

Department of Defense
Army Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2006 and 2005

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 761,515,612.08	\$ 708,669,539.05
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	0.00	0.00
3. Accounts Receivable (Note 5)	315,892,404.52	506,221,621.68
4. Other Assets (Note 6)	8,191,546.66	70,710.85
5. Total Intragovernmental Assets	<u>\$ 1,085,599,563.26</u>	<u>\$ 1,214,961,871.58</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable, Net (Note 5)	9,978,285.10	18,663,687.07
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	17,899,278,739.81	15,721,257,531.84
F. General Property, Plant and Equipment, Net (Note 10)	1,224,772,063.94	1,225,318,937.06
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	360,656,739.28	286,115,791.29
2. TOTAL ASSETS	<u><u>\$ 20,580,285,391.39</u></u>	<u><u>\$ 18,466,317,818.84</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 126,339,769.07	\$ 170,015,318.65
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	47,969,203.65	63,880,197.54
4. Total Intragovernmental Liabilities	<u>\$ 174,308,972.72</u>	<u>\$ 233,895,516.19</u>
B. Accounts Payable (Note 12)	\$ 640,502,617.81	\$ 328,184,450.60
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	286,523,171.16	304,976,189.04
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	890,250,410.06	304,288,158.85
4. TOTAL LIABILITIES	<u><u>\$ 1,991,585,171.75</u></u>	<u><u>\$ 1,171,344,314.68</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	16,305,249.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	0.00	0.00
D. Cumulative Results of Operations - Other Funds	18,572,394,970.64	17,294,973,504.16
6. TOTAL NET POSITION	<u><u>\$ 18,588,700,219.64</u></u>	<u><u>\$ 17,294,973,504.16</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 20,580,285,391.39</u></u>	<u><u>\$ 18,466,317,818.84</u></u>

Department of Defense
 Army Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
 For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	\$ 12,150,597,801.46	\$ 8,856,009,745.62
B. (Less: Earned Revenue)	(13,190,646,415.72)	(10,289,033,687.12)
C. Net Program Costs	<u>\$ (1,040,048,614.26)</u>	<u>\$ (1,433,023,941.50)</u>
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	<u><u>\$ (1,040,048,614.26)</u></u>	<u><u>\$ (1,433,023,941.50)</u></u>

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 17,091,034,493.69	\$ 15,370,833,547.07
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	<u>17,091,034,493.69</u>	<u>15,370,833,547.07</u>
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	0.00	0.00
4.D.2 All other Funds	438,515,751.00	52,852.98
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	(65,944,000.00)
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 (+/-)	(337,464.00)	0.00
5.C. Imputed financing from costs absorbed by others	116,080,972.54	110,721,033.95
5.D. Other (+/-)	(112,947,396.85)	446,286,128.66
6. Total Financing Sources		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	441,311,862.69	491,116,015.59
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds	(1,040,048,614.26)	(1,433,023,941.50)
8. Net Change		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	1,481,360,476.95	1,924,139,957.09
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	18,572,394,970.64	17,294,973,504.16

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>18,572,394,970.64</u>	\$ <u>17,294,973,504.16</u>

Department of Defense
Army Working Capital Fund
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	\$ 0.00	\$ 52,852.98
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	0.00	52,852.98
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	454,821,000.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	(438,515,751.00)	(52,852.98)
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	0.00	0.00
6.B. All other funds	16,305,249.00	(52,852.98)
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	0.00	0.00
8.B. All other funds	16,305,249.00	(52,852.98)
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	16,305,249.00	0.00

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>16,305,249.00</u>	\$ <u>0.00</u>

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
	<hr/>	<hr/>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 1,176,499,262.52	\$ 1,530,240,925.28
2. Recoveries of prior year unpaid obligations	1,185,282,425.74	1,080,953,853.16
3. Budget authority		
3.A. Appropriation	454,821,000.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	9,581,305,784.23	2,261,236,099.30
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	10,258,533,870.57	9,857,439,297.88
3.D.1.b. Change in receivables from Federal sources	(93,616,365.45)	75,768,669.75
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	36,153,815.71	21,036,286.69
3.D.2.b. Without advance from Federal sources	444,206,008.72	656,942,665.29
3.D.3. Anticipated for rest of year, without advances	541,142,022.54	487,784,123.63
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<hr/> 21,222,546,136.32	<hr/> 13,360,207,142.54
4. Nonexpenditure transfers, net, anticipated and actual	0.00	(65,944,000.00)
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(7,601,486,136.32)	0.00
7. Total Budgetary Resources	<hr/> <hr/> \$ 15,982,841,688.26	<hr/> <hr/> \$ 15,905,457,920.98

Department of Defense
Army Working Capital Fund
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	\$ 0.00	\$ 0.00
8.B. Reimbursable	12,070,828,436.69	12,873,115,985.79
8.C. Subtotal	<u>12,070,828,436.69</u>	<u>12,873,115,985.79</u>
9. Unobligated balance:		
9.A. Apportioned	3,912,013,251.57	3,032,341,935.19
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>3,912,013,251.57</u>	<u>3,032,341,935.19</u>
10. Unobligated balance not available	0.00	0.00
11. Total status of budgetary resources	<u>\$ 15,982,841,688.26</u>	<u>\$ 15,905,457,920.98</u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	10,331,508,447.06	8,953,394,819.82
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ (4,181,756,579.12)</u>	<u>\$ (4,985,315,041.54)</u>
12.C. Total unpaid obligated balance	6,149,751,867.94	3,968,079,778.28
13. Obligations incurred net (+/-)	<u>\$ 12,070,828,436.69</u>	<u>\$ 12,873,115,985.79</u>
14. Less: Gross outlays	(10,611,323,592.34)	(10,052,325,476.68)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(1,185,282,425.74)</u>	<u>(1,080,953,853.16)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(350,589,643.27)	(732,711,335.04)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	10,605,730,865.67	10,693,231,475.77
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(4,532,346,222.39)</u>	<u>(5,718,026,376.58)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>6,073,384,643.28</u>	<u>4,975,205,099.19</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	10,611,323,592.34	10,052,325,476.68
19.B. Less: Offsetting collections	(10,294,687,686.28)	(9,878,475,584.57)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
19.D. Net Outlays	<u>\$ 316,635,906.06</u>	<u>\$ 173,849,892.11</u>

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
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NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
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	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	0.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<hr/> 0.00	<hr/> 0.00
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	0.00	0.00
7. Total Budgetary Resources	<hr/> <hr/> \$ 0.00	<hr/> <hr/> \$ 0.00

