Department of Defense
Agency Wide
CONSOLIDATED BALANCE SHEET
As of June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated Restated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	$ 454,243,525,357.76	$ 420,110,215,785.23
b. Non-Entity Seized Iraqi Cash	35,898,732.31	77,285,422.99
c. Non-Entity-Other	2,951,519,889.45	692,326,631.81
2. Investments (Note 4)	303,738,885,213.92	264,871,038,153.33
3. Accounts Receivable (Note 5)	3,747,095,998.91	1,289,004,365.86
4. Other Assets (Note 6)	1,189,083,823.21	1,351,991,758.14
5. Total Intragovernmental Assets	$ 765,906,009,015.56	$ 688,391,862,117.36
B. Cash and Other Monetary Assets (Note 7)	$ 2,028,885,274.16	$ 2,395,445,883.48
C. Accounts Receivable,Net (Note 5)	8,252,007,385.63	7,908,636,176.61
D. Loans Receivable (Note 8)	136,954,570.04	71,816,614.89
E. Inventory and Related Property,Net (Note 9)	225,636,187,337.89	213,025,885,858.22
F. General Property, Plant and Equipment,Net (Note 10)	447,929,383,892.75	430,070,708,996.03
G. Investments (Note 4)	921,823,130.00	575,993,130.00
H. Other Assets (Note 6)	24,894,005,300.90	24,233,224,520.77
2. TOTAL ASSETS	$ 1,475,705,255,906.93	$ 1,366,673,573,297.36
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$ 2,216,027,051.25	$ 2,783,231,392.38
2. Debt (Note 13)	427,633,562.04	592,238,699.55
3. Other Liabilities (Note 15 & 16)	11,871,662,449.61	10,562,833,126.01
4. Total Intragovernmental Liabilities	$ 14,515,323,062.90	$ 13,938,303,217.94
B. Accounts Payable (Note 12)	$ 27,177,389,101.55	$ 26,803,086,930.93
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,736,057,882,163.49	1,569,704,984,877.05
D. Environmental and Disposal Liabilities (Note 14)	72,227,327,019.76	64,226,224,747.95
E. Loan Guarantee Liability (Note 8)	30,572,755.03	45,819,277.64
F. Other Liabilities (Note 15 & Note 16)	30,513,589,669.98	31,460,194,944.99
4. TOTAL LIABILITIES	$ 1,880,522,083,772.71	$ 1,706,178,613,996.50
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	$ 12,167,789.08	$ 0.00
B. Unexpended Appropriations - Other Funds	443,403,859,768.34	385,126,414,325.76
C. Cumulative Results of Operations - Earmarked Funds	(1,191,056,503,331.19)	0.00
D. Cumulative Results of Operations - Other Funds	342,823,647,907.99	(724,631,455,024.90)
6. TOTAL NET POSITION	$ (404,816,827,865.78)	$ (339,505,040,699.14)
7. TOTAL LIABILITIES AND NET POSITION	$ 1,475,705,255,906.93	$ 1,366,673,573,297.36

Department of Defense
Agency Wide
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	$ 414,876,916,526.95	$ 370,561,416,600.83
B. (Less: Earned Revenue)	(36,301,820,098.82)	(31,290,875,861.26)
C. Net Program Costs	$ 378,575,096,428.13	$ 339,270,540,739.57
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	$ 378,575,096,428.13	$ 339,270,540,739.57

Department of Defense
Agency Wide
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated Restated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	$ (870,682,621,884.00)	$ (745,441,240,189.41)
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	(21,832,000,000.00)	(22,982,000,000.00)
3. Beginning balances, as adjusted	(892,514,621,884.00)	(768,423,240,189.41)
4. Budgetary Financing Sources:		
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	1,326,934.16	0.00
4.D.2 All other Funds	416,438,407,801.15	378,700,577,337.84
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	2,129,663,539.96	0.00
4.E.2 All other funds	14,887,745.22	1,701,994,528.07
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	17,663,229.96	0.00
4.F.2 All other funds	0.00	28,671,501.92
4.G. Transfers-in/out without reimbursement (+/-)	1,724,534,740.10	3,041,432,967.73
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	494,749.45	0.00
4.H.2 All other funds	(3,861,499,021.45)	(2,933,114,102.88)
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	11,609,836.02	385,009.85
5.B. Transfers-in/out without reimbursement (+/-)	178,353.97	(3,724,929.08)
5.C. Imputed financing from costs absorbed by others	3,199,078,351.39	3,344,717,876.03
5.D. Other (+/-)	3,180,516,629.00	(818,614,285.40)
6. Total Financing Sources		
6.A. Earmarked funds	3,186,592,497.97	0.00
6.B. All other funds	419,670,270,390.96	383,062,325,904.08
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	23,367,045,507.93	0.00
7.B. All other funds	355,208,050,920.20	339,270,540,739.57
8. Net Change		
8.A. Earmarked funds	(20,180,453,009.96)	0.00
8.B. All other funds	64,462,219,470.76	43,791,785,164.51
9. Ending Balances		
9.A. Earmarked funds	(1,191,056,503,331.19)	0.00
9.B. All other funds	342,823,647,907.99	(724,631,455,024.90)

Department of Defense

Agency Wide

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	$ (848,232,855,423.20)	$ (724,631,455,024.90)

Department of Defense
Agency Wide
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	$ 271,493,675,950.17	$ 243,813,788,091.23
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	271,493,675,950.17	243,813,788,091.23
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	100,000.00	0.00
4.A.2 All other funds	595,198,023,690.22	523,020,384,489.15
4.B. Appropriations transferred-in/out (+/-)	(111,157,630.00)	(655,603,492.00)
4.C. Other adjustments (rescissions, etc) (+/-)	(6,724,879,717.66)	(2,351,577,424.78)
4.D. Appropriations used		
4.D.1 Earmarked Funds	(1,326,934.16)	0.00
4.D.2 All other Funds	(416,438,407,801.15)	(378,700,577,337.84)
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
5. Other Financing Sources:		
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
6. Total Financing Sources		
6.A. Earmarked funds	(1,226,934.16)	0.00
6.B. All other funds	171,923,578,541.41	141,312,626,234.53
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
8. Net Change		
8.A. Earmarked funds	(1,226,934.16)	0.00
8.B. All other funds	171,923,578,541.41	141,312,626,234.53
9. Ending Balances		
9.A. Earmarked funds	12,167,789.08	0.00
9.B. All other funds	443,403,859,768.34	385,126,414,325.76

Department of Defense

Agency Wide

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	$ 443,416,027,557.42	$ 385,126,414,325.76

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	$ 68,589,487,818.32	$ 293,956,869,248.72
2. Recoveries of prior year unpaid obligations	21,675,511,159.92	31,817,215,588.08
3. Budget authority		
3.A. Appropriation	677,052,323,406.54	601,645,168,265.54
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	62,151,311,336.96	44,245,033,886.93
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	117,389,513,245.26	114,658,831,171.20
3.D.1.b. Change in receivables from Federal sources	883,750,974.48	97,159,952.50
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	120,110,483.92	1,146,315,974.30
3.D.2.b. Without advance from Federal sources	12,474,863,458.40	14,256,875,694.44
3.D.3. Anticipated for rest of year, without advances	28,845,366,071.26	9,250,757,004.18
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	898,917,238,976.82	785,300,141,949.09
4. Nonexpenditure transfers, net, anticipated and actual	(121,379,897.75)	60,533,577.18
5. Temporarily not available pursuant to Public Law	(43,089,518,170.54)	(10,000,000.00)
6. Permanently not available	(51,981,495,597.88)	(26,382,357,870.46)
7. Total Budgetary Resources	$ 893,989,844,288.89	$ 1,084,742,402,492.61

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	$ 489,021,572,000.22	$ 452,944,542,620.42
8.B. Reimbursable	119,678,526,382.05	145,307,666,597.61
8.C. Subtotal	608,700,098,382.27	598,252,209,218.03
9. Unobligated balance:		
9.A. Apportioned	254,818,981,899.26	210,131,253,855.79
9.B. Exempt from apportionment	2,823,429,538.24	204,781,712,235.08
9.C. Subtotal	257,642,411,437.50	414,912,966,090.87
10. Unobligated balance not available	27,647,334,469.12	71,577,227,183.71
11. Total status of budgetary resources	$ 893,989,844,288.89	$ 1,084,742,402,492.61
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	300,445,361,172.24	282,264,839,033.31
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	$ (54,586,765,275.73)	$ (49,538,723,232.75)
12.C. Total unpaid obligated balance	245,858,595,896.51	232,726,115,800.56
13. Obligations incurred net (+/-)	$ 608,700,098,382.27	$ 598,252,209,218.03
14. Less: Gross outlays	(577,613,632,746.62)	(539,740,689,784.88)
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 (+/-)	0.00	0.00
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	(21,675,511,159.92)	(31,817,215,588.08)
17. Change in uncollected customer payments from Federal sources (+/-)	(13,358,614,432.88)	(14,354,035,646.94)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	309,856,315,647.97	308,959,142,878.38
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(67,945,379,708.61)	(63,892,758,879.69)
18.C. Total, unpaid obligated balance, net, end of period	241,910,935,939.36	245,066,383,998.69
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	577,613,632,746.62	539,740,689,784.88
19.B. Less: Offsetting collections	(117,509,623,729.18)	(115,805,147,145.50)
19.C. Less: Distributed Offsetting receipts	(60,027,864,929.84)	(50,820,675,118.15)
19.D. Net Outlays	$ 400,076,144,087.60	$ 373,114,867,521.23

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended June 30, 2006 and 2005

		2006 Combined	2005 Combined
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1.	Unobligated balance, brought forward, October 1	$ 35,023,097.64	$ 24,520,250.64
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	93,024,984.00	51,047,630.00
	3.C. Contract authority	0.00	0.00
	3.D. Spending authority from offsetting collections		
	3.D.1 Earned		
	3.D.1.a. Collected	28,366,354.37	14,891,311.08
	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	(22,970,066.00)	4,502,814.00
	3.D.3 Anticipated for rest of year, without advances	4,249,880.12	2,143,941.92
	3.D.4 Previously unavailable	0.00	0.00
	3.D.5 Expenditure transfers from trust funds	0.00	0.00
	3.E. Subtotal	102,702,183.74	72,585,697.00
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	(328,480.00)	(2,071,414.00)
7.	**Total Budgetary Resources**	$ 137,396,801.38	$ 95,034,533.64

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	$ 89,373,664.60	$ 55,861,077.00
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	89,373,664.60	55,861,077.00
9. Unobligated balance:		
9.A. Apportioned	1,143,775.40	2,672,494.21
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	1,143,775.40	2,672,494.21
10. Unobligated balance not available	46,879,361.38	36,500,962.43
11. Total Status of Budgetary Resources	$ 137,396,801.38	$ 95,034,533.64
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	446,330,280.81	238,830,280.81
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	$ (123,710,109.00)	$ (83,082,823.00)
12.C. Total unpaid obligated balance	322,620,171.81	155,747,457.81
13. Obligations incurred net (+/-)	$ 89,373,664.60	$ 55,861,077.00
14. Less: Gross outlays	(90,066,505.41)	(4,061,077.00)
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 (+/-)	0.00	0.00
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	22,939,034.75	(4,502,814.00)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	445,637,440.00	290,630,280.81
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(100,771,074.25)	(87,585,637.00)
18.C. Total, unpaid obligated balance, net, end of period	344,866,365.75	203,044,643.81
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	90,066,505.41	4,061,077.00
19.B. Less: Offsetting collections	(28,366,354.37)	(14,891,311.08)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
19.D. Net Outlays	$ 61,700,151.04	$ (10,830,234.08)

Department of Defense
Agency Wide
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

		2006 Consolidated		2005 Consolidated
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
1. Obligations incurred	$	608,789,472,046.87	$	598,308,070,295.03
2. Less: Spending authority from offsetting collections and recoveries (-)		(152,549,176,641.60)		(161,995,792,505.60)
3. Obligations net of offsetting collections and recoveries		456,240,295,405.27		436,312,277,789.43
4. Less: Offsetting receipts (-)		(60,027,864,929.84)		(50,820,675,118.15)
5. Net obligations		396,212,430,475.43		385,491,602,671.28
Other Resources				
6. Donations and forfeitures of property		11,609,836.02		385,009.85
7. Transfers in/out without reimbursement (+/-)		178,353.97		(3,724,929.08)
8. Imputed financing from costs absorbed by others		3,199,078,351.39		3,344,717,876.03
9. Other (+/-)		3,180,516,629.00		171,875,129.69
10. Net other resources used to finance activities		6,391,383,170.38		3,513,253,086.49
11. Total resources used to finance activities	$	402,603,813,645.81	$	389,004,855,757.77
Resources Used to Finance Items not Part of the Net Cost of Operations				
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
12a. Undelivered Orders (-)		(10,980,314,937.89)		(49,957,305,381.16)
12b. Unfilled Customer Orders		12,572,003,876.32		15,407,694,482.74
13. Resources that fund expenses recognized in prior periods		(2,863,621,083.38)		(3,174,513,747.58)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations		3,459,923,621.58		2,253,477,276.09
15. Resources that finance the acquisition of assets		(73,338,355,617.29)		(78,209,653,472.30)
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 (-)		(10,000,000.00)		(10,000,000.00)
16b. Other (+/-)		(3,192,904,267.35)		3,339,919.23
17. Total resources used to finance items not part of the net cost of operations	$	(74,353,268,408.01)	$	(113,686,960,922.98)
18. Total resources used to finance the net cost of operations	$	328,250,545,237.80	$	275,317,894,834.79

Department of Defense
Agency Wide
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	588,250,295.59	701,290,224.39
20. Increase in environmental and disposal liability	7,406,237,030.00	1,026,802,239.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	(39,219,306.82)	35,902,048.78
23. Other (+/-)	348,503,415.61	424,778,791.15
24. Total components of Net Cost of Operations that will require or generate resources in future periods	8,303,771,434.38	2,188,773,303.32
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	24,983,669,109.49	32,603,485,481.16
26. Revaluation of assets or liabilities (+/-)	4,152,395,475.73	169,420,459.51
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(19,743,062,734.79)	(19,458,010,119.40)
27b. Cost of Goods Sold	35,428,743,817.43	34,387,602,834.87
27c. Operating Material & Supplies Used	3,779,062,660.20	(1,672,865,733.94)
27d. Other	(6,580,028,572.11)	15,734,239,679.26
28. Total components of Net Cost of Operations that will not require or generate resources	42,020,779,755.95	61,763,872,601.46
29. Total components of net cost of operations that will not require or generate resources in the current period	$ 50,324,551,190.33	$ 63,952,645,904.78
30. Net Cost of Operations	$ 378,575,096,428.13	$ 339,270,540,739.57

Department of Defense

Agency Wide

COMBINED STATEMENT OF CUSTODIAL ACTIVITY

For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
1.SOURCE OF COLLECTIONS		
A. Deposits by Foreign Governments	$ 9,664,453,325.26	$ 7,319,995,877.62
B. Seized Iraqi Cash	0.00	700.00
C. Other Collections	0.00	0.00
D. Total Cash Collections	$ 9,664,453,325.26	$ 7,319,996,577.62
E. Accrual Adjustments (+/-)	$ 0.00	$ 0.00
F. Total Custodial Collections	$ 9,664,453,325.26	$ 7,319,996,577.62
2.DISPOSITION OF COLLECTIONS		
A. Disbursed on Behalf of Foreign Governments and International Organizations	$ 8,975,307,033.80	$ 8,199,186,284.15
B. Seized Assets Disbursed on behalf of Iraqi People	25,471,113.08	36,145,259.17
C. Increase (Decrease) in Amounts to be Transferred	689,146,291.46	(879,190,406.53)
D. Collections Used for Refunds and Other Payments	0.00	0.00
E. Retained by The Reporting Entity	0.00	0.00
F. Seized Assets Retained for Support of the Iraqi People	(25,471,113.08)	(36,144,559.17)
G. Total Disposition of Collections	$ 9,664,453,325.26	$ 7,319,996,577.62
3. NET CUSTODIAL COLLECTION ACTIVITY	$ 0.00	$ 0.00

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the "Chief Financial Officers Act of 1990," expanded by the "Government Management Reform Act of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the Department in accordance with the "DoD Financial Management Regulation," the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Department is responsible. Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernable.

