	\$ 1,574,513.21
2007	6,298,011.17	0.00	0.00	6,298,011.17
2008	4,950,047.72	0.00	0.00	4,950,047.72
2009	3,793,801.84	0.00	0.00	3,793,801.84
2010	2,118,330.11	0.00	0.00	2,118,330.11
After 5 Years	15,550,306.33	0.00	0.00	15,550,306.33

**Total Future Lease  
Payments Due**

	\$ 34,285,010.38	\$ 0.00	\$ 0.00	\$ 34,285,010.38
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**Definitions**

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for payment of funds.

Operating Lease - A lease which does not substantially transfer all the benefits and risks of ownership. Payments are charged to an expense account over the lease term as it becomes payable.

**Relevant Information for Comprehension**

Land and Building lease periods vary and are not expected to be renewed at the end of the lease term. There are no material escalation clauses or contingent rental restrictions. Costs are gathered from existing leases, General Service Administration bills, and Interservice Support Agreements of which the largest component is office space. Future year projections use the Consumer Price Index (CPI), rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.