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
	<hr/>	<hr/>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 12,070,828,436.69	\$ 12,873,115,985.79
2. Less: Spending authority from offsetting collections and recoveries (-)	(11,830,559,755.29)	(11,692,140,772.77)
3. Obligations net of offsetting collections and recoveries	240,268,681.40	1,180,975,213.02
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	<hr/> 240,268,681.40	<hr/> 1,180,975,213.02
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(337,464.00)	0.00
8. Imputed financing from costs absorbed by others	116,080,972.54	110,721,033.95
9. Other (+/-)	(112,947,396.85)	0.00
10. Net other resources used to finance activities	<hr/> 2,796,111.69	<hr/> 110,721,033.95
11. Total resources used to finance activities	<hr/> \$ 243,064,793.09	<hr/> \$ 1,291,696,246.97
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 (-)	622,270,571.50	(1,767,711,089.18)
12b. Unfilled Customer Orders	480,359,824.43	677,978,951.98
13. Resources that fund expenses recognized in prior periods	(3,904,099.64)	(5,564,845.44)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	(7,148,906,736.79)	(6,116,253,945.53)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	113,284,860.85	0.00
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ (5,936,895,579.65)	<hr/> \$ (7,211,550,928.17)
18. Total resources used to finance the net cost of operations	<hr/> \$ (5,693,830,786.56)	<hr/> \$ (5,919,854,681.20)

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
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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	10,418,162.99	52,299,932.70
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 10,418,162.99	<hr/> 52,299,932.70
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	67,514,980.94	54,071,784.23
26. Revaluation of assets or liabilities (+/-)	528,677,435.93	557,518,406.96
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	4,433,911,182.56	4,209,372,965.53
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(386,739,590.12)	(386,432,349.72)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 4,643,364,009.31	<hr/> 4,434,530,807.00
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ 4,653,782,172.30	<hr/> \$ 4,486,830,739.70
30. Net Cost of Operations	<hr/> \$ (1,040,048,614.26) <hr/>	<hr/> \$ (1,433,023,941.50) <hr/>

Note 1.	Significant Accounting Policies
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1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army Working Capital Fund (AWCF), as required by the Chief Financial Officers Act of 1990, amended by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of AWCF in accordance with the Department of Defense (DoD) Financial Management Regulation, Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and to the extent possible, Federal generally accepted accounting principles (Federal GAAP).

The accompanying financial statements account for all resources for which AWCF is responsible. Under the above guidance, classified assets, programs, and operations have been excluded from the statement, or otherwise aggregated and reported, in such a manner that they are no longer classified. The AWCF financial statements are in addition to the financial reports also prepared by AWCF pursuant to OMB directives that are used to monitor and control AWCF use of budgetary resources.

The AWCF is unable to fully implement all elements of Federal GAAP and OMB Circular A-136 due to limitations of its financial and nonfinancial management processes and systems. The Army derives its reported values and information for major asset and liability categories largely from nonfinancial feeder systems, such as inventory and logistics systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of Federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, AWCF cannot currently implement every aspect of Federal GAAP and OMB Circular A-136. The AWCF continues to implement processes and system improvements addressing the limitations of its financial and nonfinancial feeder systems. As of year-end fiscal year (FY) 2005, AWCF has eight auditor identified financial statement material weaknesses: (1) financial management systems and processes, (2) inventory, (3) general property, plant, and equipment, (4) intragovernmental transactions and eliminations, (5) accounting adjustments, (6) accounts payable, (7) Statement of Net Cost, and (8) Statement of Financing.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

1.B. Mission of the Reporting Entity

The AWCF is part of the Defense Working Capital Fund, and is divided into two separate business areas: Supply Management and Industrial Operations. These business areas ensure delivery of critical items, such as petroleum products, repair parts, consumable supplies, depot maintenance services, munitions and weapons to support the deployment and projection of lethal force as and when required by the nation.

1.C. Appropriations and Funds

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

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

1.D. Basis of Accounting

The AWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. For FY 2006, AWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many AWCF financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for Federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

The AWCF has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the US Standard General Ledger (USSGL). At this time, not all AWCF accounting systems are USSGL compliant. In addition, with the full implementation of the Logistics Modernization Program (LMP), AWCF will be in compliance with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." As of December 31, 2003, LMP has been implemented at Tobyhanna Army Depot, Communications–Electronics Command, and other Army Materiel Command activities. Until LMP is fully implemented and all of the processes are updated to collect and report

financial information as required by Federal GAAP, some of AWCF financial data will be based on budgetary transactions (obligations, disbursements, collections), and nonfinancial feeder systems. For example, most financial information presented on the Statement of Net Costs is based on accrued costs; however, some of the financial information is based on obligations and disbursements.

In addition, the Army identifies programs based upon the major appropriation groups provided by Congress. The Army does not, however, accumulate costs for major programs based on performance measures because its financial processes and systems do not account for costs in line with established measures. The Army is reviewing available data and attempting to develop a cost reporting methodology that provides the cost information required by the SFFAS No. 4.

1.E. Revenues and Other Financing Sources

The AWCF Industrial Operations activities recognize revenue according to the percentage of completion method. Supply Management activities recognize revenue when an inventory item is sold. Prices set for products and services offered through AWCF are intended to recover the full costs (cost plus administrative fees) incurred by these activities. Unearned revenue is recorded as deferred revenue until earned.

Other financing sources reported by AWCF do not include nonmonetary support provided by our allies for common defense and mutual security. The United States has agreements with foreign countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is serviced in a port. The DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in AWCF financial statements in accordance with Federal GAAP. Recognition of support provided by host nations would affect both financing sources and expense recognition.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because AWCF financial and nonfinancial 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 and accounts payable. Expenditures for capital and other long-term assets are not recognized as expenses in AWCF operations until depreciated, as in the case of property, plant and equipment (PP&E). Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

The AWCF adjusted operating expenses as a result of the elimination of balances between DoD Components. See Note 18, Disclosures Related to the Statement of Net Cost, for disclosure of elimination amounts.

1.G. Accounting for Intragovernmental Activities

The AWCF, as an agent of the Federal government, interacts with and is dependent upon the financial activities of the Federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to AWCF as though it was a stand alone entity.

The AWCF proportionate share of public debt and related expenses of the Federal government are not included. Debt issued by the Federal government and the related costs are not apportioned to Federal agencies. The AWCF financial statements, therefore, do not report any portion of the public debt or interest, nor do the financial 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 budget appropriations. To the extent this financing may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of Treasury does not allocate such interest costs to the benefiting agencies.

The AWCF civilian employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement Systems (FERS). Employees and personnel covered by FERS also have varying coverage under Social Security. The AWCF funds a portion of civilian and military pensions. Reporting civilian pensions under CSRS and FERS is the responsibility of the Office of Personnel Management (OPM). The AWCF recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by OPM in the Statement of Net Cost and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

To prepare reliable financial statements, transactions occurring between components or activities within AWCF must be eliminated for consolidated financial reporting purposes. However, AWCF cannot accurately identify all intragovernmental transactions by its related components or activities because AWCF systems do not track buyer and seller data needed to match related transactions. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of AWCF. Beginning in FY 1999, seller entities within AWCF provided summary seller-side balances for revenue, accounts receivable, transfers-in/out, and unearned revenue to the buyer-side internal AWCF accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. The AWCF intragovernmental balances are then eliminated. The DoD and AWCF are developing long-term system 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 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 the DoD and other Federal agencies. In