The Department is unable to fully implement all elements of GAAP and OMB Circular No. A-136 due to limitations of its financial management processes and systems, and non-financial systems and processes that feed into the financial statements. The Department derives its reported values and information for major asset and liability categories largely from non-financial systems, such as inventory systems and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Department continues to implement process and system improvements addressing these limitations. The Department currently has 11 auditor-identified financial statement material weaknesses: (1) Financial Management Systems, (2) Intragovernmental Eliminations, (3) Unsupported Accounting Entries, (4) Fund Balance with Treasury, (5) Environmental Liabilities, (6) General Property, Plant and Equipment, (7) Government Property and Material in Possession of Contractors, (8) Inventory, (9) Operating Materials and Supplies, (10) Statement of Net Cost, and (11) Statement of Financing.

1.B. Mission of the Reporting Entity

The National Security Act of 1947 established the Department of Defense. The Department's mission is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors against the United States and its allies. Fiscal year (FY) 2006 is the eleventh year that the Department has prepared audited DoD Agency-wide financial statements as required by the Chief Financial Officers (CFO) Act and Government Management Reform Act (GMRA). Auditors are required to audit the financial statements of the following stand-alone reporting entities: (1) Army General Fund, (2) Army Working Capital Fund, (3) Navy General Fund, (4) Navy Working Capital Fund, (5) Air Force General Fund, (6) Air Force Working Capital Fund, (7) Military Retirement Fund, (8) DoD Medicare-Eligible Retiree Health Care Fund, and (9) U.S. Army Corps of Engineers (Civil Works).

In addition to the nine stand-alone reporting entities, separate columns in the combining/consolidating statements are included with the financial information of the "Other Defense Organizations General Funds" and "Other Defense Organizations Working Capital Funds." The Office of the Inspector General will not issue separate audit opinions on the statements of the Other Defense Organizations; instead, the financial statements and records of those organizations are included in the audit performed to support the opinion issued on DoD Agency-wide financial statements.

The Department requires the Marine Corps General and Working Capital Funds and the following Defense Agencies to prepare internal stand-alone auditable financial statements: (1) Defense Logistics Agency, (2) Defense Finance and Accounting Service, (3) Defense Information Systems Agency, (4) Defense Contract Audit Agency, (5) Defense Commissary Agency, (6) Defense Security Service, (7) Defense Threat Reduction Agency, (8) Defense Advanced Research Projects Agency, (9) Chemical and Biological Defense Program, (10) Missile Defense Agency, (11) Services Medical Activity, (12) TRICARE Management Activity, and (13) U.S. Special Operations Command.

1.C. Appropriations and Funds

The Department receives its appropriations and funds as general, working capital (revolving), trust, special, and deposit funds. The Components use these appropriations and funds to execute their missions and report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operations and maintenance, research and development, procurement, and military construction accounts.

Working capital funds (WCF) receive their initial funding through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial startup. The WCF entities provide goods and services on a reimbursable basis. Reimbursable receipts fund ongoing operations and generally are 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 record government receipts reserved for a specific purpose.

Deposit funds are used to record amounts held temporarily until paid to appropriate government or public entity. The Department is acting as an agent or a custodian for funds awaiting distribution, for example payroll taxes.

Certain special and trust funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. 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 them from general revenues.

1.D. Basis of Accounting

For FY 2006, the Department's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Department's financial and non-financial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of the Department's legacy systems were designed to record information on a budgetary basis.

The Department has undertaken efforts to determine the actions required to bring its financial and non-financial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until all of the Department's financial and non-financial feeder systems and processes are updated to collect and report financial information as required by GAAP, DoD's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from non-financial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, the Department identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance Results Act (GPRA). The Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by GPRA and the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and

Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

The Department receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services. The Department recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full cost pricing is the Department's standard policy for services provided as required by OMB Circular No A-25. The Department recognizes revenue when earned within the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

Depot Maintenance and Ordinance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

The Department does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Statement of Financing. The U.S. has cost-sharing agreements with other countries. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Department's financial and non-financial feeder systems were not 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, environmental liabilities, and unbilled revenue. The Department's expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to migrate towards the consumption method for recognizing OM&S expenses.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, the Department cannot accurately identify most of its intragovernmental transactions by customer because DoD's systems do not track buyer and seller data needed to match related transactions. Seller entities within the Department provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD intragovernmental balances are then eliminated. The Department is developing long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that an after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," and the Treasury's "Federal Intragovernmental Transactions Accounting Policies Guide," provide guidance for reporting and reconciling intragovernmental balances. While the Department is unable to fully reconcile intragovernmental transactions with all federal partners, the Department is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the Office of Personnel Management (OPM). The Department'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 DoD's financial statements, therefore, do not report any portion of public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

The Department's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Services, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the Department's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, and 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 records this information to the applicable fund balance with treasury (FBWT) account. Differences between the Department's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

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

The majority of cash and all foreign currency is classified as nonentity and, therefore, 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 Department conducts a significant portion of its operations overseas. The Congress established a special account to capture the gains and losses from foreign currency transactions for five general fund appropriations (operations and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify currency fluctuations.

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. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department 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 (per the Code of Federal Regulations 4CFR 101).

The Department uses a variety of techniques for estimating the Allowance for Uncollectible Accounts Receivable from the public. The estimates are based on either a percentage of actual prior-year write-offs or a percentage of aged accounts receivable from the public.

1.L. Direct Loans and Loan Guarantees

The Department operates a direct loan and loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106, Stat 186, Section 2801. The Act includes a series of authorities that allow the Department to work with the private sector to renovate military housing. The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities individually or in combination. They include guarantees (both loan and rental); conveyance/leasing of existing property and facilities; differential lease payments; investments (both limited partnerships and stock/bond ownership); and direct loans. In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

The Department also operates a loan guarantee program designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

The National Defense Authorization Act for FY 2005, Public Law 108-375, Section 2805, provided permanent authorities to the Military Housing Privatization Initiative.

1.M. Inventories and Related Property

Most of the Department's inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, DoD Components have transitioned, and are continuing to transition, their inventories to the moving average cost method. Upon full implementation, the Department will be compliant with SFFAS No. 3. Approximately 35 percent of the Department's inventory value is now being reported from systems that have transitioned to moving average cost functionality. However, since the on-hand balances which transitioned were not, for the most part, baselined to auditable historical cost, the reported values remain non-compliant with SFFAS No. 3 and GAAP.

The Department manages only military or government-specific materiel under normal conditions. Items commonly used in and available from the commercial sector are not managed in DoD materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies. Therefore, DoD does not attempt to account separately for “inventory held for sale” and “inventory held in reserve for future sale” based on SFFAS No. 3 definitions.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Department uses the purchase method. Under this method materials and supplies are expensed when purchased. During FY 2006, the Department expensed significant amounts using the purchase method either because the systems could not support the consumption method or because management deemed that the item was in the hands of the end user.

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

The Department recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The net value of condemned materiel is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable materiel, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in “Held for Use” or “Held for Repair” categories according to its condition.

Past audits identified uncertainties about the completeness and existence of the reported values of inventory. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. It is more economical to repair than to procure these inventory items. Because the Department often relies on weapon systems and machinery no longer in production, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Finally, work in process balances include costs related to the production or servicing of items, including direct materiel, direct labor, applied overhead and other direct costs. Work in process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct cost. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer. The work in process designation may also be used to accumulate amounts paid to contractors under cost reimbursable contracts, including amounts withheld from payment to ensure performance, and amounts paid to other government plants for accrued costs of end items of materiel ordered but not delivered. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

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

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

The Department invests in non-marketable securities. The two types of non-marketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues non-marketable par value intragovernmental securities. Non-marketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

The Department's Net Investments are held by various trust funds. These trust funds are comprised of the Military Retirement Trust Fund (MRF); Medicare-Eligible Retiree Health Care Fund (MERHCF); Other Defense Organizations General Fund (ODO GF) trust funds; donations (Gift Funds); and the USACE South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Fund accounts.

1.O. General Property, Plant and Equipment

The Department is moving away from a standard capitalization threshold for all categories (e.g. real property, military equipment, etc.) of General Property, Plant, and Equipment (PP&E) to one that is specific for each individual category.

The capitalization threshold for real property was revised from $100,000 to $20,000 on March 13, 2006. The current $100,000 capitalization threshold remains unchanged for remaining categories PP&E.

General 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 when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000, except for the USACE and WCF as discussed below. Also, DoD requires capitalization of improvement costs over the DoD capitalization threshold of $100,000 to General PP&E. The Department depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998. No adjustment was made for WCF assets. These assets remain capitalized and reported on WCF financial statements.

The USACE Civil Works General 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 when the acquisition cost exceeds $25,000. One exception is all buildings and structures related to hydropower projects are capitalized regardless of cost. During FY 2003, the Corps increased its buildings and structures threshold from $0 to $25,000 for all Civil Works appropriations with the exception of Revolving Fund and Power Marketing Agency assets. All Civil Works buildings and structures currently capitalized under $25,000 (excluding Revolving Fund and Power Marketing Agency) were expensed in FY 2003 and removed from the Corps of Engineers Financial Management System. Beginning in FY 2004, all Civil Works Buildings and Structures under $25,000 are expensed except for Power Marketing Agency assets.

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

The Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Department reports only the government property in the possession of contractors that is maintained in DoD's property systems. The Department has issued property accountability and reporting regulations that require 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.

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 3rd Quarter, FY 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 accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure information, and information related to acquisition and logistics to identify acquisitions and disposals.

1.P. Advances and Prepayments

The Department records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. The Department recognizes advances and prepayments as expenses when it receives the related goods and services.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), the Department records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The Department 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 market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by the Department in support of contingency operations are the largest components of operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms, which are not expected to be renewed upon expiration. Other operating leases are generally one-year leases. The Department expects to continue to reduce the level of owned assets while increasing the number of leased assets. The Department will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

The Department 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, the Department provides financing payments. One type of financing payment that the Department makes for real property is based upon a percentage of completion. In accordance with the 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 on the Balance Sheet and in the related note.

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and contract financing payments, that are not reported elsewhere on the Department's Balance Sheet. Contract financing payments, as defined in the Federal Acquisition Regulations (FAR), are authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. These payments are made on contracts that contain the appropriate FAR contract financing payment clauses.

Contract financing payments facilitate competition for defense contracts and provide prudent levels of financing on long-term and/or high-value contracts. To protect taxpayer funds paid to contractors prior to delivery and acceptance, title to the contractor's work vests in the Government in the event of contract nonperformance, such as termination, bankruptcy, etc. The Department has no obligation or requirement to pay the contractor in excess of the payments authorized by the contract, nor would such a claim against the Department be enforceable until delivery and acceptance of a satisfactory product. Upon Government acceptance of the supplies or services, contract financing payments are liquidated and the asset is recognized within the appropriate category on the Balance Sheet.

Contract financing payments do not include payments under fixed price construction or architect-engineer contracts, because the FAR expressly excludes these payments from the definition of contract financing payments. In accordance with the Defense Federal Acquisition Regulations Supplement, the Department uses progress payments based on percentage or stage of completion only for contracts for construction (as defined in FAR 36.102), shipbuilding, and ship conversion, alteration, or repair. These payments are classified as Construction in Progress and are reported in the PP&E line on the Balance Sheet.

1.S. <u>Contingencies and Other Liabilities</u>

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

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The Department's loss contingencies arise 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 the Department's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon the Department's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." The Department recognizes nonenvironmental disposal liabilities for nuclear-powered military equipment when placed into service. Such amounts are developed in conjunction with, and not easily separately identifiable from, environmental disposal costs.

1.T. <u>Accrued Leave</u>

The Department reports as liabilities civilian annual leave and military leave that has been accrued and not used as of the Balance Sheet date. The liability reported at the end of the accounting period reflects the current pay rates.

1.U. <u>Net Position</u>

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

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

Cumulative Results of Operations represent the difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, these results included the cumulative amount of donations and transfers of assets in and out without reimbursement.

1.V. Treaties for Use of Foreign Bases

The Department has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Department purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow DoD continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. This takes place after negotiations between the U.S. and the host country have determined the amount to be paid to the U.S. for such capital investments.

1.W. Comparative Data

Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or ten percent from the previous period presented are generally explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The Department 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 U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. Intransit 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. Intransit 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 majority of DoD components reported following this allocation procedure. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities.

Note 2. Nonentity Assets

As of June 30		2006		2005
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	2,987,418,621.76	$	769,612,054.80
B. Accounts Receivable		316,338.60		596,847.67
C. Total Intragovernmental Assets	$	2,987,734,960.36	$	770,208,902.47
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	$	1,919,125,168.05	$	2,256,965,760.72
B. Accounts Receivable		5,490,521,495.54		4,768,136,092.99
C. Other Assets		203,827,243.50		157,033,789.61
D. Total Nonfederal Assets	$	7,613,473,907.09	$	7,182,135,643.32
3. Total Nonentity Assets	$	10,601,208,867.45	$	7,952,344,545.79
4. Total Entity Assets	$	1,465,104,047,039.48	$	1,358,721,228,751.57
5. Total Assets	$	1,475,705,255,906.90	$	1,366,673,573,297.40

Nonentity assets are assets for which the Department maintains stewardship accountability and responsibility to report, but are not available for the Department's operations. Intragovernmental assets are carried on the Department of Defense and Treasury books as Deposit Accounts, General Fund Receipt balances, certain Clearing Accounts until transferred to the owning entity, and Foreign Military Sales (FMS) advance deposits. Non-federal assets are reported in the Department's books for balances maintained separate from Treasury books that are posted together with a custodial liability due upon collection.

Fluctuations

Nonentity assets increased $2.6 billion (33%) primarily due to an increase of $1.7 billion in the FMS Trust Fund programs and the recognition of $647.6 million in accounts receivable. The increase in accounts receivable primarily result from the recognition of balances associated with litigation cases and balances previously recognized as entity assets.

Other Assets

Other nonfederal assets consist primarily of advances with the Massachusetts Institute of Technology to finance research and development projects.

Note 3. Fund Balance with Treasury

As of June 30	2006	2005
1. Fund Balances		
A. Appropriated Funds	$ 443,725,528,565.90	$ 400,506,107,729.92
B. Revolving Funds	8,144,889,637.71	9,225,238,254.27
C. Trust Funds	1,654,624,529.54	(176,492,074.62)
D. Special Funds	271,430,769.75	290,926,327.79
E. Other Fund Types	3,434,470,476.62	11,034,047,602.67
F. Total Fund Balances	$ 457,230,943,979.52	$ 420,879,827,840.03
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 456,827,519,829.03	$ 421,672,115,714.66
B. Fund Balance per Agency	457,230,943,979.52	420,879,827,840.03
3. Reconciling Amount	$ (403,424,150.49)	$ 792,287,874.63

Analysis of Reconciling Amounts

The Department of Defense (DoD) shows a reconciling net difference of $(403.3) million with the Department of the Treasury, which is comprised of:

- $39.5 million in receipt accounts deposited with the Department of the Treasury (Treasury) that was not available to DoD.
- $(349) million reconciling difference between budget execution reporting and Treasury reports. The Treasury reports do not identify Department wide accounts by individual entity, which contributes to the large remaining reconciling amount.
- $(158.1) million consists of parent allocations with the Bureau of Public Debt, the Department of Transportation, and the Department of Agriculture recorded by DoD, but not reported by the Treasury as DoD funds.
- $64.3 million consists of child allocations with the Executive Office of the President and the Department of Transportation recorded by DoD, but not reported by the Treasury as DoD funds.

Other Information Related to Fund Balance with Treasury

The Department includes $33.5 million in Vested Iraqi Cash in the 3rd Quarter, FY 2006. This cash represents frozen Iraqi deposits in the United States and is vested in accordance with the International Emergency Economic Powers Act, Section 1701, and used in support of the Iraqi people. The Department has collected $1.7 billion in Vested Iraqi Cash and has disbursed $1.7 billion benefiting the Iraqi people as follows:

	($ in millions)
Collected	$1,724.1
Disbursed	
Iraqi Salaries	1,184.8
Repair/Reconstruction/Humanitarian Assistance	149.0
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	356.8
Total Disbursed	1,690.6
Remaining Funds	$ 33.5

Fluctuations

Fund Balance with Treasury increased $36.4 billion (9%) primarily due to increased appropriations for critical mission related efforts such as military equipment procurement, the global war on terror, and hurricane relief efforts in the Gulf Coast region.