September 2000, the FMS issued the “Federal Intragovernmental Transactions Accounting Policies and Procedures Guide.” The AWCF was not able to fully implement the policies and procedures in this Guide relating to reconciling intragovernmental assets, liabilities, revenues, and expenses for nonfiduciary transactions. However, AWCF was able to implement the policies and procedures contained in the “Intragovernmental Fiduciary Transactions Accounting Guide,” as updated by the “Federal Intragovernmental Transactions Accounting Policies and Procedures Guide” issued in October 2002 for reconciling intragovernmental transactions. These transactions pertain to Federal Employees’ Compensation Act transactions with the Department of Labor and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

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

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

The Department of the Treasury accounts maintain AWCF monetary financial resources. The DFAS, Military Services, U.S. Army Corps of Engineers (USACE) disbursing stations as well as the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments for the Federal government worldwide. Each disbursing station prepares monthly reports that provide information to the Department of the Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

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

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivables from other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise from the provision of goods and services to state, local, and foreign governments. Refunds receivable, however, are overpayments by the Federal government in the process of being collected. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances by fund type. The AWCF methodology recognizes an allowance of 50 percent for all nonfederal debt between 180 days and two years old and a 100 percent allowance for all nonfederal debt over two years old. The allowance is updated annually, based on the aged accounts receivable at the end of the 2nd Quarter. The AWCF 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 Code of Federal Regulations 4 CFR 101. Material disclosures are provided in Note 5, Accounts Receivable.

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

The inventory reported in AWCF financial statements is not all valued using the same valuation method. The AWCF inventories are reported using the Latest Acquisition Cost (LAC), which approximates historical cost, adjusted for holding gains and losses, and Moving Average Cost (MAC), which computes a new average cost each time a purchase is made. The AWCF uses LAC method because its inventory systems were designed for material management rather than accounting, except for activities that have transitioned to LMP. The systems provide accountability and visibility over inventory items. They do not maintain the exact historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property," nor can they directly produce financial transactions using USSGL, as required by the Federal Financial Management Improvement Act of 1996. The AWCF transition to LMP will also allow the use of a MAC methodology for valuing inventory that, when fully implemented, will allow AWCF to comply with SFFAS No. 3. (See Note 9, Inventory and Related Property).

SFFAS No. 3 distinguishes between inventory held for sale and inventory held in reserve for future sale. There is no management or valuation difference between the two USSGL accounts. Further, DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial

parallel. The AWCF holds material based on military need and support for contingencies. Therefore, AWCF does not attempt to account separately for items held for current or future sale.

In accordance with new DoD policy, the Army accounts for condemned material as excess, obsolete, and unserviceable. The net value of this type of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as excess, obsolete, and unserviceable, is included in held for use or held for repair categories according to its condition.

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

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

Not applicable.

1.O. General Property, Plant and Equipment

General Property, Plant & Equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds DoD capitalization threshold. The capitalizations threshold was revised from \$100 thousand to \$20 thousand for real property. The current \$100 thousand capitalization threshold remained unchanged for the remaining General PP&E categories. The Army will validate existing real property values and implement sustainable business processes prior to incorporating the revised capitalization threshold for financial statement reporting. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of \$15 thousand, \$25 thousand, and \$50 thousand for FY 1993, FY 1994, and FY 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on AWCF financial statements.

For AWCF activities, all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. Heritage Assets and Stewardship Land owned or maintained on AWCF installations are reported in the Required Supplemental Stewardship Information Report of the applicable military department. Material disclosures are provided in Note 10, General PP&E, Net.

Internal use software is capitalized at cost if the acquisition cost is \$100 thousand or more. For commercial off-the-shelf software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and

indirect) incurred during the software development stage. The estimated useful life for calculating amortization of software is two to five years using the straight-line method.

1.P. Advances and Prepayments

The AWCF records payments made prior to the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. The AWCF recognizes advances and prepayments as expenses when it receives the related goods and services.

1.Q. Leases

Not applicable.

1.R. Other Assets

The AWCF 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, AWCF provides financing payments. Real property financing payments are based upon a percentage of completion. In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in progress and are reported on the General PP&E line on the Balance Sheet and in Note 10, General PP&E, Net.

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

1.S. Contingencies and Other Liabilities

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 to AWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. The AWCF recognizes contingent 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. Loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The AWCF 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.

1.T. Accrued Leave

The AWCF reports as liabilities civilian annual 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. Net Position

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

Cumulative results of operations for AWCF represents the excess of revenues over expenses less refunds to customers and returns to the Department of the Treasury since fund inception. Beginning with FY 1998, the cumulative results also include donations and transfers-in/out of assets without reimbursement.

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Comparative Data

The financial statements and accompanying notes to the financial statements report the financial position and results of operations as of the end of the 3rd Quarter, FY 2006. The DoD requires disclosure of variances exceeding 10 percent (when comparing prior year and current year statements) or two percent of total assets. The required disclosure threshold applies only to the Balance Sheet and Statement of Net Cost. In addition, the DoD requires variance disclosure on some items not directly linked to the Balance Sheet or Statement of Net Cost.

1.X. Unexpended Obligations

The AWCF 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 or services not yet delivered.

1.Y. Undistributed Disbursements and Collections

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

payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between Federal and nonfederal categories based on the percentage of Federal and nonfederal accounts payable and accounts receivable. The AWCF records unsupported undistributed disbursements in accounts payable and unsupported undistributed collections in other liabilities.

1.Z. Logistics Modernization Program

The LMP is a key component in the Army's major transformation to become more responsive, deployable, agile, versatile, lethal, survivable, and sustainable. The LMP solution will provide an integrated logistics management capability that enables total asset visibility; enhanced decision support; a collaborative planning environment; a single, actionable source of data; improved forecasting accuracy; and real-time, easy access to enterprise-wide information. Since its implementation in July, 2003, AWCF has experienced data conversion problems from legacy accounting and logistics systems to LMP. These issues have presented many challenges that are reflected throughout AWCF financial statements as adjustments, corrections, and footnote disclosures. The AWCF has developed a specific plan to address the financial and inventory management problems recognized in these statements.

Note 2.	Nonentity Assets
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As of June 30	2006	2005
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 20,580,285,391.39	\$ 18,466,317,818.84
5. Total Assets	\$ 20,580,285,391.39	\$ 18,466,317,818.84

Nonentity Assets are assets held by an entity but are not available for use in the operations of the entity. The Army Working Capital Fund does not have nonentity assets.

Note Reference

For additional line item discussion, see:
 Note 3, Fund Balance with Treasury
 Note 5, Accounts Receivable
 Note 6, Other Assets
 Note 9, Inventory and Related Property
 Note 10, General PPE, Net

Note 3.	Fund Balance with Treasury
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As of June 30	2006	2005
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	761,515,612.08	708,669,539.05
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	<u>\$ 761,515,612.08</u>	<u>\$ 708,669,539.05</u>
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 761,515,612.08	\$ 708,669,539.05
B. Fund Balance per AWCF	761,515,612.08	708,669,539.05
3. Reconciling Amount	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Status of Fund Balance with Treasury

As of June 30	2006	2005
1. Unobligated Balance		
A. Available	\$ 3,370,871,229.03	\$ 2,544,557,811.56
B. Unavailable	0.00	0.00
2. Obligated Balance not yet Disbursed	\$ 10,605,730,865.67	\$ (1,835,888,272.51)
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (13,215,086,482.62)	\$ 0.00
5. Total	\$ 761,515,612.08	\$ 708,669,539.05

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

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

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

Nonbudgetary FBWT includes entity and nonentity FBWT 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 FBWT, such as contract authority, borrowing authority and investment accounts. This category reduces the Status of Fund Balance with Treasury.