Status of Fund Balance with Treasury

As of June 30		2006		2005
1. Unobligated Balance				
A. Available	$	240,155,967,879.09	$	397,653,840,077.98
B. Unavailable		312,281,644,861.67		71,371,434,941.28
2. Obligated Balance not yet Disbursed	$	310,301,953,087.97	$	(54,127,190,051.33)
3. Nonbudgetary FBWT	$	8,236,299,496.21	$	0.00
4. NonFBWT Budgetary Accounts	$	(413,746,487,719.92)	$	0.00
5. Total	$	457,229,377,605.02	$	414,898,084,967.93

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 balances include 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. Unobligated Balances Unavailable include funds that will become available for obligation in subsequent periods as they are apportioned. These funds also include balances that are restricted for future because the period for obligation established by law has lapsed.

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 (FBWT) includes entity and nonentity fund balance with treasury accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

NonFBWT 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

Unobligated Balance Available decreased $157.5 billion and Unobligated Balance Unavailable increased $240.9 billion due to the 4th Quarter, FY 2005, reclassification of certain special and trust funds balances from unobligated available (Line 1A) to unavailable (Line 1B). This reclassification brings the Department into compliance with the Office of Management and Budget Circular A-136 Financial Reporting Requirements guidance and permits better reconciliation of fund balance with treasury to the President's Budget. In addition, various budgetary accounts previously reported in Unobligated Balance (Line 1) and Obligated Balance not yet Disbursed (Line 2) have been transferred to Nonbudgetary FBWT (Line 3) and NonFBWT Budgetary Accounts (Line 4), which were added in 4th Quarter, FY 2005.

Other Disclosures

The Status of Fund Balance with Treasury disagrees with the Fund Balance with Treasury by $1.5 million. The Department has recognized the difference is a result of an internal weakness of creating proprietary accounting reports from budgetary information.

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
F3845 – Personal Property Proceeds	$ 4,474,283.36	$ 1,941,542.73	$ 542,577.31	$ (1,398,965.42)
F3875 – Disbursing Officer Suspense	(47,912,981.18)	181,791,781.39	918,943,032.45	737,151,251.06
F3880 – Lost or Cancelled Treasury Checks	(28,236,327.97)	14,553,424.41	14,142,439.01	(410,985.40)
F3882 – Uniformed Services Thrift Savings Plan Suspense	4,864,981.44	89,911,734.76	109,783,743.24	19,872,008.48
F3885 – Interfund/IPAC Suspense	(539,752,327.48)	(508,570,219.37)	(191,545,520.18)	317,024,699.19
F3886 – Thrift Savings Plan Suspense	(9,006,743.72)	(109,967,095.95)	1,891,752.42	111,858,848.37
Total	$ (615,569,115.55)	$ (330,338,832.03)	$ 853,758,024.25	$ 1,184,096,856.28

The F3845 suspense account reported a positive balance of $0.5 million. This amount represents the balance of proceeds from the sale of personal property.

The following suspense accounts: F3875, F3885 and F3886 temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation. The F3875 suspense clearing account contains the majority of the overall positive balance. Account F3875 reported a positive balance of approximately $918.9 million that represents the Disbursing Officer's (DO) suspense. Account F3885 includes the Interfund/Intragovernmental Payments and Collections (IPAC) suspense and reported a negative balance of approximately $191.5 million. Account F3886 has a positive balance of approximately $1.9 million represented by the (payroll) Thrift Savings Plan suspense.

The F3880 suspense account reported a positive balance of approximately $14.1 million. This amount represents the balance of Treasury checks that: (1) have either been lost by the payee and need to be reissued, (2) have never been cashed by the payee, or (3) have been cancelled by the Treasury and need to be transferred to the original appropriation.

The F3882 suspense account reported a positive balance of approximately $109.8 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 United States Department of Agriculture National Finance Center and the posting of these same amounts in the military accounting systems in the following month.

Fluctuations

Total suspense/budget clearing accounts increased $1.2 billion. This increase is attributable to timing differences in disbursements of military and civilian payroll in the 3rd Quarter, FY 2006. In 3rd Quarter, FY 2006, these accounts included the withholdings for three pay periods, whereas, 3rd Quarter FY 2005 included the withholdings for two pay periods. The Department also implemented the Defense Finance and Accounting Service Transaction Interface Module IPAC (DTIM-IPAC) in 3rd Quarter, FY 2006. DTIM-IPAC greatly reduced transactions that remained in suspense, thereby reducing the abnormal dollar value in the Interfund/IPAC suspense account.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	$ 2,193,900,548.46	$ 3,769,611,737.87	$ 2,485,453,198.96	$ (1,284,158,538.91)
B. Negative Unliquidated Obligations (NULO)	196,732,519.65	235,324,132.74	209,186,910.35	(26,137,222.39)
2. Total In-transit Disbursements, Net	$ 4,803,965,119.46	$ 4,850,212,584.91	$ 5,258,222,551.02	$ 408,009,966.11

The DoD reported $2.5 billion (absolute value) in Unmatched Disbursements (UMD). A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

The DoD reported $209.2 million (absolute value) in Negative Unliquidated Obligations (NULOs). A NULO occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

The DoD reported $5.3 billion (net) for In-transits. An In-transit represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity that have not been posted to the accounting system.

Fluctuations

The DoD reported a $1.3 billion decrease in UMDs and a $26.1 million decrease in NULOs since 3rd Quarter, FY 2005. These decreases are primarily attributable to continued emphasis on clearing and preventing these transactions.

The DoD reported an increase in Intransits of $408.0 million from the 3rd Quarter, FY 2005, primarily attributable to late receipt of supporting documents and interfund transactions that have not yet been recorded in the accounting systems.

Note 4. Investments and Related Interest

As of June 30	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	$ 264,508,444,255.41	Effective Interest	$ 36,100,142,982.36	$ 300,608,587,237.77	$ 286,919,916,343.95
B. Accrued Interest	3,130,297,976.15			3,130,297,976.15	3,130,358,477.86
C. Total Intragovernmental Securities	$ 267,638,742,231.56		$ 36,100,142,982.36	$ 303,738,885,213.92	$ 290,050,274,821.81
2. Other Investments					
A. Total Investments	$ 921,823,130.00	**Effective Interest**	$ 0.00	$ 921,823,130.00	N/A

As of June 30	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	$ 236,296,109,011.05	Effective Interest	$ 25,173,466,712.73	$ 261,469,575,723.78	$ 271,418,980,456.94
B. Accrued Interest	3,401,462,429.55			3,401,462,429.55	3,401,462,429.55
C. Total Intragovernmental Securities	$ 239,697,571,440.60		$ 25,173,466,712.73	$ 264,871,038,153.33	$ 274,820,442,886.49
4. Other Investments					
A. Total Investments	$ 575,993,130.00	**Effective Interest**	$ 0.00	$ 575,993,130.00	N/A

The amortization method used for non marketable, market-based securities is effective interest. Other Investments represent limited partnerships, entered into on behalf of the U.S. Government in support of the Military Housing Privatization Initiative authorized by Public Law 104-106 Section 2801. These investments do not require market value disclosure.

Intragovernmental Securities

Total Intragovernmental Securities, Net Investments increased $38.9 billion (15 %). The two major contributors are the Medicare-Eligible Retiree Health Care Fund (MERHCF) and the Military Retirement Fund (MRF). The MERHCF total intragovernmental securities increased $27.2 billion. This increase is from positive cash flows primarily due to the Military Services and other Uniformed Services not making their monthly normal cost contributions in FY 2006. Instead, the U.S. Treasury makes one lump sum payment for the normal cost contributions on behalf of the contributors at the beginning of the year, which increased investments for the entire year. The MRF investments increased $11.1 billion, because of a cumulative positive cash flow. The MRF positive cash flow occurred because there were a number of US Treasury notes and bills that matured. This allowed the principal and interest made to be reinvested in overnight US Treasury securities, which yield a higher interest rate.

Non Federal Investments

Other Investments increased $345.8 million (60%) from new investments in limited partnerships in support of military housing. A summary of the Department's total investments in these limited partnerships follows:

Installation	Q3 FY 2005 Balance	Month Invested	New Investments	Month Invested	Q3 FY 2006 Total
Camp Lejeune			83.2	Dec-05	$83.2
Beaufort/Paris ISL/Quantico	$97.1	Oct-03			97.1
Ft. Polk, Louisiana	53.7	Dec-04			53.7
Ft. Campbell, Kentucky	60.1	Mar-05			60.1
Ft. Hood, Texas	52.0	Nov-01			52.0
Ft. Bragg, North Carolina	49.4	Dec-03			49.4
29 Palms/Kansas City			45.9	Dec-05	45.9
Ft. Stewart, Georgia	37.4	Feb-02			37.4
Ft. Bliss, Texas			38.0	Dec-05	38.0
South Texas, Texas	29.4	Feb-02			29.4
Oahu, Hawaii	25.0	May-04			25.0
New Orleans Naval Complex, Louisiana	23.1	Oct-01			23.1
San Diego, California	20.9	Jun-03			45.0
Yuma Naval Air Station	18.6	Dec-04			73.7
Everett NAS, Washington	12.2	Dec-00			27.2
Kingsville NAS, Texas	4.3	Dec-00			4.3
Ft. Hamilton, New York	2.2	May-04			2.2
Ft. Detrick, Maryland	1.3	Sep-04			1.3
Ft. Sam Houston, Texas	6.6	Jun-05			6.6
Pacific Northwest	15.9	Mar-05			15.9
Ft. Eustis, Virginia	14.8	Apr-05			14.8
Ft. Drum, New York	52.0	Jun-05			52.0
Ft. Leonard Wood, Missouri			29.0	Sep-05	29.0
Great Lakes, Illinois			24.1	Feb-06	24.1
Ft. Benning, Georgia			55.1	Jan-06	55.1
Ft. Leavenworth, Kansas			15.0	Mar-06	15.0
Ft. Gordon, Georgia			9.0	May-06	9.0
Carlisle Barracks, Pennsylvania			22.5	May-06	22.5
Ft. Rucker, Alabama			24.0	May-06	24.0
	$576.0		**$345.8**		**$921.8**

Other Disclosures

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 U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Department of Defense as evidence of its receipts. Treasury securities are an asset to the Department of Defense and a liability to the U.S. Treasury. Because the Department of Defense and the U.S. 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, receipts do not represent an asset or a liability in the U.S. Governmentwide financial statements. U.S. Treasury securities provide the Department of Defense with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Department of Defense 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. For additional information on earmarked funds, see Note 23.

Note 5. Accounts Receivable

As of June 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 3,747,095,998.91	N/A	$ 3,747,095,998.91	$ 1,289,004,365.86
2. Nonfederal Receivables (From the Public)	$ 8,457,992,936.11	$ (205,985,550.48)	$ 8,252,007,385.63	$ 7,908,636,176.61
3. Total Accounts Receivable	$ 12,205,088,935.02	$ (205,985,550.48)	$ 11,999,103,384.54	$ 9,197,640,542.47

Fluctuations

Intragovernmental accounts receivables increased $2.5 billion (191%). This was primarily due to increased support provided to the Federal Emergency Management Agency for hurricane relief efforts in the Gulf Coast.

Other Information

The Code of Federal Regulations (CFR) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables.

The Treasury Report on Receivables Due from the Public does not include the allowance for estimated uncollectibles, so it will not match the nonfederal receivables amount above.

Aged Accounts Receivable

As of June 30	2006				2005			
	Intragovernmental		Nonfederal		Intragovernmental		Nonfederal	
CATEGORY								
Nondelinquent								
Current	$	7,481,631,697.21	$	2,117,391,644.80	$	8,463,248,637.43	$	1,801,410,072.77
Noncurrent		322,810,518.00		1,869,604,938.23		209,224,815.79		1,801,436,764.67
Delinquent								
1 to 30 days	$	608,817,184.56	$	140,791,238.71	$	63,627,928.01	$	10,523,504.45
31 to 60 days		653,565,949.04		95,028,668.72		36,725,374.35		8,030,803.10
61 to 90 days		123,346,157.67		86,540,632.81		324,407,080.03		303,873,462.04
91 to 180 days		1,180,698,573.05		136,317,513.16		167,510,326.18		256,455,291.60
181 days to 1 year		646,799,160.18		192,957,783.40		193,925,857.09		249,045,227.90
Greater than 1 year and less than or equal to 2 years		58,419,268.22		152,953,767.47		223,368,817.33		846,978,542.86
Greater than 2 years and less than or equal to 6 years		61,795,784.68		862,719,177.53		68,442,817.55		194,361,012.07
Greater than 6 years and less than or equal to 10 years		1,721,795.46		569,846,880.21		3,391,197.50		625,088,525.09
Greater than 10 years		3,619.35		2,609,419,707.52		10,222.93		2,594,063,670.45
Subtotal	$	11,139,609,707.42	$	8,833,571,952.56	$	9,753,883,074.19	$	8,691,266,877.00
Less Supported Undistributed Collections		(646,878,312.12)		(360,076,324.36)		(400,329,310.01)		(347,129,460.57)
Less Eliminations		(6,691,686,485.04)		0.00		(8,037,984,906.54)		0.00
Less Other		(53,948,911.35)		(15,502,692.09)		(26,564,491.78)		(61,149,049.96)
Total	$	3,747,095,998.91	$	8,457,992,936.11	$	1,289,004,365.86	$	8,282,988,366.47

Noncurrent nondelinquent accounts receivable are those amounts that are due beyond the next 12 months. The nondelinquent accounts are not considered delinquent since the associated repayment schedules allow for repayment after a 30-day period. Nondelinquent noncurrent accounts receivables total $2.1 billion for 3rd Quarter, FY 2006. These are receivables not yet due under the contract or billing documents pertaining to the receivable.

The "Less Other" category above consists primarily of adjustments posted after closure of the accounting records. These can include: adjustments to supported undistributed collections, reclassifications between intragovernmental and nonfederal as part of the DoD trading partner process that were not included on the elimination line, and any discrepancies between the subsidiary detail transactions and the trial balance.

The Department is aggressively pursuing collection action on all accounts receivable in accordance with Office of Management and Budget Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables". In certain instances, the status of litigation impacts the ability of the Department to actively pursue collection action.

Note 6. Other Assets

As of June 30		2006		2005
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	1,189,083,823.21	$	1,351,991,758.14
B. Total Intragovernmental Other Assets	$	1,189,083,823.21	$	1,351,991,758.14
2. Nonfederal Other Assets				
A. Outstanding Contract Financing Payments	$	22,416,092,537.18	$	21,548,807,381.18
B. Other Assets (With the Public)		2,477,912,763.72		2,684,417,139.59
C. Total Nonfederal Other Assets	$	24,894,005,300.90	$	24,233,224,520.77
3. Total Other Assets	$	26,083,089,124.11	$	25,585,216,278.91

Fluctuations

Intragovernmental Other Assets

Advances and Prepayments decreased $163.1 million (12%) primarily due to a $234.8 million reduction in advances to the Department of Interior Franchise Fund, offset by a $71.5 million increase in advances for research and development programs.

Other Information

Other Assets (With the Public) are primarily comprised of advances for military and travel pay, fish and wildlife migration studies performed for the U.S. Army Corps of Engineers, an advance payment pool agreement with the Massachusetts Institute of Technology and other nonprofit institutions, and an amount relating to outstanding debt principal to the Federal Financing Bank.

Note 7. Cash and Other Monetary Assets

As of June 30	2006	2005
1. Cash	$ 1,342,302,304.54	$ 1,827,463,011.34
2. Foreign Currency	686,582,969.62	567,982,872.14
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 2,028,885,274.16	$ 2,395,445,883.48

Fluctuation and/or Abnormalities

Cash and Other Monetary Assets decreased $366.5 million (15%). The decrease is primarily due to a reduction in the required amount of cash held by disbursing officers to support contingency operations.

Other Information

The majority of cash and all foreign currency are classified as nonentity and their use is restricted. Approximately $1.3 billion in cash and $686.6 million in foreign currency are restricted.

Note 8. Direct Loan and/or Loan Guarantee Programs

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

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

Direct loans are reported at the net present value of the following projected cash flows:

- Loan disbursements;
- Repayments of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties and other recoveries.

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

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

Military Housing Privatization Initiative

The Military Housing Privatization Initiative (MHPI) includes both Direct Loan and Loan Guarantee Programs. The Department obtains private sector capital to leverage government dollars. The Department provides protection against specific risks, such as base closure or member deployment, for the private sector partner. The Loan Guarantee Program is authorized by the National Defense Authorization Act for FY 1996, Public Law (P.L.) 104-106, Section 2801.

Armament Retooling and Manufacturing Support Initiative

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 United States Code (USC) 4551-4555, is a Loan Guarantee Program designed to encourage commercial use of the Army's Inactive Ammunition Plants through many incentives for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements; however, this capacity may be needed by the military in the future. The revenues from the property rental are used to pay for the operation, maintenance and environmental cleanup at the facilities. The resulting savings in overhead costs lower the production cost of the goods manufactured and fund environmental cleanup at no cost to the government.

Direct Loans Obligated After FY 1991

As of June 30	2006	2005
Loan Programs		
1. Military Housing Privatization Initiative		
A. Loans Receivable Gross	$ 224,279,415.11	$ 141,430,018.16
B. Interest Receivable	3,329,629.43	1,108,387.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	(90,654,474.50)	(70,721,790.27)
E. Value of Assets Related to Direct Loans	$ 136,954,570.04	$ 71,816,614.89
2. Total Loans Receivable	$ 136,954,570.04	$ 71,816,614.89

Subsidy costs are recognized when direct loans are disbursed to borrowers and are reestimated each year as of the date of the financial statements. The allowance for subsidy cost is the difference between the outstanding principal of the loans and the present value of their net cash flows. The increase in the allowance for subsidy is due to an increase in subsidy expense related to two new direct loans disbursed in FY 2006 for Wright Patterson AFB (AFB), Ohio, and Elmendorf AFB, Alaska.

Gross direct loans for the MHPI program from inception consists of the following:

	(in millions)
Direct Loans	
***Wright Patterson AFB, Ohio**	22.0
Dyess AFB, Texas	28.8
Elmendorf AFB, Alaska	48.0
***Elmendorf AFB, Alaska**	61.0
Lackland AFB, Texas	10.3
Robins AFB, Georgia	22.3
Camp Pendleton Marine Corps Base, California	29.4
Kingsville AFB, Texas	2.5
Total	**$224.3**

*Represents New Direct Loans Disbursed.

Total Amount of Direct Loans Disbursed

As of June 30	2006	2005
Direct Loan Programs		
1. Military Housing Privatization Initiative	$ 82,950,000.00	$ 0.00
2. Total	$ 82,950,000.00	$ 0.00

The Department disbursed two new direct loans for the Elmendorf AFB, Alaska, ($61 million) and for Wright-Patterson AFB, Ohio, ($22 million) in FY 2006. The Elmendorf AFB, Alaska loan was disbursed in two phases. The first direct loan disbursement was $31 million in 1st Quarter, FY 2006. The second direct loan disbursement was $30 million in 2nd Quarter, FY 2006. The demand for direct loans by private developers varies from year to year depending upon the progression of planned construction and renovation, and upon economic factors unrelated to the operations of the Department of Defense.

Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed: Military Housing Privatization Initiative	$ 12,992,616.00	$ 11,803,838.00	$ 0.00	$ 0.00	$ 24,796,454.00
2005	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
2. New Direct Loans Disbursed: Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2006	**Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
3. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2005	**Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
4. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

	2006	2005
5. Total Direct Loan Subsidy Expense: Military Housing Privatization Initiative	$ 24,796,454.00	$ 0.00

The total subsidy expense for direct loans increased by $24.8 million due to two new direct loans disbursed in FY 2006. The total direct loan subsidy expense includes interest differential, defaults, modification and re-estimates.

Subsidy Rate for Direct Loans

As of June 30	Interest Differential	Defaults	Fees and other Collections	Other	Total
Direct Loan Programs					
1. Military Housing Privatization Initiative	14.28%	11.06%	0.00%	0.00%	25.34%

Subsidy rates pertain to the loan agreements contracted during the current fiscal year. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans disbursed in the current year could result from disbursement of loans from both current and prior-year loan agreements.

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

As of June 30	2006	2005
1. Beginning Balance of the Subsidy Cost Allowance	$ 65,858,020.50	$ 70,721,790.27
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	$ 12,992,616.00	$ 0.00
B. Default Costs (Net of Recoveries)	11,803,838.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	$ 24,796,454.00	$ 0.00
3. Adjustments		
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
G. Total of the above Adjustment Components	$ 0.00	$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	$ 90,654,474.50	$ 70,721,790.27
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	$ 0.00	$ 0.00
B. Technical/Default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	$ 0.00	$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	$ 90,654,474.50	$ 70,721,790.27

Subsidy Cost Allowance

The subsidy cost allowance increased $20.0 million primarily due to the increase in subsidy expense related to the issuance of two direct loans in FY 2006.

Defaulted Guaranteed Loans from Post FY 1991 Guarantees

As of June 30	2006	2005
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative		
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, Net	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative		
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, Net	$ 0.00	$ 0.00
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.00	$ 0.00

The Department had a defaulted guaranteed loan in FY 1999 in the ARMS Initiative Program that was paid in 2nd Quarter, FY 2006 in the amount of $11.4 million. The third party contractor filed bankruptcy in FY 2000 and dissolved. Therefore, the Department is unable to pursue collection from the contractor. The Department borrowed funds from Treasury in the amount of $11.4 million and will pursue appropriate methods of reimbursement.

Guaranteed Loans Outstanding

As of June 30	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	$ 551,320,000.00	$ 551,320,000.00
2. Armament Retooling & Manufacturing Support Initiative	$ 20,581,011.85	$ 18,294,260.07
3. Total	$ 571,901,011.85	$ 569,614,260.07
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 2,694,156.51	$ 2,290,033.03
3. Total	$ 2,694,156.51	$ 2,290,033.03
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 165,000,000.00	$ 165,000,000.00
2. Armament Retooling & Manufacturing Support Initiative	$ 739,852.83	$ 628,874.91
3. Total	$ 165,739,852.83	$ 165,628,874.91

The Guaranteed Loans Outstanding for the MHPI program as of the 3rd Quarter, FY 2006, consists of the following:

Guarantees	**FY 2006 (in millions)**	**Default Rate**
Robins AFB, Georgia	25.6	6%
Fort Carson, Colorado	144.3	3%
Kirtland AFB, New Mexico	74.0	5%
Wright Patterson AFB, Ohio	65.0	6%
Elmendorf AFB, Alaska	48.0	6%
Lackland AFB, Texas	29.4	6%
Fort Polk, Louisiana	165.0	6%
Total	**$ 551.3**	

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of June 30	2006	2005
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative	$ 29,584,103.06	$ 33,466,807.32
2. Armament Retooling & Manufacturing Support Initiative	988,651.97	12,352,470.32
3. Total	$ 30,572,755.03	$ 45,819,277.64

For additional information, see the Schedule for Reconciling Loan Guarantee Liability Balances for Post 1991 Loan Guarantees.

Subsidy Expense for Post FY 1991 Loan Guarantees

As of June 30

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
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
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$ 0.00	$ 10,345,500.00	$ 0.00	$ 0.00	$ 10,345,500.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 10,345,500.00	$ 0.00	$ 0.00	$ 10,345,500.00

2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 906,670.74	$ 0.00	$ 0.00	$ 0	$ 906,670.74
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
Total	$ 906,670.74	$ 0.00	$ 0.00	$ 0.00	$ 906,670.74

2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

	2006	2005
5. Total Loan Guarantee:		
Military Housing Privatization Initiative	$ 906,670.74	$ 10,345,500.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	$ 906,670.74	$ 10,345,500.00

Subsidy expense decreased $9.4 million (91%). Expense activity occurs at the point when a new loan guarantee is disbursed. There was also a modification of interest accumulation on the liability balance, which is based on the interest receivable on uninvested funds.

Subsidy Rates for Loan Guarantees

As of June 30	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantee Programs:					
1. Military Housing Privatization Initiative	0.00%	9.65%	0.00%	0.00%	9.65%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	20.00%	0%	0.00%	20.00%

The subsidy rates disclosed pertain only to loan agreements made during the current fiscal year. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year result from disbursements of loans from both current year loan agreements and prior year(s) loan agreements. The subsidy expense reported in the current year also includes modifications and reestimates.

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

As of June 30		2006		2005
1. Beginning Balance of the Loan Guarantee Liability	$	41,071,277.64	$	34,360,030.64
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component				
A. Interest Supplement Costs	$	0.00	$	0.00
B. Default Costs (Net of Recoveries)		0.00		10,345,500.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
E. Total of the above Subsidy Expense Components	$	0.00	$	10,345,500.00
3. Adjustments				
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		937,701.99		1,054,247.00
G. Other		0.00		0.00
H. Total of the above Adjustments	$	(10,498,522.61)	$	1,113,747.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	$	30,572,755.03	$	45,819,277.64
5. Add or Subtract Subsidy Reestimates by Component				
A. Interest Rate Reestimate		0.00		0.00
B. Technical/default Reestimate		0.00		0.00
C. Total of the above Reestimate Components	$	0.00	$	0.00
6. Ending Balance of the Loan Guarantee Liability	$	30,572,755.03	$	45,819,277.64

The loan guarantee liability decreased $15.3 million (33%) primarily due to a loan default relating ARMS Initiative Program. The loan defaulted in August 1999 and was previously in litigation to determine the actual amount of debt owed. This claim of $11.4 million was paid during 2nd Quarter, FY 2006. The remaining $3.9 million is the result of the Department not disbursing any new loan guarantees in MHPI Program in FY 2006 and the accrued interest accumulation on uninvested balances.

Administrative Expenses

Administrative Expense is limited to separately identified expenses administered to direct and guaranteed loans. The Department does not maintain a separate program to capture the expenses related to direct and guaranteed loans for MHPI Program. Administrative Expense for ARMS Initiative Program is a fee paid to the US Department of Agriculture Rural Business Cooperative Service for administering the loan guarantees under ARMS, which is a joint program. There were no administrative expenses in FY 2006.

Note 9. Inventory and Related Property

As of June 30		2006		2005
1. Inventory, Net	$	81,878,170,164.27	$	68,301,968,905.11
2. Operating Materials & Supplies, Net		142,652,056,841.62		143,388,653,874.58
3. Stockpile Materials, Net		1,105,960,332.00		1,335,263,078.53
4. Total	$	225,636,187,337.89	$	213,025,885,858.22

Inventory, Net

As of June 30	2006				2005		
	Inventory, Gross Value		Revaluation Allowance	Inventory, Net		Inventory, Net	Valuation Method
1. Inventory Categories							
A. Available and Purchased for Resale	$	85,819,987,414.19	$ (29,860,900,938.32)	55,959,086,475.87	$	44,793,191,354.87	LAC,MAC
B. Held for Repair		30,772,534,594.82	(5,601,325,274.08)	25,171,209,320.74		22,716,103,781.39	LAC,MAC
C. Excess, Obsolete, and Unserviceable		8,205,539,038.40	(8,205,539,038.40)	0.00		0.00	NRV
D. Raw Materials		51,317,612.92	0.00	51,317,612.92		22,772,920.09	MAC,SP,LAC
E. Work in Process		696,556,754.74	0.00	696,556,754.74		769,900,848.76	AC
F. Total	$	125,545,935,415.07	$ (43,667,765,250.80)	81,878,170,164.27	$	68,301,968,905.11	

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
MAC = Moving Average Cost

Restrictions

Restrictions on disposition of inventory as related to environmental or other liability is material held pending litigation or negotiation with contractors or common carriers. This material remains restricted until the litigation or negotiation is completed. The balance of restricted inventory as of June 30, 2006, was $95.7 million.

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

- Distributions without reimbursement are made when authorized by Department of Defense directives.
- War reserve material includes fuels and subsistence items that are considered restricted.
- Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with the current policies and guidance or at the direction of the President.

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale by the Defense Working Capital Funds. Inventory is tangible personal property that is:

- Held for sale, or held for repair for eventual sale;
- In the process of production for sale; or
- To be consumed in the production of goods for sale or in the provision of service for a fee.

Criteria for Category Identification

The relevant cost associated with maintaining the available inventory and the time required to replenish the inventory are the criteria used in determining the assigned category.

Operating Materials and Supplies, Net

As of June 30	2006			2005	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
1. OM&S Categories					
A. Held for Use	$ 126,678,188,818.61	$ 0.00	$ 126,678,188,818.61	$ 127,676,056,799.08	SP, LAC
B. Held for Repair	18,049,495,619.16	(2,075,627,596.15)	15,973,868,023.01	15,712,597,075.50	SP, LAC
C. Excess, Obsolete, and Unserviceable	1,808,271,640.69	(1,808,271,640.69)	0.00	0.00	NRV
D. Total	$ 146,535,956,078.46	$ (3,883,899,236.84)	$ 142,652,056,841.62	$ 143,388,653,874.58	

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

General Composition of Operating Materials and Supplies

Operating Materials and Supplies (OM&S) include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption.

Other Disclosures

Generally, there are no restrictions on the use or disposition of operating materials and supplies. The relevant cost associated with maintaining the available operating materials and supplies, as well as the time required to replenish the operating materials and supplies, are the criteria used in determining the assigned category. There were no changes in accounting methods.

Stockpile Materials, Net

As of June 30	2006						2005		
	Stockpile Materials Amount		Allowance for Gains (Losses)		Stockpile Materials, Net		Stockpile Materials, Net		Valuation Method
1. Stockpile Materials Categories									
A. Held for Sale	$	1,011,878,943.18	$	0.00	$	1,011,878,943.18	$	1,241,177,309.58	AC, LCM
B. Held in Reserve for Future Sale		94,081,388.82		0.00		94,081,388.82		94,085,768.95	AC, LCM
C. Total	$	1,105,960,332.00	$	0.00	$	1,105,960,332.00	$	1,335,263,078.53	

Legend for Valuation Methods:

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

General Composition of Stockpile Materials

Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies.

Other Disclosures

There are legal restrictions on the use of stockpile materials. All materials held by the National Defense Stockpile (NDS) are classified as Material Held in Reserve until congressional action declares the materials are no longer required to be stockpiled, and are available for sale on the open market. When NDS receives authorization to offer materials for sale, NDS removes the materials from Material Held in Reserve and reclassifies them as Materials Held for Sale. Disposals cannot be made from the stockpile except under the following situations: (1) necessary upgrading, refining, or processing, (2) necessary rotation to prevent deterioration, (3) determination as excess with potential financial loss if retained, and (4) as authorized by law. The estimated market price of the stockpile materials held for sale is $1.7 billion.

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
1. Major Asset Classes						
A. Land	N/A	N/A	$ 10,503,557,492.91	N/A	$ 10,503,557,492.91	$ 10,372,724,621.71
B. Buildings, Structures, and Facilities	S/L	20 Or 40	167,631,732,768.71	$ (98,334,268,011.73)	69,297,464,756.98	67,004,467,324.51
C. Leasehold Improvements	S/L	lease term	313,577,160.30	(145,140,472.49)	168,436,687.81	145,887,430.00
D. Software	S/L	2-5 Or 10	8,925,721,218.77	(5,143,559,712.11)	3,782,161,506.66	2,428,698,277.96
E. General Equipment	S/L	5 or 10	66,978,124,864.87	(49,145,924,903.79)	17,832,199,961.08	16,998,604,028.52
F. Military Equipment	S/L	Various	642,540,000,000.00	(316,800,000,000.00)	325,740,000,000.00	312,668,000,000.00
G. Assets Under Capital Lease	S/L	lease term	647,416,555.60	(483,303,346.26)	164,113,209.34	194,318,205.68
H. Construction-in-Progress	N/A	N/A	20,376,197,028.97	N/A	20,376,197,028.97	20,180,421,862.98
I. Other			66,466,278.50	(1,213,029.50)	65,253,249.00	77,587,244.67
J. Total General PP&E			$ 917,982,793,368.63	$ (470,053,409,475.88)	$ 447,929,383,892.75	$ 430,070,708,996.03

[1] Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Military Equipment

The Department 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 $335.7 billion to $312.7 billion for comparative purposes using the new valuation method. See Note 19 for further disclosure.