Fluctuations and/or Abnormalities

Unobligated Balance available increased \$826.3 million, or 32 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. This change is attributable to decreased obligations in FY 2006 for inventory replacement primarily in the Supply Management business area. Obligations in previous years contribute to current period inventory increases on the balance sheet. Because of the increased inventory levels, AWCF did not need to obligate funds for additional inventory purchases during this reporting period.

The Obligated Balance not yet Disbursed increased \$12.4 billion, or 678 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. This increase is attributable to a presentation change effective

4th Quarter, FY 2005, which moved all NonFBWT budgetary accounts from this line to the NonFBWT Budgetary Accounts line.

NonFBWT Budgetary Accounts decreased \$13.2 billion to zero from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. This decrease is attributable to a presentation change in FY 2006 which moved all NonFBWT budgetary accounts to this line from the obligated balance not yet disbursed line.

Note Reference

For additional line item discussion, see:
Note 20, Disclosures Related to the Statement of Budgetary Resources

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	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

The Suspense/Budget Clearing Accounts shown above are maintained and reported by the Army General Fund. Some transactions relating to AWCF may be in suspense accounts, but are not identifiable. When they are identified to AWCF, they will be transferred from the suspense/clearing account to the correct Department of the Treasury appropriation.

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)	\$ 35,188,000.00	\$ 3,086,291.41	\$ 57,153,154.45	54,066,863.04
B. Negative Unliquidated Obligations (NULO)	2,681,000.00	4,887,598.30	4,117,202.90	(770,395.40)
2. Total In-transit Disbursements, Net	\$ 210,868,000.00	\$ 171,966,793.82	\$ 239,499,089.59	67,532,295.77

Definitions

An Unmatched Disbursement (UMD) occurs when a payment does not match 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).

A Negative Unliquidated Obligation (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.

In-transit Disbursements represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but have not been posted in an accounting system.

Fluctuations and/or Abnormalities

Unmatched Disbursements (UMD) increased \$54.1 million or 1,752 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The AWCF receives contract payment interface files from the Mechanization of Contract Administration Services (MOCAS) and records the disbursements in AWCF accounting records. During the 3rd Quarter, FY 2006, modifications to the contract payment interface file were made to enable AWCF to validate contract payments at the contract line item level. Previously, AWCF validated contract payments at the contract level. As a result of this change, payments that cannot be matched at the contract line item level are now reported as a UMD.

Negative Unliquidated Obligations (NULO) decreased \$770.4 thousand or 16 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The decrease is also associated with the modifications to the contract payment interface file process to prevent recording of duplicate payments in AWCF accounting records. Previously, duplicate disbursements would be recorded, which created NULO. This improvement allows AWCF to review and validate those payments prior to processing which decreases NULO balance.

In-transits Disbursements increased \$67.5 million or 39 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The increase is attributed to late receipt of June 2006 MOCAS contract payment interface files.

Note 4.	Investments and Related Interest
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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	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total					
Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00

2. Other Investments

A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
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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	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total					
Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00

4. Other Investments

A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
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Not applicable.

Note 5.	Accounts Receivable
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As of June 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 315,892,404.52	N/A	\$ 315,892,404.52	\$ 506,221,621.68
2. Nonfederal Receivables (From the Public)	\$ 16,675,519.60	\$ (6,697,234.50)	\$ 9,978,285.10	\$ 18,663,687.07
3. Total Accounts Receivable	\$ 332,567,924.12	\$ (6,697,234.50)	\$ 325,870,689.62	\$ 524,885,308.75

Allowance Method

The Army Working Capital Fund (AWCF) recognizes an allowance of 50 percent for all nonfederal debt between 180 days and two years old and a 100 percent allowance for all nonfederal debt over two years old. The allowance is updated annually based on the aged accounts receivable at the end of the 2nd Quarter.

Fluctuations and/or Abnormalities

Intragovernmental Receivables decreased \$190.3 million, or 38 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The majority of the decrease, \$129.0 million, is attributable to a change in billing criteria in the Supply Management business area. During the 3rd Quarter, FY 2006 AWCF accelerated the billing cycle. Previously, AWCF did not bill the customer until seven days after preparation of the material release order. The customer is now billed after two days. In addition, accounts receivable decreased in the Industrial Operations business area by \$20.4 million at Red River Army Depot due to reduced work ordered by the Army General Fund.

Nonfederal Receivables, net decreased \$8.7 million or 47 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The decrease is attributable to a decrease in outstanding Foreign Military Sales (FMS) receivables in the Supply Management business area. These FMS customers are now billed two days after the preparation of the material release order as described in the paragraph above.

The AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, AWCF was unable to reconcile intragovernmental accounts receivable balances with its trading partners' accounts payable balances. The DoD intends to develop long-term systems improvements that will address this issue.

Aged Accounts Receivable

As of June 30	2006		2005	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 290,451,211.00	\$ 10,444,943.00	\$ 513,786,843.00	\$ 17,127,476.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 7,693,700.00	\$ 508,615.00	\$ 0.00	\$ 0.00
31 to 60 days	1,516,890.00	12,948.00	0.00	0.00
61 to 90 days	127,817.00	77,404.00	755,960.00	463,910.00
91 to 180 days	154,716.00	280,521.00	2,639,701.00	3,711,453.00
181 days to 1 year	1,471,318.00	73,981.00	4,765,900.00	131,709.00
Greater than 1 year and less than or equal to 2 years	138,524.00	3,755,159.00	86,202.00	161,368.00
Greater than 2 years and less than or equal to 6 years	173,185.00	3,447.00	26,880.00	153,703.00
Greater than 6 years and less than or equal to 10 years	0.00	7,016.00	0.00	584,108.00
Greater than 10 years	0.00	1,511,486.00	0.00	3,027,195.00
Subtotal	\$ 301,727,361.00	\$ 16,675,520.00	\$ 522,061,486.00	\$ 25,360,922.00
Less Supported Undistributed Collections	27,799,701.00	0.00	0.00	0.00
Less Eliminations	(13,634,657.00)	0.00	(15,839,864.00)	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 315,892,405.00	\$ 16,675,520.00	\$ 506,221,622.00	\$ 25,360,922.00

The table above identifies aged accounts receivable groups for AWCF at the end of the 3rd Quarter, FY 2006 as reported in AWCF Monthly Report on Receivables (MRR).

The balance of \$27.8 million reported as supported undistributed collections is abnormal. This abnormality is due to differences between the Department of the Treasury and AWCF field reported collections. The majority of these collections were previously reported by the former Army Information Services business area which closed at the end of FY 2003. The AWCF did not properly close out and transfer existing collection balances to the Supply Management business area. Prior to this period, MRR did not separately identify these supported undistributed collections and incorrectly included them in the current accounts receivable balance. While MRR reporting error has been corrected, AWCF is still working to resolve the abnormal balance.