For 3rd Quarter, FY 2006, military equipment is valued at $325.7 billion based on internal records. Under the previously used BEA valuation methodology, this equipment would have been valued at $348.0 billion.

Heritage Assets and Stewardship Land

The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards (SFFAS) 29 "Heritage Assets and Stewardship Land" requires note disclosures for heritage assets and stewardship land. The Department is committed to preserving and accounting for its heritage assets' historical, cultural, educational, or artistic importance. Additionally, the Department has and maintains land not acquired in connection with General PP&E; land donated to the Federal Government; and land previously recorded as public domain.

Heritage Assets, within the Department, consist of buildings and structures, museums, major collections, monuments and memorials, archeological sites and cemeteries, while Stewardship Land consists mainly of mission essential (donated, public domain, executive order) land. The Department, with minor exceptions, uses most of the buildings and structures as part of their every day activities and includes them on the balance sheet as multi-use heritage assets (capitalized and depreciated).

Other Information

The Department has restrictions on disposal of real property (land and buildings) located outside the continental United States.

There were no adjustments resulting from changes in the accounting standards.

The Department does not have the acquisition value for all PP&E and uses several cost systems to provide real property values for financial statement reporting purposes.

Assets Under Capital Lease

As of June 30	2006	2005
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 619,551,791.97	$ 625,335,565.05
B. Equipment	27,864,763.63	11,016,456.40
C. Accumulated Amortization	(483,303,346.26)	(442,033,815.77)
D. Total Capital Leases	$ 164,113,209.34	$ 194,318,205.68

Assets Under Capital Lease consist primarily of leases for the Section 801 Family Housing Program.

Note 11. Liabilities Not Covered by Budgetary Resources

As of June 30		2006		2005
1. Intragovernmental Liabilities				
A. Accounts Payable	$	798,847.71	$	0.00
B. Debt		13,745,341.65		14,432,825.53
C. Other		7,677,714,432.39		6,904,849,907.85
D. Total Intragovernmental Liabilities	$	7,692,258,621.75	$	6,919,282,733.38
2. Nonfederal Liabilities				
A. Accounts Payable	$	257,729,100.53	$	322,897,132.97
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities		1,440,390,680,713.87		1,306,831,113,096.68
C. Environmental Liabilities		68,961,658,657.16		61,605,379,145.95
D. Other Liabilities		13,492,105,510.79		12,986,458,284.14
E. Total Nonfederal Liabilities	$	1,523,102,173,982.40	$	1,381,745,847,659.70
3. Total Liabilities Not Covered by Budgetary Resources	$	1,530,794,432,604.20	$	1,388,665,130,393.10
4. Total Liabilities Covered by Budgetary Resources	$	349,727,651,168.61	$	317,513,483,603.38
5. Total Liabilities	$	1,880,522,083,772.80	$	1,706,178,613,996.50

Liabilities Not Covered by Budgetary Resources are those liabilities which are not legally obligated with realized budgetary resources as of the Balance Sheet date.

Intragovernmental Other Liabilities are primarily comprised of $6 billion in custodial liabilities and $1.2 billion in unfunded Federal Employment Compensation Act.

Nonfederal Other Liabilities are comprised mainly of $8.3 billion in unfunded annual leave, $1.9 billion in other accrued liabilities, and $1.2 billion in non-environmental disposal contingent liabilities, $182.1 million in disposal liabilities for excess/obsolete structures, $929.6 million in contingent liabilities, $778.4 million in custodial liabilities and $117.2 million in non-nuclear non-environmental disposal liabilities.

Note 12. Accounts Payable

As of June 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	$ 2,216,027,051.25	$ N/A	$ 2,216,027,051.25	$ 2,783,231,392.38
2. Nonfederal Payables (to the Public)	27,175,749,810.81	1,639,290.74	27,177,389,101.55	26,803,086,930.93
3. Total	$ 29,391,776,862.06	$ 1,639,290.74	$ 29,393,416,152.80	$ 29,586,318,323.31

Fluctuations

Intragovernmental accounts payable decreased $567.2 million (20%). The majority of the decrease is due to an overstatement of intragovernmental accounts payable with the Office of Personnel Management and General Services Administration that occurred during 3rd Quarter, FY 2005. The Department corrected this overstatement in the 4th Quarter, FY 2005.

Note 13. Debt

As of June 30	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	$ 96,787,406.27	$ 64,852,439.77	$ 161,639,846.04	$ 2,859,450.39	$ 88,328,597.29
B. Debt to the Federal Financing Bank	381,518,390.03	(115,524,674.03)	265,993,716.00	(2,367,615.10)	503,910,102.26
C. Total Agency Debt	$ 478,305,796.30	$ (50,672,234.26)	$ 427,633,562.04	$ 491,835.29	$ 592,238,699.55
2. Total Debt	$ 478,305,796.30	$ (50,672,234.26)	$ 427,633,562.04	$ 491,835.29	$ 592,238,699.55

Debt to the Treasury

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. The $73.3 million increase in Debt to the Treasury consists primarily of a $62.9 million increase in direct loan borrowings for the Military Housing Privatization Initiative in FY 2006. In addition, $11.1 million of the increase is borrowing in 2nd Quarter, FY 2006 for a loan default relating to the Armament Retooling and Manufacturing Support Initiative. See Note 8 for further disclosures.

Debt to the Federal Financing Bank

Debt owed to the Federal Financing Bank (FFB) decreased $237.9 million as a result of the reduction of outstanding debt reported for Maritime Prepositioning Ship loans. As part of the Afloat Prepositioning Force program, the Department makes loan repayments to the FFB on behalf of ship owners in lieu of capital lease payments to ship owners. Payments are made twice a year, in January and July.

Note 14. Environmental Liabilities and Disposal Liabilities

As of June 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities-- Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 1,140,912,517.27	$ 8,208,488,217.99	$ 9,349,400,735.26	$ 10,194,362,059.70
2. Active Installations—Military Munitions Response Program (MMRP)	107,129,000.00	7,130,745,000.00	7,237,874,000.00	7,395,434,000.00
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	37,631,013.96	606,974,698.50	644,605,712.46	563,088,234.92
2. Environmental Closure Requirements	5,917,000.00	365,790,594.00	371,707,594.00	178,498,000.00
3. Environmental Response at Operational Ranges	6,489,000.00	297,596,000.00	304,085,000.00	279,632,000.00
4. Other	12,482,354.97	725,473,490.62	737,955,845.59	8,031,267.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	147,485,639.59	2,722,320,989.29	2,869,806,628.88	2,984,622,888.29
2. Military Munitions Response Program	20,549,000.00	715,248,000.00	735,797,000.00	545,891,000.00
3. Environmental Corrective Action / Closure Requirements	15,707,887.21	246,361,955.75	262,069,842.96	155,850,584.79
4. Other	160,734,797.01	199,326,923.55	360,061,720.56	167,924,000.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	5,604,268,445.64	5,604,268,445.64	6,426,100,000.00
2. Nuclear Powered Submarines	0.00	3,376,302,131.70	3,376,302,131.70	5,819,300,000.00
3. Other Nuclear Powered Ships	0.00	277,607,852.00	277,607,852.00	223,900,000.00
4. Other National Defense Weapons Systems	0.00	237,699,405.71	237,699,405.71	207,154,316.25
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	3,237,406,105.00	3,237,406,105.00	138,712,397.00
2. Total Environmental Liabilities	$ 3,201,917,210.01	$ 69,025,409,809.75	$ 72,227,327,019.76	$ 64,226,224,747.95

Service Component – Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities (Amounts in millions)	Army	Navy	Air Force	ODO	Total
1. Environmental Liabilities-Nonfederal					
A. Accrued Environmental Restoration Liabilities:					
1. Active Installations--Installation Restoration Program(IRP) and Building Demolition and Debris Removal (BD/DR)	$ 2,982.1	$ 2,396.4	$ 3,748.4	$ 222.5	$ 9,349.4
2. Active Installations--Military Munitions Response Program (MMRP)	5,171.3	721.7	1,344.8	0.0	7,237.8
3. Formerly Used Defense Sites--IRP and BD/DR	4,106.2	0.0	0.0	0.0	4,106.2
4. Formerly Used Defense Sites--MMRP	14,537.6	0.0	0.0	0.0	14,537.6
B. Other Accrued Environmental Liabilities--Active Installations					
1. Environmental Corrective Action	375.3	29.9	130.2	109.2	644.6
2. Environmental Closure Requirements	96.8	195.1	51.7	28.1	371.7
3. Environmental Response at Operational Ranges	304.1	0.0	0.0	0.0	304.1
4. Other	647.2	0.0	0.0	90.8	738.0
C. Base Realignment and Closure (BRAC)					
1. Installation Restoration Program	523.4	1,197.1	1,114.7	34.6	2,869.8
2. Military Munitions Response Program	634.0	101.7	0.0	0.0	735.7
3. Environmental Corrective Action/Closure Requirements	54.1	66.6	141.4	0.0	262.1
4. Other	145.9	0.0	214.1	0.0	360.0
D. Environmental Disposal for Weapons Systems Programs					
1. Nuclear Powered Aircraft Carriers	0.0	5,604.3	0.0	0.0	5,604.3
2. Nuclear Powered Submarines	0.0	3,376.3	0.0	0.0	3,376.3
3. Other Nuclear Powered Ships	0.0	277.6	0.0	0.0	277.6
4. Other National Defense Weapons Systems	0.0	237.7	0.0	0.0	237.7
5. Chemical Weapons Disposal Program	17,977.0	0.0	0.0	0.0	17,977.0
6. Other	0.0	3,237.4	0.0	0.0	3,237.4
2. Total Nonfederal Environmental Liabilities:	47,555.0	17,441.8	6,745.3	485.2	**72,227.3**

Others Category Disclosure Comparative Table

Types	June 30, 2006 ($ in Millions)
Other Accrued Environmental Liabilities-Active Installations-Other	
U.S. Army Corps of Engineers Pollution Control & Abatement	$ 618.4
Army Low Level Radioactive Waste Program	$ 28.8
National Defense Stockpile Transaction	$ 50.0
Defense Commissary Agency	$ 29.7
Tricare Management Activity Uniformed Services University of Health Sciences - Operation and Maintenance	$ 10.9
Total	**$ 738.0**
Base Realignment and Closure-Other	
Army unliquidated obligations that can not be identified to a specific program.	$ 145.9
Air Force contractual support for environmental program management at BRAC installations.	$ 214.1
Total	**$ 360.0**
Environmental Disposal for Weapons Systems Programs-Other	
Navy Spent Nuclear Fuel	$ 3,237.4
Total	**$ 3,237.4**

Fluctuations:

Environmental liabilities increased by $8 billion (12%) primarily due to a $7.1 billion increase in the chemical weapons disposal program. The increase in chemical weapons disposal program 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. The liability increased as a result of more accurate estimates. It is expected that the total liability will fluctuate as a result of program execution and revised program cost estimates.

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.	600,049,822.01	909,962,437.93
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	1,365,782,860.00	152,145,000.00
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	40,000.00
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

Environmental Disclosures – Line A represents the amount of operating and capital expenditures used to remediate legacy waste. The amounts reported on this line are not complete because the Department is working on processes to disclose the amount of operating and capital resources disbursed to remediate legacy waste. As these processes are being developed fluctuations due to updated information will occur. The Department is implementing procedures to more accurately disclose estimates for operating and capital expenditures beginning with 4th Quarter, FY 2006.

Environmental Disclosures – Line B represents the unrecognized costs associated with General Property, Plant, and Equipment (PP&E). The Department is working on processes to disclose the unrecognized portion of the estimated costs associated with General PP&E. The amount reported in this line is attributed to the previously unrecognized costs for nuclear aircraft carriers and submarines, and conventional ships. The Department is implementing processes to more accurately disclose estimates for the unrecognized portion of estimated total cleanup costs beginning with 4th Quarter, FY 2006.

Environmental Disclosures – Line C represents the amount of estimated cleanup costs associated with General PP&E placed into service during each fiscal year. The Department is working on processes to disclose estimated cleanup costs associated with General PP&E placed into service during each fiscal year. The estimated cleanup costs associated with General PP&E include the costs to clean up contamination resulting from post-1986 waste disposal practices, leaks, and spills which have created a public health or environmental risk. The estimated closure costs associated with General PP&E include only the costs of closing permitted landfills. The Department is working to more accurately disclose estimates for cleanup costs beginning with 4th Quarter, FY 2006.

Environmental Disclosures – Lines D and E represent the amount of changes in total cleanup costs due to changes in laws, regulations, and/or technology, to include the cost related to prior periods. The Department is currently working on processes to specifically identify the causes for changes in estimated liabilities. The Department is working to more accurately disclose estimates for costs due to changes in laws and technology beginning with 4th Quarter, FY 2006.

Applicable Laws and Regulations for Cleanup Requirements

The Department of Defense (DoD) is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activity, which have created a public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies, and if applicable, with other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC actions that have taken place in prior years.

The Department follows the Comprehensive Environmental Response, Compensation Liability Act (CERCLA) and the Superfund Amendment and Reauthorization Act to clean up Defense Environmental Restoration Program (DERP) eligible contamination. Contamination clean up that is not eligible for DERP is performed in accordance with the Resource Conservation and Recovery Act (RCRA). The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current property owners of property damaged by the Department, and third parties that have a partial responsibility for the environmental restoration. Failure to comply with agreements and legal mandates can put the Department at risk of incurring fines and penalties.

The clean up requirements for nuclear-powered aircraft carriers, submarines, and other nuclear ships are based on the significant laws that affect the Department's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct material. As in all cases with nuclear power, the Department coordinates actions with the Department of Energy. The Nuclear Waste Policy Act of 1982 requires all owners and generators of high-level nuclear waste and spent nuclear fuel to pay their respective shares of the full cost of the program. Finally, the Low Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on FY 1986 National Defense Authorization Act (PL 99-145, as amended by subsequent acts) that directed the Department to destroy the unitary chemical stockpile by April 29, 2004. The current guidelines for destruction are based on the Chemical Weapons Convention treaty. The United States ratified the treaty in April 1997 that required the stockpile of chemical weapons to be destroyed by April 2007, according to the terms outlined. The Army, as Executive Agent within the Department, provides policy, direction, and oversight for both the Chemical Stockpile Program and the Non-Stockpile Chemical Materiel Project. As such, the Army is responsible for the safe and economical disposal of the U.S. stockpile of lethal and incapacitating chemical warfare agents and munitions.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department uses engineering estimates and independently validated models to estimate environmental liabilities. The models are contained within RACER and the Normalization of Data System (NORM). The Department validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Department 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 Department complies with accounting standards to assign costs to current operating periods. The Department has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the Department expensed that portion of the asset that has passed since the General PP&E was placed into service and is systematically recognizing the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses the associated environmental costs systematically over the life of the asset. The Department expenses the full cost to cleanup contamination for Stewardship PP&E at the time the asset is placed into service.

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

Types of Environmental Liabilities and Disposal Liabilities Identified

The Department has clean up requirements for the DERP sites at active installations, BRAC installations, Formerly Used Defense Sites (FUDS), sites at active installations that are not covered by the DERP, weapon systems programs, and chemical weapons disposal programs in coordination with regulatory agencies, other responsible parties, and current property owners. The weapons systems program consists of chemical weapons disposal, and nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships.

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

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

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

The environmental liabilities for the Department 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 reveals contamination differently from what was known at the time of the estimates.

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

The Army has a liability to take environmental restoration/corrective action for buried chemical munitions and agents. The Army is unable to provide a reasonable estimate at this time, because the extent of the buried chemical munitions and agents is not known.

The Navy is currently surveying installations to identify the inventory of operational assets that may impact environmental liabilities. The Navy anticipates completing their survey and recording the impact on the environmental liability for the FY 2006 Financial Statements.

The USACE is unable to provide a complete estimate for the Formerly Utilized Sites Remedial Action Program and potential environmental liabilities resulting from the effects of the hurricanes. The USACE has studies on-going for both programs and will update their liabilities as they identify additional liabilities.