Relevant Information for Comprehension

Nondelinquent Accounts Receivable are receivables not yet due under the contract or billing document pertaining to the receivable. Current Nondelinquent accounts receivable are those that are due in the next 12 months. Noncurrent Nondelinquent accounts receivable are those amounts that are due beyond the next 12 months. Delinquent accounts receivable are aged from the date in which the account is considered delinquent.

The majority of accounts receivable from Federal sources are in a current status. The AWCF follows DoD concept of operations for collections. This requires follow-up actions at 30-day intervals with ordering activities.

The majority of accounts receivable due from the public are in a current status. Delinquent accounts receivable from the public includes \$3.7 million in disputed billings pending resolution. Further, \$346.6 thousand has been referred to the Department of the Treasury for collection and \$667.3 thousand has been referred to the Department of Justice for legal action. The remaining debt of \$1.5 million is being actively pursued by AWCF in accordance with the Debt Collection Improvement Act of 1996.

Note Reference

For additional line item discussion, see:
Note 1.K, Significant Accounting Policies
Note 12, Accounts Payable
Note 15, Other Liabilities

Note 6.	Other Assets
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As of June 30	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 8,191,546.66	\$ 70,710.85
B. Total Intragovernmental Other Assets	\$ 8,191,546.66	\$ 70,710.85
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 360,598,551.37	\$ 287,448,878.55
B. Other Assets (With the Public)	58,187.91	(1,333,087.26)
C. Total Nonfederal Other Assets	\$ 360,656,739.28	\$ 286,115,791.29
3. Total Other Assets	\$ 368,848,285.94	\$ 286,186,502.14

Fluctuations and/or Abnormalities

Intragovernmental Other Assets increased \$8.1 million, or 11,485 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The entire balance in intragovernmental other assets advances and prepayments is based upon unearned revenue reported by the Defense Reutilization and Marketing Office (DRMO). This unearned revenue is for task orders issued by DRMO to contractors for anticipated hazardous waste removal work in the Supply Management business area. This account balance is dictated by trading partner seller-side rules, therefore AWCF must report \$8.1 million as an advance.

Nonfederal Other Assets increased \$74.5 million or 26 percent from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The majority of this increase is attributable to outstanding contract financing payments which increased \$73.1 million. This increase is attributable to payments made to Raytheon Corporation by the Communications-Electronics Command (CECOM) for centrifugal fans, circuit card assemblies, and laser range finders. CECOM also made payments to Litton Systems, Inc. for image intensifiers. These payments began in the 4th Quarter, FY 2005.

Other Assets (With the Public) consists of travel advances and prepaid expenses.

The AWCF is unable to compare its other assets balances with the corresponding balances of its Intragovernmental trading partners.

Note Reference

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

Note 7.	Cash and Other Monetary Assets
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As of June 30	2006	2005
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency	0.00	0.00
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

Not applicable.

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

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Direct Loans Obligated After FY 1991

As of June 30	2006	2005
Loan Programs		
1. Military Housing Privatization Initiative		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
2. Total Loans Receivable	\$ 0.00	\$ 0.00

Total Amount of Direct Loans Disbursed

As of June 30	2006	2005
Direct Loan Programs		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
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	\$ 0.00	\$ 0.00			

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	0.00%	0.00%	0.00%	0.00%	0.00%

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	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 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	\$ 0.00	\$ 0.00
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	\$ 0.00	\$ 0.00

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

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	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of June 30	2006	2005
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. 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
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	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

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%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees
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As of June 30	2006	2005
1. Beginning Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00
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	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	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	\$ 0.00	\$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$ 0.00	\$ 0.00
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	\$ 0.00	\$ 0.00

Army Working Capital Fund

Administrative Expenses

Note 9.	Inventory and Related Property
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As of June 30	2006	2005
1. Inventory, Net	\$ 17,899,278,739.81	\$ 15,721,257,531.84
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 17,899,278,739.81	\$ 15,721,257,531.84

Inventory, Net

As of June 30	2006			2005	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
1. Inventory Categories					
A. Available and Purchased for Resale	\$ 20,063,641,036.01	\$ (5,382,021,840.32)	14,681,619,195.69	\$ 13,130,417,269.70	LAC,MAC
B. Held for Repair	4,883,721,318.47	(1,717,379,387.27)	3,166,341,931.20	2,569,804,953.60	LAC,MAC
C. Excess, Obsolete, and Unserviceable	541,976,939.84	(541,976,939.84)	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	0.00	0.00	0.00	(1,737,611.55)	AC
F. Total	\$ 25,540,656,907.24	\$ (7,641,378,167.43)	17,899,278,739.81	\$ 15,721,257,531.84	

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

2. Restrictions of Inventory Use, Sale, or Disposition:

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

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

There are no restrictions on disposition of inventory as related to environmental or other liabilities.

3. Other Information:

Definitions

Inventory – spare and repair parts, clothing and textiles, petroleum products, and ammunition.

Inventory Held for Repair – damaged material held as inventory that is more economical to repair than to dispose of.

Excess, Obsolete, and Unserviceable Inventory – condemned materiel that must be retained for management purposes.

Raw Materials – items consumed in the production of goods for sale or in the provision of services for a fee.

Work in Process – munitions in production and maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

Fluctuations and/or Abnormalities

Total Inventory increased \$2.2 billion, or 14 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. This increase is detailed in the paragraphs below.

The Inventory Available and Purchased for Resale increased \$1.6 billion, or 12 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. Approximately \$1.0 billion of the increase is attributable to several performance based logistics contracts established by the Aviation and Missile Command in FY 2004 and FY 2005 to accelerate the replenishment of inventory. The contracts with General Electric Company and Honeywell supply various engines and Sikorsky Aircraft Corporation and Boeing supply airframes and component parts. These contracts will last for another three to five years. Also, the Tank-automotive and Armaments Command has increased inventory levels by \$823.4 million in support of Operation Iraqi Freedom and Operation Enduring Freedom.

Work in Process (WIP) increased \$1.7 million to zero from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. More specifically the abnormal balance occurred in 3rd Quarter, FY 2005, at Watervliet Arsenal and is attributable to the difference between their cost estimate and the actual cost incurred for WIP. Watervliet Arsenal uses their own cost estimating system which utilizes standard cost, with variances. Abnormal balances occur when their initial estimate falls short of covering actual costs. During the 4th Quarter, FY 2005, Watervliet Arsenal corrected cost estimating processes by distributing all gains and losses on a monthly basis to achieve a zero work in process balance. This enables billing all costs at month end to be consistent with standard business practices. The Arsenal did not report any value for WIP in 3rd Quarter, FY 2006.

Note Reference

For additional line item discussion, see:
Note 18, Consolidated Cost and Earned Revenue

Operating Materials and Supplies, Net

As of June 30	2006			2005		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
1. OM&S Categories						
A. Held for Use	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses NRV = Net Realizable Value
 SP = Standard Price O = Other
 AC = Actual Cost

Restrictions of Operating Materials and Supplies Use, Sale, or Disposition:

Not applicable

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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
 SP = Standard Price
 AC = Actual Cost

NRV = Net Realizable Value
 LCM = Lower of Cost or Market
 O = Other

Restrictions of Stockpile Materials Use, Sale, or Disposition:

Not applicable

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	\$ 0.00	N/A	\$ 0.00	\$ 0.00	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	2,210,102,889.84	\$ (1,420,864,968.27)	789,237,921.57	821,630,970.20	
C. Leasehold Improvements	S/L	lease term	95,213,296.87	(78,350,622.60)	16,862,674.27	19,443,563.18	
D. Software	S/L	2-5 Or 10	371,208,717.97	(308,167,276.12)	63,041,441.85	79,128,347.46	
E. General Equipment	S/L	5 or 10	1,533,511,193.34	(1,240,722,550.61)	292,788,642.73	266,586,224.94	
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00	
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00	
H. Construction-in- Progress	N/A	N/A	62,841,383.52	N/A	62,841,383.52	38,529,831.28	
I. Other			0.00	0.00	0.00	0.00	
J. Total General PP&E			<u>\$ 4,272,877,481.54</u>	<u>\$ (3,048,105,417.60)</u>	<u>\$ 1,224,772,063.94</u>	<u>\$ 1,225,318,937.06</u>	

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Other Disclosures

There are no known restrictions on the use or convertibility of the Army Working Capital Fund (AWCF) general property, plant, and equipment.

The entire amount shown on the Leasehold Improvements line is for improvements made to facilities at Corpus Christi Army Depot (CCAD). The CCAD, a tenant on a Navy installation, does not maintain a lease with the Navy. The AWCF records improvements made on these facilities as leasehold improvements.

The AWCF does not report any property, plant, and equipment categorized as heritage assets and stewardship land.

Note Reference

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

Assets Under Capital Lease

As of June 30	2006	2005
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	\$ 0.00	\$ 0.00

Other Disclosures

The CCAD is a tenant on a Navy installation, but does not maintain a lease with the Navy. Improvements made on these facilities are recorded as leasehold improvements.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	43,349,296.44	44,518,759.12
D. Total Intragovernmental Liabilities	\$ 43,349,296.44	\$ 44,518,759.12
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	286,523,171.16	304,976,189.04
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	119,158,840.06
E. Total Nonfederal Liabilities	\$ 286,523,171.16	\$ 424,135,029.10
3. Total Liabilities Not Covered by Budgetary Resources	\$ 329,872,467.60	\$ 468,653,788.22
4. Total Liabilities Covered by Budgetary Resources	\$ 1,661,712,704.15	\$ 702,690,526.46
5. Total Liabilities	\$ 1,991,585,171.75	\$ 1,171,344,314.68

Intragovernmental Other Liabilities includes future funded Federal Employees Compensation Act liabilities with Department of Labor.

Nonfederal Other Liabilities includes the liability for unfunded leave.

Fluctuations and/or Abnormalities

Liabilities Not Covered by Budgetary Resources decreased by \$138.8 million or 30 percent due to a \$119.2 million decrease in the Army Working Capital Fund (AWCF) unfunded leave liability. During 2nd Quarter, FY 2005, AWCF reported annual leave as a not covered by budgetary resources liability due to systems reporting limitations. In 4th Quarter, FY 2005, these reporting limitations were resolved and the liability is properly reported as unfunded covered by budgetary resources. The AWCF accrues annual leave liability when it is earned, but does not obligate until it is used. Therefore, the liability is reported as an unfunded liability covered by budgetary resources.

Note Reference

For additional line item discussion, see:

Note 12, Accounts Payable

Note 15, Other Liabilities

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

Note 12.	Accounts Payable
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As of June 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 126,339,769.07	\$ N/A	\$ 126,339,769.07	\$ 170,015,318.65
2. Nonfederal Payables (to the Public)	640,500,310.83	2,306.98	640,502,617.81	328,184,450.60
3. Total	<u>\$ 766,840,079.90</u>	<u>\$ 2,306.98</u>	<u>\$ 766,842,386.88</u>	<u>\$ 498,199,769.25</u>

Fluctuations and/or Abnormalities

Intragovernmental Payables decreased \$43.7 million, or 26 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. This change is attributable to decreased activity with trading partners, primarily the Navy General Fund and the Defense Logistics Agency.

Nonfederal Payables increased \$312.3 million, or 95 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. In 3rd Quarter, FY 2005, the Nonfederal Payables amount included over \$240.0 million of offsetting negative accounts payable due to Logistics Modernization Program (LMP) data migration problems at the Communications-Electronics Command (CECOM). This caused the reported amount of Nonfederal Payables, primarily in two CECOM limits, AC6E and AC9E, to be understated. The abnormal balance of limit AC6E peaked in 1st Quarter, FY 2006, at \$166.5 million. This abnormal balance was reduced by \$72.7 million between 1st Quarter, FY 2006 and 2nd Quarter, FY 2006 and was reduced by an additional \$94.0 million between 2nd Quarter, FY 2006 and 3rd Quarter, FY 2006. As of 3rd Quarter, FY 2006, limit AC6E had a normal balance of \$254 thousand. The other abnormal balance exists in limit AC9E, which peaked at \$174.3 million in 2nd Quarter, FY 2006. This abnormal balance was reduced by \$130.1 million in 2nd Quarter, FY 2006. At the end of 3rd Quarter, FY 2006, limit AC9E has an abnormal balance of \$44.2 million.

Note Reference

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

Note 13.	Debt
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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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 14.	Environmental Liabilities and Disposal Liabilities
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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)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	0.00	0.00	0.00	0.00
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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.	0.00	0.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Note 15.	Other Liabilities
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As of June 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,363,038.92
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	21,674,648.22	21,674,648.22	43,349,296.44	44,518,759.12
F. Other Liabilities	4,619,907.21	0.00	4,619,907.21	11,998,399.50
G. Total Intragovernmental Other Liabilities	\$ 26,294,555.43	\$ 21,674,648.22	\$ 47,969,203.65	\$ 63,880,197.54
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 117,264,984.71	\$ 0.00	\$ 117,264,984.71	\$ 84,316,837.34
B. Advances from Others	93,321,316.51	0.00	93,321,316.51	47,576,074.25
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(898,736.63)	0.00	(898,736.63)	(885,330.68)
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) National Defense PP&E (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
(4) Other	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	106,174,631.46	0.00	106,174,631.46	119,158,840.06
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	574,388,214.01	0.00	574,388,214.01	54,121,737.88
J. Total Nonfederal Other Liabilities	\$ 890,250,410.06	\$ 0.00	\$ 890,250,410.06	\$ 304,288,158.85
3. Total Other Liabilities	\$ 916,544,965.49	\$ 21,674,648.22	\$ 938,219,613.71	\$ 368,168,356.39

Fluctuations and/or Abnormalities

Intragovernmental Other Liabilities decreased \$15.9 million, or 25 percent due primarily to the following reasons:

Intragovernmental Advances from others decreased \$7.4 million to zero from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. In 3rd Quarter, FY 2005, the Army Working Capital Fund (AWCF) reported invalid advances from others, which were attributed to Army General Fund. In 3rd Quarter, FY 2006, the AWCF eliminated these balances by reporting them as internal transactions. This procedure was not in place until 1st Quarter, FY 2006.