Note 15. Other Liabilities

As of June 30	2006 Current Liability	2006 Noncurrent Liability	2006 Total	2005 Total
1. Intragovernmental				
A. Advances from Others	$ 321,280,103.59	$ 0.00	$ 321,280,103.59	$ 477,910,798.19
B. Deposit Funds and Suspense Account Liabilities	1,555,497,165.22	0.00	1,555,497,165.22	333,212,912.57
C. Disbursing Officer Cash	2,114,678,414.83	0.00	2,114,678,414.83	2,397,777,996.58
D. Judgment Fund Liabilities	164,049,146.59	0.00	164,049,146.59	152,665,321.95
E. FECA Reimbursement to the Department of Labor	394,704,179.40	885,474,871.28	1,280,179,050.68	1,274,703,609.19
F. Other Liabilities	4,747,700,071.50	1,688,278,497.20	6,435,978,568.70	5,926,562,487.53
G. Total Intragovernmental Other Liabilities	$ 9,297,909,081.13	$ 2,573,753,368.48	$ 11,871,662,449.61	$ 10,562,833,126.01
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 7,830,701,637.45	$ 3,407,797.00	$ 7,834,109,434.45	$ 11,845,095,517.22
B. Advances from Others	2,008,998,028.84	0.00	2,008,998,028.84	1,731,683,413.35
C. Deferred Credits	11,800,000.00	0.00	11,800,000.00	4,916,423.41
D. Deposit Funds and Suspense Accounts	322,826,247.96	0.00	322,826,247.96	602,372,970.29
E. Temporary Early Retirement Authority	132,921.05	0.00	132,921.05	627,277.56
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	7,378,645.67	117,248,000.56	124,626,646.23	513,259,589.81
(2) Excess/Obsolete Structures	53,783,000.00	182,114,000.00	235,897,000.00	289,478,000.00
(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	8,439,603,342.50	0.00	8,439,603,342.50	8,722,225,529.32
H. Capital Lease Liability	28,797,585.92	211,726,389.09	240,523,975.01	271,574,087.65
I. Other Liabilities	9,210,883,894.65	903,512,125.33	10,114,396,019.98	6,228,572,691.46
J. Total Nonfederal Other Liabilities	$ 27,914,905,304.04	$ 2,598,684,365.94	$ 30,513,589,669.98	$ 31,460,194,944.99
3. Total Other Liabilities	$ 37,212,814,385.17	$ 5,172,437,734.42	$ 42,385,252,119.59	$ 42,023,028,071.00

Intragovernmental Other Liabilities

Intragovernmental Other Liabilities increased $1.3 billion (12%), which was primarily due to an increase in Deposit Funds and Suspense Account Liabilities of $1.2 billion. This increase is attributable to timing differences in disbursements of military and civilian payroll in the 3rd Quarter, FY 2006. In 3rd Quarter, FY 2006, these accounts included the withholdings for three pay periods, whereas, 3rd Quarter, FY 2005, included the withholdings for two pay periods. The Department also implemented the Defense

Finance and Accounting Service Transaction Interface Module IPAC (DTIM-IPAC) in 3rd Quarter, FY 2006. DTIM-IPAC greatly reduced transactions that remained in suspense, thereby increasing Deposit Fund and Suspense Account Liabilities.

Other Disclosures

Intragovernmental Other Liabilities are comprised primarily of custodial liabilities of $6.0 billion from accounts receivable for cancelled appropriations and interest, penalties, fines, and administrative fees from the public. The amounts collected cannot be used by DoD and must be distributed to the Department of Treasury.

Nonfederal Other Liabilities primarily include employer contributions and payroll taxes payable of $1.2 billion, contingent liabilities of $1.4 billion, incurred but not reported costs of $589.7 million, and $3.9 billion of other accrued liabilities. Incurred but not reported costs result from medical care provided at nonfederal facilities, which have not yet been billed to DoD.

The DoD has delinquent Federal Employment Compensation Act (FECA) bills for 3rd Quarter, FY 2006 reporting totaling $37.5 million. The majority of the delinquency is owed by the Army. The bill is expected to be paid during 4th Quarter, FY 2006 reporting.

Capital Lease Liability

As of June 30	2006				2005
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2006	$ 15,728,460.78	$ 2,661,616.18	$ 0.00	$ 18,390,076.96	$ 71,388,837.57
B. 2007	57,886,887.78	3,646,431.74	0.00	61,533,319.52	61,191,283.79
C. 2008	47,123,104.55	3,117,506.93	0.00	50,240,611.48	51,517,129.53
D. 2009	43,853,305.76	93,058.00	0.00	43,946,363.76	43,946,363.76
E. 2010	43,853,305.76	0.00	0.00	43,853,305.76	43,853,305.76
F. 2011	41,295,407.67	0.00	0.00	41,295,407.67	0.00
G. After 5 Years	44,098,782.43	0.00	0.00	44,098,782.43	85,394,190.08
H. Total Future Lease Payments Due	$ 293,839,254.73	$ 9,518,612.85	$ 0.00	$ 303,357,867.58	$ 357,291,110.49
I. Less: Imputed Interest Executory Costs	62,450,214.92	383,677.66	0.00	62,833,892.58	85,717,022.84
J. Net Capital Lease Liability	$ 231,389,039.81	$ 9,134,935.19	$ 0.00	$ 240,523,975.00	$ 271,574,087.65
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 191,757,528.90	$ 200,944,431.30
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 48,766,446.11	$ 70,629,656.35

For the Department of Defense, all leases entered into prior to FY 1992 are funded on an annual basis and subject to the availability of funds. Noncurrent amounts for these leases are shown as not covered by budgetary resources.

Leases originating after FY 1992 are required to be fully funded in the year of their inception. Therefore, budgetary resources show the present value of those lease payments as covered by budgetary resources.

Beginning in FY 2006, the presentation of Future Payments Due was changed. The FY 2006 amounts reflect future payments for the balance of FY 2006. The amounts in subsequent years reflect amounts for the entire fiscal year.

Note 16. Commitments and Contingencies

Legal Contingencies

The Department is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The Department has accrued contingent liabilities for legal actions where the Department'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. The Department records Judgment Fund liabilities in Note 15, "Other Liabilities" and Note 12, "Accounts Payable." See Notes 15 and 12 for details.

The Department's General Counsel reported 42 legal actions with individual claims greater than the DoD-wide materiality threshold of $171.4 million for Fiscal Year (FY) 2005. The total claim amount of these 42 actions is approximately $342 billion. The Department's General Counsel identified 35 of these cases ($331 billion) as unable to determine the outcome.

Other Commitments and Contingencies

For FY 2005, the materiality threshold for reporting litigation, claims, or assessments was $171.4 million. Cases meeting this threshold were reported on the Department's legal representation letter for FY 2005. The Department also had a number of potential claims that individually do not meet the $171.4 million threshold materiality at the DoD-wide level, but do meet individual DoD Component level thresholds. These claims should be disclosed in the Component's financial statements.

The materiality threshold for FY 2006 is $107.6 million. The Department is currently assessing cases meeting that threshold for fiscal year end reporting.

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

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
1. Pension and Health Benefits					
A. Military Retirement Pensions	$ 892,111,600,551.72	6.25	$ (209,660,564,523.41)	$ 682,451,036,028.31	$ 634,303,697,149.72
B. Military Retirement Health Benefits	296,473,202,000.00	6.25	0.00	296,473,202,000.00	221,242,011,000.00
C. Military Medicare-Eligible Retiree Benefits	537,397,092,000.00	6.25	(84,110,917,095.85)	453,286,174,904.15	443,387,651,573.77
D. Total Pension and Health Benefits	$ 1,725,981,894,551.70		$ (293,771,481,619.26)	$ 1,432,210,412,932.50	$ 1,298,933,359,723.50
2. Other					
A. FECA	$ 6,918,880,749.76		$ 0.00	$ 6,918,880,749.76	$ 6,959,028,620.69
B. Voluntary Separation Incentive Programs	1,495,755,463.00	4.0	(776,729,286.49)	719,026,176.51	817,866,612.06
C. DoD Education Benefits Fund	1,661,351,399.01	5.3	(1,118,990,543.87)	542,360,855.14	120,858,140.44
D. Total Other	$ 10,075,987,611.77		$ (1,895,719,830.36)	$ 8,180,267,781.41	$ 7,897,753,373.19
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$ 1,736,057,882,163.50		$ (295,667,201,449.62)	$ 1,440,390,680,713.90	$ 1,306,831,113,096.70

Actuarial Cost Method Used: Aggregate entry-age normal method
Assumptions:See below
Market Value of Investments in Market-based and Marketable Securities: $283.5 billion

The reported Actuarial (or Accrued) Liability (AL) is only changed at the end of each fiscal year.

Fluctuations

The unfunded liability for Military Retirement and Other Employment-Related Actuarial Liabilities increased $133.6 billion (10%) and is attributable to an increase of $166.4 billion (11%) in the actuarial liability that was partially offset by an increase of $32.8 billion in the value of assets available to pay benefits.

Military Retirement Pensions

The unfunded actuarial liability increased $48.1 billion (8%). This increase is attributable to an increase of $57.5 billion in the actuarial liability that is offset by an increase of $9.4 billion in the value of assets available to pay benefits. The increase in the actuarial liability is primarily the result of an amendment to the Military Retirement Fund (MRF) Plan established by the National Defense Authorization Act for FY 2005 increasing survivor benefits.

The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues into the Fund, authorized by Public Law 98-94, come from three sources: interest earnings on Fund assets, monthly DoD contributions, and annual contributions from the Treasury Department. The monthly DoD contributions are determined as a percentage (approved by the DoD Retirement Board of Actuaries) of basic pay. The contribution from Treasury is paid into the Fund at the beginning of each fiscal year, and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. Effective FY 2005, Treasury began making an annual contribution to the Fund that represents the normal cost amount for the concurrent receipt provisions of the FY 2004 National

Defense Authorization Act. The Board of Actuaries determines Treasury's contribution and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The long-term economic assumptions for each valuation are set by the DoD Retirement Board of Actuaries. The long-term assumptions for the FY 2004 valuation were 6.25 percent interest, 3.0 percent Consumer Price Index, and 3.75 percent salary increase. The long-term economic assumptions did not change for the FY 2005 valuation. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year valuation results as reported in the DoD Office of Actuary Valuation of the Military Retirement System. For purposes of the Fund's financial reporting, this process is applied annually. In calculating the FY 2005 roll-forward amount, the following assumptions were used:

	Inflation	Salary	Interest
Fiscal Year 2005	2.7% (actual)	3.5% (actual)	6.25%
Fiscal Year 2006	4.1% (actual)	3.1% (estimated)	6.25%
Long-Term	3.0%	3.75%	6.25%

Change in MRHB Actuarial Liability	(Amounts in millions) FY 2005
Actuarial Liability as of 9/30/04	$834,582.1
Expected Normal Cost for FY 05	14,857.2
Plan Amendment Liability	25,835.9
Assumption Change Liability	4,904.2
Expected Benefit Payments for FY 05	(38,704.4)
Interest Cost for FY 05	51,427.5
Actuarial (gains)/losses due to changes in trend assumptions	(790.9)
Actuarial Liability as of 09/30/05	$892,111.6
Change in Actuarial Liability	$57,529.5

Actuarial Cost Method Used: Aggregate entry-age normal method.
Market Value of Investments in Market-Based and Marketable Securities: $201.2 billion

Military Retirement Health Benefits (MRHB)

The unfunded liability for the Military Retirement Health Benefits increased $75.2 billion (34%). In FY 2005, there was a significant actuarial loss attributable to medical cost experience; this loss is included in "Actuarial (gains)/losses due to other factors" in the table below. Other (gains)/losses in this line include new population data, other actuarial experience being different from assumed, and actuarial assumption changes other than the change in trend assumptions.

The MRHB are post-retirement benefits the DoD provides to military retirees and other eligible beneficiaries through private sector health care providers and DoD Medical Treatment Facilities (MTF). The MRHB unfunded actuarial liability balance is as of September 30, 2005. No new accruals were posted in the 3rd Quarter, FY 2006.

Change in MRHB Actuarial Liability	(Amounts in millions)
Actuarial Liability as of 09/30/04 (DoD preMedicare + all uniformed services Medicare cost-basis effect)	$221,242
Expected Normal Cost for FY05	7,686
Expected Benefit Payments for FY05	(7,718)
Interest Cost for FY05	13,827
Actuarial (gains)/losses due to other factors	20,323
Actuarial (gains)/losses due to changes in trend assumptions	41,113
Actuarial Liability as of 09/30/05 (DoD preMedicare + all uniformed services Medicare cost-basis effect)	*$296,473
Change in Actuarial Liability	$ 75,231

Actuarial Cost Method Used: Aggregate Entry-Age Normal
Assumed Interest Rate: 6.25%

*MRHB Actuarial Liability is comprised of the following components:

	(Amounts in millions)
Tricare Management Activity (TMA) Actuarial Liability as of 9/30/05	$201,500
Service Medical Activity (SMA) Actuarial Liability as of 9/30/05	94,973
Total MRHB Actuarial Liability	$296,473

Note: The distribution above of the actuarial liability for MRHB between the TMA and SMA components differs from the distribution reported in the 2005 Performance and Accountability Report. The distribution above reflects the accurate distribution between the two components which was calculated during 1st Quarter, FY 2006. The overall total MRHB liability is unchanged.

Medical Trend	FY 2004 – FY 2005	Ultimate Rate 2029
Medicare Inpatient:	3.2%	6.25%
Medicare Outpatient:	5.6%	6.25%
Medicare Prescriptions (Direct Care):	10.0%	6.25%
Medicare Prescriptions (Purchased Care):	15.2%	6.25%
Non-Medicare Inpatient (Direct Care):	6.1%	6.25%
Non-Medicare Outpatient (Direct Care):	6.25%	6.25%
Non-Medicare Prescriptions (Direct Care):	7.5%	6.25%
Non-Medicare Inpatient (Purchased Care):	13.5%	6.25%
Non-Medicare Outpatient (Purchased Care):	14.9%	6.25%
Non-Medicare Prescriptions (Purchased Care):	15.1%	6.25%

Other Information

The SMA/TMA consolidated liability includes pre-Medicare liabilities for the DoD, plus a cost-basis effect related to the direct care portion of Medicare liabilities for all Uniformed Services. The approximate breakout of the September 30, 2005, liability was:

	(Amount in millions)
DoD	$295,962
Coast Guard	453
Public Health Service	54
National Oceanic and Atmospheric Administration (NOAA)	4
Total	$296,473

The cost-basis effect is approximately $22.3 billion as of September 30, 2005, and arises because liabilities for direct care in the total MRHB liability are valued at a higher cost basis than they are in the Medicare Eligible Retiree Health Care Fund (MERHCF) liability. As of September 30, 2005, the SMA/TMA consolidated liability represents DoD pre-Medicare liabilities for direct care benefits and DoD pre-Medicare liabilities for purchased care benefits for MTF Prime enrollees plus the direct-care cost-basis effect for Medicare liabilities for all Uniformed Services.

The actuarial liability reported above does not include $1.4 billion in incurred but not reported liabilities as of September 30, 2005. These liabilities are included in the Liabilities Not Covered and Covered by Budgetary Resources note, and the Other Liabilities note.

Medicare-Eligible Retiree Benefits

The MERHCF unfunded actuarial liability increased $9.8 billion (2 percent). This increase is attributable to an increase of $33.3 billion in the actuarial liability that is offset by an increase of $23.5 billion in the value of assets available to pay benefits.

Public Law 106-398 authorized the establishment of the MERHCF for the purpose of accumulating funds to finance the liabilities of DoD and the uniformed health care programs for specific Medicare-eligible beneficiaries.

Changes in MERHCF Actuarial Liability

	(Amounts in millions)
Actuarial Liability as of 09/30/04 (all uniformed services Medicare)	$504,073.8
Expected Normal Cost for FY05	10,613.8
Expected Benefit Payments for FY05	(6,546.9)
Interest Cost for FY05	31,629.8
Actuarial (gains)/losses due to other factors	(14,902.7)
Actuarial (gains)/losses due to changes in trend assumptions	12,529.3
Actuarial Liability as of 09/30/05 (all uniformed services Medicare)	$537,397.1
Change in Actuarial Liability	$33,323.3

Assumed Interest Rate: 6.25%

Medical Trend	FY 2004 - FY 2005	Ultimate Rate 2029
Medicare Inpatient:	3.2%	6.25%
Medicare Outpatient:	5.6%	6.25%
Medicare Prescriptions (Direct Care):	10.0%	6.25%
Medicare Prescriptions (Purchased Care):	15.2%	6.25%

The MERHCF liability includes Medicare liabilities for all Uniformed Services. The approximate breakout of the September 30, 2005, liability was:

	(Amounts in millions)
DoD	$526,082.5
Coast Guard	10,176.7
Public Health Service	1,067.0
NOAA	71.0
Total	$ 537,397.2

FY 2005 Service contributions to the MERHCF were:

	(Amounts in millions)
DoD	$10,220.0
Coast Guard	236.7
Public Health Service	32.1
NOAA	1.5
Total	$ 10,490.3

Assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Claims cost assumptions for direct care were based on actual experience; assumptions for purchased care were developed from industry-based cost estimates adjusted to approximate the military retired population.

Projected revenues into the MERHCF, authorized by Chapter 56 of Title 10, United States Code, come from three sources: interest earnings on Fund assets, annual Uniformed Services “normal cost” contributions, and annual contributions from the Treasury Department. Prior to October 1, 2005, the normal cost contributions by the Services were paid monthly at per capita amount (approved by the DoD Medicare Eligible Retiree Health Care Board of Actuaries) times actual end strength. Beginning in FY 2006 the normal cost is paid annually at the beginning of the fiscal year by the Treasury, from amounts appropriated to the Military Services, and is calculated at the approved rate times the budgeted force strengths. The contribution from Treasury is also paid into the Fund at the beginning of each fiscal year and represents the amortization of the unfunded liability for service performed prior to October 1, 2002, as well as the amortization of actuarial gains and losses that have arisen since then. The Board determines Treasury’s contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The actuarial liability reported above does not include $762.2 million in incurred but not reported liabilities as of September 30, 2005. These liabilities are included in the Liabilities Not Covered and Covered by Budgetary Resources note, and the Other Liabilities note.

Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year's results. For purposes of the Fund's financial reporting, this process is applied annually.

Actuarial Cost Method Used for MERHCF Liability: Aggregate Entry-Age Normal
Market Value of Investments in Market-Based and Marketable Securities: $80.5 billion

Federal Employees Compensation Act (FECA)

Assumptions

The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Year 1	4.53%
Year 2	5.02%
Year 3 and thereafter	5.02%

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for charge back year (CBY) 2005 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years were as follows:

CBY	COLA	CPIM
2006	3.33%	4.09%
2007	2.93%	4.01%
2008	2.40%	4.01%
2009+	2.40%	4.01%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on three tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection, and (3) a comparison of the incremental paid losses (the medical component in particular) in CBY 2005 (by injury cohort) to the average pattern observed during the prior three charge back years.

Voluntary Separation Incentive Programs (VSI)

The VSI program was established by Public Law 102-190. The intent of this program is to reduce the number of military personnel on active duty. This plan was offered to personnel with a minimum of six years of service who do not qualify for retirement. The incentive payments are spread over a period equivalent to twice the years of active service. The annual payment is based on 2.5% of the person's basic pay at the time they leave service multiplied by the number of years of service. The September 30, 2005, VSI Actuarial Present Value of Projected Plan Benefits (Actuarial Liability) was calculated at an assumed annual interest rate of 4%.

Since the VSI program is discontinued for new takers, each year the Actuarial Liability is expected to decrease with benefit outlays, and increase with interest cost. The present value of plan benefits actuarial liability for the VSI fund is as of September 30, 2005. No new accruals were posted for 3rd Quarter, FY 2006. The liability was calculated, as in prior years, as the present value, as of September 30, 2005, of all remaining VSI payments.

Market Value of Investments in Market-based and Marketable Securities: $672.0 million.

DoD Education Benefits Fund

The Education Benefits Fund was established by Public Law 98-525. The program is designed to accumulate funds for the Educational Assistance program, to promote the recruitment and retention of members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces, and aid in the readjustment of members of the Armed Forces to civilian life after separation from military service. A new educational benefit was added for mobilized reservists under Chapter 1607, and National-Call-to-Service benefits were added under Chapter 510 of Title 10.

The actuarial present value of the DoD Education Benefits liability is as of September 30, 2005. No new accruals were posted for 3rd Quarter, FY 2006.

Market Value of Investments in Market-based and Marketable Securities: $1.2 billion

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

Intragovernmental Costs and Exchange Revenue				
As of June 30		2006		2005
1. Intragovernmental Costs	$	18,684,940,416.12	$	19,256,535,930.64
2. Public Costs		396,191,976,110.83		351,304,880,670.19
3. Total Costs	$	414,876,916,526.95	$	370,561,416,600.83
4. Intragovernmental Earned Revenue	$	(18,930,908,560.99)	$	(13,627,465,163.54)
5. Public Earned Revenue		(17,370,911,537.83)		(17,663,410,697.72)
6. Total Earned Revenue	$	(36,301,820,098.82)	$	(31,290,875,861.26)
7. Net Cost of Operations	$	378,575,096,428.13	$	339,270,540,739.57

Fluctuations

Total Costs

Total Costs increased $44.3 billion (12%) due to increased costs relating to a $ 34 billion increase in appropriations for procurement; Research, Development, Test and Evaluation programs; hurricane relief in the Gulf of Mexico and the Global War on Terror. In addition, there was a $8.1 billion increase in expenses for environmental liabilities with the Chemical Weapons Disposal Program in which a new estimation process began in 3rd Quarter, FY 2006.

Total Earned Revenue

Total Earned Revenue increased $5 billion (16%). The primary causes are a $2.5 billion increase in interest revenue on investments and $2.0 billion increase in revenue for reimbursable work performed for the Federal Emergency on hurricane relief efforts.

Other Disclosures

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 4th Quarter FY 2006 financial statements. Refer to Notes 10 and 19 for further disclosures.

Intragovernmental costs above are understated and public costs overstated by $304 million due to errors in the reporting of intragovernmental costs with the U.S. Postal Service by the Army, Air Force, and Navy. The errors will be corrected in 4th Quarter FY 2006.

General Disclosures Related to the Statement of Net Cost

The Statement of Net Cost is unique because its principles are driven on 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. Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

For General Funds (GF), the amounts presented in the Statement of Net Cost are based on obligations and disbursements and therefore may not, in all cases, accrue actual costs. While the Department's Working Capital Funds (WCF) generally record transactions on an accrual basis, the systems do not always capture actual costs in a timely manner. As such, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems, adjusted to record known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

The Department's cost of acquiring, constructing, improving, reconstructing or renovating heritage assets over FY 2006 is approximately $1.9 million.

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

As of June 30	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	$ 0.00	$ 0.00	$ 0.00	$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	(21,832,000,000.00)	0.00	(22,982,000,000.00)	0.00
C. Total Prior Period Adjustments	$ (21,832,000,000.00)	$ 0.00	$ (22,982,000,000.00)	$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 1,126,666,272.38	$ 0.00	$ 1,169,986,665.60	$ 0.00
B. Civilian Health	1,941,133,633.19	0.00	1,828,648,806.32	0.00
C. Civilian Life Insurance	18,846,958.04	0.00	17,010,564.06	0.00
D. Judgment Fund	112,431,487.78	0.00	329,071,840.05	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	$ 3,199,078,351.39	$ 0.00	$ 3,344,717,876.03	$ 0.00

Prior Period Adjustments

The DoD recognized a $21.8 billion prior period adjustment due to a change in the methodology for reporting military equipment in 3rd Quarter FY 2006, including a $23.0 billion restatement for FY 2005. The FY 2005 restatement impacts the value of general property, plant, and equipment and associated accumulated depreciation reported on the balance sheet. See Note 10 for further disclosures

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, DoD reported military equipment values in the financial statements beginning in FY 2003. As an interim measure, while the Department worked to develop its military equipment baseline from internal records, the military equipment values reported were based on information obtained from the Bureau of Economic Analysis (BEA).

Effective 3rd Quarter, FY 2006, the Department is replacing the BEA estimation methodology with a valuation based on internal Departmental records. During the process of establishing a baseline, we discovered that the BEA estimates had failed to consider disposals, thresholds, and construction in process. While an estimation methodology is acceptable per SFFAS 23, due to the nature of the BEA omissions, we consider that the method we previously used was not compliant with Generally Accepted Accounting Principles (GAAP), and thus have treated the adjustment as correction of a material error.

Imputed Financing

The amounts the Department of Defense remits to the Office of Personnel Management by and for employees covered by the Civil Service Retirement System, the Federal Employees' Retirement System, the Federal Employees' Health Benefits program, and the Federal Employees' Group Life Insurance program do not fully cover the government's cost to provide these benefits. An imputed cost is recognized as the difference between the government's cost of providing these benefits to employees and the Department’s contributions for them. The Office of Personnel Management provides cost factors for the computation of imputed financing costs, and their inclusion in the Department’s financial statements.

Fluctuations

Budgetary Financing Sources, Appropriations Received increased $72.2 billion from 3rd Quarter FY 2005, largely due to increased funding received for the Global War on Terror and Hurricane Relief. Through 3rd Quarter, FY 2006 the Department has received $52 billion more in supplemental appropriations than in FY 2005. The balance of the increase is due primarily to an increase in other appropriations received during FY 2006.

Other Disclosures

Statement of Federal Financial Accounting Standards Number 27, “Identifying and Reporting Earmarked Funds,” effective for reporting years after FY 2005, required that DoD modify the Statement of Changes in Net Position. The Federal Accounting Standards Advisory Board determined that restatement of prior comparative balances would not be allowed. In order to meet the requirement, additional lines were added to separately display earmarked funds in all categories required for both the Cumulative Results of Operations and the Unexpended Appropriations sections of the statement.

There is an $81.9 billion difference between Appropriations Received that are reported on the Statement of Changes in Net Position ($595.2 billion) and Appropriations Received in the Statement of Budgetary Resources ($677.1 billion). This difference is primarily due to appropriations transferred to the trust funds which are duplicated in the Statement of Budgetary Resources. In addition a small portion of the difference relates to interest collected by the trust funds. See Note 20, “Disclosures Related to the Statement of Budgetary Resources” for additional information.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of June 30		2006		2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	286,370,645,338.49	$	282,692,247,902.17
2. Available Borrowing and Contract Authority at the End of the Period		45,160,310,908.93		46,818,705,494.60

Fluctuations

Budgetary Financing, Budgetary Resources section of the Statement of Budgetary Resources (SBR) reflects a decrease of $191 billion (18%). This decrease is primarily attributable to a reporting change in unobligated fund balances for special and trust funds. The reporting change affected such Trust Funds as the Medicare-Eligible Retiree Health Care Fund (MERHCF) and the Military Retirement Fund (MRF). The change resulted in a $219.1 billion decrease in the brought forward unobligated balances from FY 2005, and corrects an inconsistency in presentation with the President's Budget.

The Nonbudgetary Financing, Budgetary Resources section of the SBR reflects an increase of $42.4 million (45%). This section of the SBR reports activity for the Military Housing Privatization Initiative. The fluctuation was primarily due to financing costs associated with the issuance of direct loans totaling $30.2 million in the FY 2006. Additionally, borrowing authority totaling $11.7 million was received from Treasury in, FY 2006, to resolve a defaulted loan guarantee relating to the Armament Retooling and Manufacturing Support Initiative.

Permanent Indefinite Appropriations

The DoD received the following permanent indefinite appropriations:

- Department of the Army General Gift Fund (10 USC 2601(b)(1))
- Department of the Navy General Gift Fund (10 USC 2601(b)(2))
- Department of the Air Force General Gift Fund (10 USC 2601 (b)(3))
- Foreign National Employees Separation Pay Account, Defense (10 USC 1581)
- United States Naval Academy Gift and Museum Fund (10 USC 6973-4)
- Ship Stores Profits, Navy (10 USC 7220, 31 USC 1321)
- Midshipmen's Store (10 USC 6971B)
- Burdensharing Contributions Account (10 USC 2350j)
- Forest Program (10 USC 2665)
- Department of Defense Base Closure Account (BRAC 10 USC 2687 note)
- Medicare Eligible Retiree Health Care Fund (10 USC 1111)
- Military Retirement Fund (10 USC 1461)
- Education Benefits Fund (10 USC 2006)
- Reserve Mobilization Income Insurance Fund (RII) (10 USC 12528)
- Host Nation Support for U.S. Relocation Activities (10 USC 2350k)
- National Defense Sealift Fund (10 USC 2218)
- Environmental Restoration, Navy (10 USC 2702)
- Hydraulic Mining Debris Reservoir (33 USC 683)
- Maintenance and Operation of Dams and Other Improvements of Navigable Waters (16 USC 810(a))
- Payments to States (33 USC 701c-3)
- Wildlife Conservation (16 USC 670-670f)
- Ainsworth Bequest (IAW 31 USC 1321)

The above permanent indefinite appropriations cover a wide variety of purposes to help DoD accomplish its missions. These purposes include (1) military retirees healthcare benefits, retirement and survivor pay, and education benefits for veterans, (2) environmental, coastal, and wildlife habitat restoration, and water resources maintenance, (3) costs associated with the closure or realignment of military installations, (4) relocation of armed forces to a host nation, (5) separation payments for foreign nationals, (6) the construction, purchase, alteration, and conversion of sealift vessels, and (7) upkeep of libraries and museums. Reference Note 23 for additional information on those funds that are earmarked.

Reconciliation Differences

There is a difference of $17.0 billion between the Borrowing and Contract Authority reported on line 2 ($45.2 billion) in the table above and the amount reported for Available Borrowing and Contract Authority on the SBR ($62.2 billion). Line 2 reports current-year activity as well as carry-forward amounts for both categories of authority. The SBR only reports current-year activity for these categories.

The Department of the Treasury issues annual warrants to pay amortized payments for the unfunded actuarial liabilities for MRF in the amount of $25.5 billion and $16.6 billion for MERHCF. This amount is credited and expended from Appropriations Received from the Other Defense Organization General Fund to the MRF and MERHCF in accordance with the Office of Management and Budget (OMB) guidance. The OMB is aware of and approves of this duplicate reporting for Appropriations Received.

The MERHCF, MRF, Education Benefits, and Voluntary Separation Incentive Trust Funds report Appropriations Received for contributions paid by the Departments of the Army, Navy, and Air Force. The Military Departments also include these amounts in Appropriations Received. As a result, $21.5 billion is duplicated on the Statement of Budgetary Resources.

Other Disclosure

The DoD received additional appropriations in the amount of $68.1 billion during 3rd Quarter, FY 2006 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.

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

The DoD utilizes borrowing authority in accordance with OMB Circular A-129, "Managing Federal Credit Programs."

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

Direct Obligations – Apportionment Categories

Reporting Entity	Category A ($millions)	Category B ($millions)	Exempt from Apportionment ($millions)	Totals ($millions)
Army General Fund	$127,377.4	$5,834.1		$133,211.5
Navy General Fund	62,646.6	52,200.0		114,846.6
Air Force General Fund	57,259.8	43,300.0	$1.2	100,561.0
US Army Corps of Engineers	5,105.7		25.8	5,131.5
Military Retirement Fund			30,789.3	30,789.3
Medicare-Eligible Retiree Health Care Fund		1500.0	4,172.1	5,672.1
Other Defense Organizations – General Fund	97,478.8	260.6	286.5	98,025.9
Other Defense Organizations – Working Capital Fund	872.9			872.9
Totals	**$350,741.2**	**$103,094.7**	**$35,274.9**	**$489,110.8**

Reimbursable Obligations – Apportionment Categories

Reporting Entity	Category A ($millions)	Category B ($millions)	Exempt from Apportionment ($millions)	Totals ($millions)
Army General Fund	$10,918.5	$3,300.0		$14,218.5
Navy General Fund			$3,528.9	3,528.9
Air Force General Fund	3,428.0	2,400.0	5.4	5,833.4
Army Working Capital Fund		12,070.8		12,070.8
Navy Working Capital Fund		17,112.0		17,112.0
Air Force Working Capital Fund		10,913.0		10,913.0
US Army Corps of Engineers	9,240.2		0.9	9,241.1
Other Defense Organizations – General Fund	4,484.0			4,484.1
Other Defense Organizations – Working Capital Fund	42,276.7			42,276.7
Totals	**$70,347.4**	**$45,795.8**	**$3,535.2**	**$119,678.4**

NOTE:
1. Category "A" relates to appropriations for a specific period of time (e.g., Military Personnel appropriation).
2. Category "B" relates to appropriations for a specific project (e.g., Military Construction appropriation).