Intragovernmental Other Liabilities decreased \$7.4 million, or 62 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. The change is a result of decreased employee benefit liabilities as reported by the Office of Personnel Management. The decrease is attributed to a change in the accrual period from 14 days in 3rd Quarter 2005 to 5 days in 3rd Quarter, FY 2006.

Nonfederal Other Liabilities increased \$586.0 million, or 193 percent, from 3rd Quarter, FY 2005 to 3rd Quarter, FY 2006. Of this increase, \$520.3 million is attributable to a change in business practices whereby AWCF takes ownership of inventory and recognizes a related payment liability earlier in the supply cycle. This process was not in place until 4th Quarter, FY 2005.

Intragovernmental Other Liabilities includes employer contributions and payroll taxes payable.

Nonfederal Other Liabilities consists of inventory in-transit posted by LMP. The LMP records a liability for inventory in-transit to the Communications–Electronics Command when the vendor releases inventory and Army takes ownership.

The abnormal balance in nonfederal deposit funds and suspense accounts is due to differences between the Department of the Treasury and AWCF field reported collections. The majority of this amount results from a brought forward balance. The AWCF is working to resolve these differences.

Note Reference

For additional line item discussions, see:

Note 1.S, Significant Accounting Policies

Note 11, Liabilities Not Covered by Budgetary Resources

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

Capital Lease Liability

As of June 30

	2006				2005	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2006	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. 2007	0.00	0.00	0.00	0.00	0.00	0.00
C. 2008	0.00	0.00	0.00	0.00	0.00	0.00
D. 2009	0.00	0.00	0.00	0.00	0.00	0.00
E. 2010	0.00	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
I. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	0.00

Note 16.

Commitments and Contingencies

Relevant Information for Comprehension

The Army is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The Army has accrued contingent liabilities for legal actions where the Army's Office of the General Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. The Army records Judgment Fund liabilities in Note 15, Other Liabilities, and Note 12, Accounts Payable. See Notes 15 and 12 for details.

As of 3rd Quarter, FY 2006, the Army Working Capital Fund (AWCF) had no contingent liabilities.

The AWCF has entered into contractual arrangements that may require future use of financial resources, such as undelivered orders. As of 3rd Quarter, FY 2006, the AWCF has \$9.7 billion of undelivered orders.

Note Reference

For additional line item discussion, see:
Note 1.S, Significant Accounting Policies
Note 12, Accounts Payable
Note 15, Other Liabilities
Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 17.	Military Retirement Benefits and Other Employment Related Actuarial Liabilities
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As of June 30	2006				2005
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other					
A. FECA	\$ 286,523,171.16	4.53	\$ 0.00	\$ 286,523,171.16	\$ 304,976,189.04
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Other	\$ 286,523,171.16		\$ 0.00	\$ 286,523,171.16	\$ 304,976,189.04
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 286,523,171.16		\$ 0.00	\$ 286,523,171.16	\$ 304,976,189.04

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

Actuarial Cost Method Used: The Army's actuarial liability for Workers' Compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments.

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

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

There has been no change in actuarial liability since the previous quarter.

Actuarial liabilities are computed for employee compensation benefits as mandated by the Federal Employment Compensation Act (FECA). The Office of Personnel Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year. The Army Working Capital

Fund (AWCF) computes its portion of the total Army actuarial liability based on the percentage of AWCF FECA expense to the total Army FECA expense.

Note Reference

For additional line item discussion, see:

Note 11, Liabilities Not Covered by Budgetary Resources

Note 15, Other Liabilities

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	\$ 318,924,767.94	\$ 2,749,595,328.44
2. Public Costs	11,831,673,033.52	6,106,414,417.18
3. Total Costs	<u>\$ 12,150,597,801.46</u>	<u>\$ 8,856,009,745.62</u>
4. Intragovernmental Earned Revenue	\$ (8,275,894,497.42)	\$ (7,120,171,813.92)
5. Public Earned Revenue	(4,914,751,918.30)	(3,168,861,873.20)
6. Total Earned Revenue	<u>\$ (13,190,646,415.72)</u>	<u>\$ (10,289,033,687.12)</u>
7. Net Cost of Operations	<u>\$ (1,040,048,614.26)</u>	<u>\$ (1,433,023,941.50)</u>

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.

The Army Working Capital Fund (AWCF) is unable to reconcile its intragovernmental costs and revenues with the corresponding balances of its intragovernmental trading partners.

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

While AWCF activities generally record transactions on an accrual basis, as is required by federal generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the Consolidated Statement of Net Cost is primarily based on budgetary obligation, disbursement, or collection transactions, as well as information from non-financial feeder systems. The AWCF is in the process of upgrading its financial and logistical feeder systems to the Logistics Modernization Program (LMP) to address this issue.

The Statement of Net Cost includes expenses and other gains and losses. It does not include expenses related to capitalized purchases. Per seller side rules, intragovernmental costs, including intra-AWCF costs, are matched to the revenue reported by federal trading partners. Public costs are derived by subtracting the federal trading partner amounts from the total expenses and other gains and losses contained in AWCF accounting systems.

Beginning in 1st Quarter, FY 2006, AWCF can identify capitalized purchases reported as revenue by federal trading partners and separate those purchases from other expenses. These capitalized purchases do not appear on the Statement of Net Cost but rather are reflected within the Statement of Financing. Since public costs are derived by subtracting federal trading partner reported revenue from the total costs contained in AWCF accounting systems, a decrease in intragovernmental costs results in an increase in public costs. In the 3rd Quarter, FY 2005, the understatement of public costs and the overstatement of intragovernmental costs was \$2.5 billion.

Fluctuations and/or Abnormalities

Gross Costs increased \$3.3 billion or 37 percent between 3rd Quarter, FY 2005 and 3rd Quarter, FY 2006. The majority of the increase is due to the following accounting adjustments made in 3rd Quarter, FY 2005: (1) LMP gains and losses and (2) an elimination misstatement in FY 2005.

- In the 3rd Quarter, FY 2005, AWCF netted LMP-related gains and losses, but discontinued this practice beginning in 1st Quarter, FY 2006. This reporting change accounts for \$1.5 billion of the Gross Cost increase. Further details are contained in the Other Disclosures section below.
- In the 3rd Quarter, FY 2005, AWCF eliminated \$2.4 billion in intra-AWCF costs on the financial statements. This elimination should have only been \$1.5 billion. As a result, Gross Costs were understated by \$943.7 million last year. In 1st Quarter, FY 2006, DFAS reporting system improvements allowed AWCF to more accurately identify outside trading partners, thereby reducing the amount of intra-AWCF trading partner eliminations. In 3rd Quarter, FY 2006 the intra-AWCF costs are \$1.5 billion.

Earned Revenue increased \$2.9 billion or 28 percent between 3rd Quarter, FY 2005 and 3rd Quarter, FY 2006. The majority of the increase is due to the following accounting adjustments made in 3rd Quarter, FY 2005: (1) LMP gains and losses and (2) an elimination misstatement in FY 2005.

- In the 3rd Quarter, FY 2005, AWCF netted LMP-related gains and losses, but discontinued this practice beginning in 1st Quarter, FY 2006. This reporting change accounts for \$1.5 billion of the Earned Revenue increase. Further details are contained in the Other Disclosures section below.
- In the 3rd Quarter, FY 2005, AWCF eliminated \$2.4 billion in intra-AWCF earned revenue on the financial statements. This elimination should have only been \$1.5 billion. In 1st Quarter, FY 2006, DFAS reporting system improvements allowed AWCF to more accurately identify outside trading partners, thereby reducing the amount of intra-AWCF trading partner eliminations. In 3rd Quarter, FY 2006 the intra-AWCF costs are \$1.5 billion.

Other Disclosures

During FY 2004, AWCF discovered that LMP inventory transactions were causing overstatement of other gains and other losses. This impacted the Communication-Electronics Command (CECOM), Tobyhanna Army Depot, and other Army Materiel Command (AMC) activities. During 2nd Quarter, FY 2005, as part of the LMP stabilization plan, AWCF processed correcting entries that created large offsetting gains and losses. These entries inflated both the revenue and cost reported on the Statement of Net Cost. To correct the inflated amounts, DFAS prepared journal vouchers to more accurately report AWCF financial results. Prior to 1st Quarter, FY 2006, the excess of gains over losses was posted to revenue.

Note Reference

For additional line item discussion, see:

Note 1, Significant Accounting Policies

Note 21, Disclosures Related to the Statement of Financing

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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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	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 39,274,686.90	\$ 0.00	\$ 40,529,232.48	\$ 0.00
B. Civilian Health	76,642,200.00	0.00	70,037,849.15	0.00
C. Civilian Life Insurance	164,085.64	0.00	153,952.32	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 116,080,972.54	\$ 0.00	\$ 110,721,033.95	\$ 0.00

Legend:

CSRS – Civil Service Retirement System

FERS – Federal Employees Retirement System

Note Reference

For additional line item discussion, see:

Note 18, Disclosures Related to the Statement of Net Cost

Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 9,493,146,357.30	\$ 10,368,245,359.06
2. Available Borrowing and Contract Authority at the End of the Period	8,682,740,260.23	6,811,093,371.70

The Army Working Capital Fund (AWCF) had \$12.1 billion reimbursable obligations for apportionment category B.

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

In 1st Quarter, FY 2006, AWCF received a warrant for \$106.5 million in accordance with DoD Appropriation Act, 2006, P.L. 109-148, 119 STAT 2680. In 1st Quarter, FY 2006, AWCF distributed \$42.5 million for war reserves and Army combat uniforms to the Supply Management business area and \$64.0 million to the Industrial Operations business area for industrial mobilization capacity.

In addition, in 3rd Quarter, FY 2006, the AWCF received a warrant for \$348.3 million in accordance with Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, P.L. 109-234, 120 STAT 418. In 3rd Quarter, FY 2006, the Supply Management business area received \$92.1 million for war reserves and \$255.0 million for inventory augmentation. The Industrial Operation business area received \$1.2 million for fuel cost increases.

Note Reference

For additional line item discussion, see:

Note 1, Significant Accounting Policies

Note 5, Accounts Receivable

Note 12, Accounts Payable

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

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

Note 21.	Disclosures Related to the Statement of Financing
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The objective of the Statement of Financing is to allow users to understand the difference between the Statement of Budgetary Resources and the Statement of Net Cost. The statement provides this understanding through a comprehensive reconciliation process.

The Army Working Capital Fund (AWCF) budgetary data does not agree with its proprietary expenses and assets capitalized. This results in a difference in net cost between the Statement of Net Cost and the Statement of Financing. Resources that finance the acquisition of assets were adjusted by \$1.2 billion to bring the statements into agreement. The differences between budgetary and proprietary data for AWCF were reported as material weaknesses in the FY 2005 AWCF annual financial statement report.

The following Statement of Financing lines are presented as combined instead of consolidated due to interagency budgetary transactions not being eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Other Resources Other consists of other gains and other losses primarily attributable to differences between intragovernmental transfers-in/out for which trading partners could not be identified.

Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations Other consists mostly of other gains and other losses primarily attributable to differences between intragovernmental transfers-in/out for which trading partners could not be identified.

Components Requiring or Generating Resources Other Other consists of cost capitalization offsets.

There are differences between the amount reported as **Components Requiring or Generating Resources in the Future** and the amount of **Liabilities Not Covered by Budgetary Resources** as reported on Note 11. This is because the \$10.4 million reported as **Components Requiring Resources in Future Period** represents an increase in AWCF annual leave liability. These increases are not shown on Note 11 because AWCF annual leave liability is reported as an unfunded covered liability. While AWCF funds are available to pay the liability, they have not been obligated. The AWCF accrues annual leave liability when it is earned, but does not obligate until it is used. In addition, the Federal Employees Compensation Act (FECA) liability of \$43.3 million, and FECA actuarial liability of \$286.5 million are shown in Note 11, but not included in **Total Components of Net Cost of Operations that will Require or Generate**

Resources in Future Periods because the balances decreased. These decreases are reflected on the Statement of Financing line reporting Resources that Fund Expenses Recognized in Prior Periods.

Note Reference

For additional line item discussion, see:

Note 10, General PP&E

Note 11, Liabilities Not Covered by Budgetary Resources

Note 18, Disclosures Related to the Statement of Net Cost

Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 22.	Disclosures Related to the Statement of Custodial Activity
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Not Applicable.

Note 23.	Earmarked Funds
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BALANCE SHEET As of June 30				
	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds

ASSETS

Fund balance with Treasury	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Investments		0.00		0.00		0.00		0.00
Accounts and Interest Receivable		0.00		0.00		0.00		0.00
Other Assets		0.00		0.00		0.00		0.00
Total Assets	\$	0.00	\$	0.00	\$	0.00	\$	0.00

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Employment Related Actuarial Liabilities	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Other Liabilities Unexpended Appropriations		0.00		0.00		0.00		0.00
Cumulative Results of Operations		0.00		0.00		0.00		0.00
Total Liabilities and Net Position	\$	0.00	\$	0.00	\$	0.00	\$	0.00

STATEMENT OF NET COST

Program Costs	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Less Earned Revenue		0.00		0.00		0.00		0.00
Net Program Costs	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Less Earned Revenues Not Attributable to Programs		0.00		0.00		0.00		0.00
Net Cost of Operations	\$	0.00	\$	0.00	\$	0.00	\$	0.00

STATEMENT OF CHANGES IN NET POSITION

Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Net Cost of Operations		0.00		0.00		0.00		0.00
Other Nonexchange Revenue		0.00		0.00		0.00		0.00
Change in Net Position	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Net Position End of Period	\$	0.00	\$	0.00	\$	0.00	\$	0.00

Not applicable.

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

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

Future Payments Due
Fiscal Year

2006	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2007		0.00		0.00		0.00		0.00
2008		0.00		0.00		0.00		0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
2011		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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