Note 21. Disclosures Related to the Statement of Financing

Due to the Department's financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency. To bring the Statement of Financing into balance with the Statement of Net Cost, the following adjustments (absolute value) were made:

Resources That Finance the Acquisition of Assets	$	10.1	billion
Other Components Not Requiring or Generating Resources	$	7.3	million

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
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Resources Used to Finance Activities:

Other Resources – Other increased $3.0 billion primarily due to a change in accounting procedures beginning in 1st Quarter, FY 2006 requiring the inclusion of non-exchange gains and losses necessary to reconcile the proprietary and budgetary accounts previously not mapped to this line.

Resources Used to Finance Items not Part of the Net Cost of Operations:

Resources That Finance the Acquisition of Assets increased $4.9 billion due primarily to a change in the military equipment valuation methodology implemented 3rd Quarter, FY 2006. See Note 10 for further disclosure on military equipment.

Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations decreased $3.2 billion primarily due to a change in accounting procedures beginning in 1st Quarter, FY 2006 requiring the inclusion of nonexchange gains and losses necessary to reconcile the proprietary and budgetary accounts previously not mapped to this line.

Components not Requiring or Generating Resources:

Depreciation and amortization decreased $7.6 billion primarily due the change in the military equipment valuation methodology implemented in 3rd Quarter, FY 2006. See Note 10 for additional disclosures on military equipment.

Other decreased $22.3 billion and consists of expenses for the Iraqi Relief and Reconstruction Fund, cost capitalization offsets, misclassification of cost of goods sold, and adjustments to bring the Statement of Financing into balance with the Statement of Net Cost.

Note 22. Disclosures Related to the Statement of Custodial Activity

The Statement of Custodial Activity displays current year collections and disbursements for three custodial accounts: (1) Foreign Military Sales (FMS), (2) Development Fund for Iraq, and (3) Seized Assets. Funds held in a custodial activity are only used for the stated purposes and are not available for the Department's use.

Foreign Military Sales

Under authority of the Arms Export and Control Act, the Foreign Military Sales Trust Fund (FMSTF) receives collections from foreign governments that are dedicated specifically to FMS purchases. Funds collected into the FMSTF are in advance of the performance of services or sale of articles. These advance collections constitute a fiduciary relationship with the countries.

Current year Deposits by Foreign Governments into FMSTF are $9.7 billion and Disbursements on Behalf of Foreign Governments and International Organizations equal $9.0 billion.

FMSTF neither recognizes nor reports revenue. The only exception is cost clearing accounts, which are reflected in all other principal financial statements. Since various Department of Defense (DoD) Components actually perform the services and sell the articles, recognition of revenue and expense occurs in the financial statements of the applicable DoD Components.

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 million in disbursements by the Multi-National Force Iraq with no additional deposits. As of June 30, 2006, $22.4 million remains to be disbursed. The Department made adjustments in 1st Quarter, FY 2006 for prior year disbursements, which resulted in a negative disbursement amount for Education, Refugees, Human Rights, and Governance in the current year, as shown below.

(Amounts in Millions)	**During FY 2006**	**Cumulative from Inception**
Source of Collections		
Deposits By Foreign Governments	$ 0	$ 136.0
Disposition of Collections		
Security and Law Enforcement	$ .2	$ 1.0
Electric Sector	18.3	42.7
Oil Infrastructure	.3	.4
Water Resources and Sanitation	9.5	16.1
Transportation and Telecommunications	.2	5.5
Roads, Bridges and Construction	.7	5.0
Health Care	.1	2.9
Private Sector Development	3.3	7.2
Education, Refugees, Human Rights, and Governance	(1.6)	32.8
Total Disbursed on Behalf of Foreign Governments	31.0	113.6
Retained for Future Support of Foreign Governments *****	(31.0)	22.4
Total Disposition of Collections	$ 0	$ 136.0
Net Custodial Collection Activity	$ 0	$ 0

*Note – Reported on the Statement of Custodial Activity under Disposition of Collections, Increase (Decrease) in Amounts to be Transferred.

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 Millions	
	During FY 2006	**Cumulative from Inception**
Source of Collections		
Seized Iraqi Cash	$ 0	$ 927.2
Disposition of Collections		
Iraqi Salaries	$ 0	$ 30.9
Repair/Reconstruction/Humanitarian Assistance	25.5	520.4
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	0	264.7
Fuel/Supplies	0	75.3
Total Disbursed on Behalf of Iraqi People	25.5	891.3
Retained for Future Support of Foreign Governments	(25.5)	35.9
Total Disposition of Collections	$ 0	$ 927.2
Net Custodial Collection Activity	$ 0	$ 0

Note 23. Earmarked Funds

BALANCE SHEET As of June 30	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
ASSETS				
Fund balance with Treasury	$ 18,900,292.63	$ 5,000,000.00	$ 2,494,365,529.10	$ 2,518,265,821.73
Investments	212,307,622,688.09	86,027,080,578.51	5,404,181,947.32	303,738,885,213.92
Accounts and Interest Receivable	23,336,006.15	51,922,406.38	688,038,954.59	763,297,367.12
Other Assets	0.00	0.00	1,647,583,570.00	1,647,583,570.00
Total Assets	$ 212,349,858,986.87	$ 86,084,002,984.89	$ 10,234,170,001.01	$ 308,668,031,972.77
LIABILITIES and NET POSITION				
Military Retirement Benefits and Other Employment Related Actuarial Liabilities	$ 892,111,600,551.72	$ 537,397,092,000.00	$ 0.00	$ 1,429,508,692,551.70
Other Liabilities	3,403,071,926.20	930,919,901.96	4,224,750,938.90	8,558,742,767.06
Unexpended Appropriations	0.00	0.00	12,167,789.08	12,167,789.08
Cumulative Results of Operations	(683,164,813,491.05)	(452,244,008,917.07)	5,997,251,273.03	(1,129,411,571,135.10)
Total Liabilities and Net Position	$ 212,349,858,986.87	$ 86,084,002,984.89	$ 10,234,170,001.01	$ 308,668,031,972.74

STATEMENT OF NET COST As of June 30	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
Program Costs	$ 30,792,745,754.50	$ 5,338,869,909.03	$ 2,204,820,630.92	$ 38,336,436,294.45
Less Earned Revenue	(45,205,207,085.56)	(30,754,916,358.78)	(781,049,303.64)	(76,741,172,747.98)
Net Program Costs	$ (14,412,461,331.06)	$ (25,416,046,449.75)	$ 1,423,771,327.28	$ (38,404,736,453.53)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00
Net Cost of Operations	$ (14,412,461,331.06)	$ (25,416,046,449.75)	$ 1,423,771,327.28	$ (38,404,736,453.53)

STATEMENT OF CHANGES IN NET POSITION As of June 30	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
Net Position Beginning of the Period	$ (697,577,274,822.11)	$ (477,660,055,366.82)	$ 4,374,674,590.94	$ (1,170,862,655,598.00)
Net Cost of Operations	(14,412,461,331.06)	(25,416,046,449.75)	1,423,771,327.28	(38,404,736,453.53)
Other Nonexchange Revenue	0.00	0.00	3,058,515,798.45	3,058,515,798.45
Change in Net Position	$ 14,412,461,331.06	$ 25,416,046,449.75	$ 1,634,744,471.17	$ 41,463,252,251.98
Net Position End of Period	$ (683,164,813,491.05)	$ (452,244,008,917.07)	$ 6,009,419,062.11	$ (1,129,399,403,346.00)

The Earmarked Fund schedule is combined, not consolidated. No activity between earmarked funds has been eliminated.

The totals that appear in the schedule do not correspond with the earmarked fund amounts reported on the Balance Sheet and Statement of Changes in Net Position. The financial statement amounts have been adjusted for intra-DoD activity, both between earmarked funds, and between earmarked and non-earmarked funds.

Earmarked Revenues Not Eliminated in the note schedule:	$63.5 billion
Earmarked Expenses Not Eliminated in the note schedule:	$ 1.9 billion
Resulting Difference in Cumulative Results of Operations:	$61.6 billion

The Statement of Federal Financial Accounting Standards (SFFAS) 27, "Identifying and Reporting Earmarked Funds," requires the disclosure of earmarked funds separately from all other funds on the Statement of Changes in Net Position and Balance Sheet. Funds must meet three criteria to be classified as earmarked: (1) a statute committing use of specifically identified revenues for designated purposes, (2) explicit authority to retain the revenues, and (3) a requirement to account and report on the revenues. The Department of Defense (DoD) earmarked funds are either special or trust funds and use both receipt and expenditure accounts to report activity to the Department of the Treasury. There have been no changes in legislation during or subsequent to this reporting period that significantly changed the purposes of any of the following funds.

Military Retirement Fund (MRF), 10 United States Code (USC) 1461. The MRF accumulates funds in order to finance, on an actuarially sound basis, the liabilities of the DoD military retirement and survivor benefit programs. Financing sources for the MRF are interest earnings on Fund assets, monthly DoD contributions, and annual contributions from the Treasury. The monthly DoD contributions are determined as a percentage of basic pay. The contribution from Treasury represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. The Treasury annual contribution also includes the normal cost amount for the concurrent receipt provisions of the fiscal year 2004 National Defense Authorization Act.

Medicare Eligible Retiree Health Care Fund (MERHCF), 10 USC 1111. The MERHCF accumulates funds to finance, on an actuarially sound basis, liabilities of DoD and the uniformed services health care programs for specific Medicare-eligible beneficiaries. The MERHCF was authorized by Public Law 106-398. Financing sources for MERHCF are provided primarily through an annual actuarial liability payment from Treasury, annual contribution(s) from the Military Services and other Uniformed Services (U.S. Coast Guard, the National Oceanic and Atmospheric Administration, and the U.S. Public Health Service), and interest earned from the Fund's investments.

Other Earmarked Funds

Special Recreation Use Fees, 16 USC 4061-6a note. The United States Army Corps of Engineers (USACE) is granted the authority to charge and collect fair and equitable Special Recreation Use Fees at campgrounds located at lakes or reservoirs that are under the jurisdiction of the USACE. Types of allowable fees include, but are not limited to, daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The receipts are used for the operation and maintenance of the recreational sites.

Hydraulic Mining in California, Debris, 33 USC 683. Operators of hydraulic mines through which debris flows in part or in whole to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. Taxes imposed under this code are collected and then expended under the supervision of the USACE and the direction of the Department of the Army. The funds are used for repayment of funds advanced by the federal government or other agency for construction, restraining works, settling reservoirs, and for maintenance.

Payments to States, Flood Control Act of 1954, 33 USC 701c-3. Seventy-five percent of all funds received and deposited from the leasing of lands acquired by the US for flood control, navigation and allied purposes, including the development of hydroelectric power, are returned to the state on which the property is located. The USACE collects lease receipts into a receipt account. Funds are appropriated for the amount of receipts the following fiscal year.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters, 16 USC 803(f) and 810. The USC states, "all proceeds from any Indian reservation shall be placed to the credit of the Indians of such reservation." However, the code also states, "all other charges arising from licenses" except those charges established by the Commission for purpose of administrative reimbursement shall be paid to the Treasury from which specific allocations will be made. From the specific allocations, 50% of charges from "all other licenses" is reserved and appropriated as a special fund in the Treasury to be expended under the direction of the Secretary of the Army in the maintenance, operation/improvement of dams and other navigation structures that are owned by the U.S. or in construction, maintenance, or operation of headwater or other improvements of navigable waters of the U.S.

Fund for Non-Federal Use of Disposal Facilities (for dredged material), 33 USC 2326. Any dredged material disposal facility under the jurisdiction of, or managed by, the Secretary of the Army (Secretary) may be used by a nonfederal interest if the Secretary determines that such use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs associated with such use. Any monies received through collection of fees under this law shall be available to, and used by, the Secretary for the operation and maintenance of the disposal facility from which the fees were collected.

South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund, Public Law 106-53 Sec. 603. Yearly transfers are made from the General Fund of the Treasury to the Trust Fund for investment purposes. Investment activity is managed by the Bureau of Public Debt (BPD). The BPD purchases and redeems nonmarketable market-based securities issued by the BPD. Investments include one-day certificates, bonds, and notes. When the Fund reaches the aggregate amount of $108 million, withdrawals may be made by the USACE for payment to the State of South Dakota. The state uses the payments to fund the annually scheduled work for wildlife habitat restoration.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection and Restoration Act, 16 USC 3951-3956. The USACE, along with the Environmental Protection Agency, and the Fish and Wildlife Service is granted the authority to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of "no net loss of wetlands" in coastal Louisiana. The USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75% of project costs or 85% if the State has an approved Coastal Wetlands Conservation Plan.

Rivers and Harbors Contributed and Advance Funds, 33 USC 701h, 702f, and 703. Whenever any state or political subdivision offers to advance funds for a flood control project duly adopted and authorized by law, the Secretary of the Army, may in his discretion, receive such funds and expend them in the immediate prosecution of such work. The funding may be used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc. in the course of flood control and river/harbor maintenance.

Inland Waterways Trust Fund, 26 USC 9506. This law made the Inland Waterways Trust Fund available for USACE expenditures for navigation, construction, and rehabilitation projects on inland waterways. Collections for excise taxes from the public are made into the Fund. The collections are invested and investment activity is managed by the Treasury, BPD. The BPD purchases and redeems nonmarketable market-based securities issued by the Treasury. Investments include one-day certificates, bonds, and notes. The Fund is classified as a trust fund and utilizes receipt and expenditure accounts in accounting for and reporting the Fund.

Harbor Maintenance Trust Fund, 26 USC 9505. The USACE Civil Works mission is funded by the Energy and Water Developments Appropriations Act. The Water Resources Development Act of 1986 was implemented to cover a portion of USACE operations and maintenance costs for deep draft navigation. The Fund shall be available for making expenditures to carry out the functions specified in the act and for the payment of all expenses of administration incurred by the Treasury, USACE, and the Department of Commerce. Collections are made into the Fund from taxes collected from imports, domestics, passengers, and foreign trade. The collections are invested and investment activity is managed by the Treasury, BPD. The Fund is classified as a trust fund and utilizes receipt and expenditure accounts in accounting for and reporting the Fund.

Foreign National Employees Separation Pay Account Trust Fund, 10 USC 1581. This fund is used to make payments from amounts obligated by the Secretary of Defense that remain unexpended for separation pay for foreign national employees of DoD. The foreign national employees' separation pay funded by Foreign Military Sales administrative funds is maintained as a separate fund.

DeCA Surcharge Revenue, 10 USC 2685. The Surcharge account was established as the repository for the surcharge on the cost of commissary goods paid for by authorized patrons to finance certain operating expenses and capital purchases of the Commissary System, which are precluded by law from being paid with appropriated funds. The major part of the Surcharge public revenue is generated by the 5% surcharge applied to each sale. These funds may be used to pay for the commissary store-related information technology investments, to purchase commissary equipment, to finance advance design modifications to prior year projects, for both minor and major construction projects, and maintenance and repair of commissary facilities and equipment. The surcharge account also allows for obligations based on anticipated proceeds without regard to fiscal year limitations, if needed, to carry out the uses of the revenue as identified.

Note 24. Other Disclosures

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	$ 111,466,920.97	$ 1,126,679.10	$ 124,571,547.00	$ 237,165,147.07
2007	183,675,434.46	1,063,095.06	128,306,373.00	313,044,902.52
2008	178,128,590.79	0.00	132,153,187.00	310,281,777.79
2009	176,362,260.18	0.00	136,115,346.00	312,477,606.18
2010	174,151,389.88	0.00	140,196,308.00	314,347,697.88
2011	149,041,123.48	0.00	143,874,662.00	292,915,785.48
After 5 Years	148,326,837.01	0.00	148,190,902.00	296,517,739.01
Total Future Lease Payments Due	$ 1,121,152,556.77	$ 2,189,774.16	$ 953,408,325.00	$ 2,076,750,655.93