

**Department of Defense**  
**Department of the Army**  
**CONSOLIDATED BALANCE SHEET**  
**As of June 30, 2005 and 2004**

	<b>2005 Consolidated</b>	<b>2004 Consolidated</b>
	<hr/>	<hr/>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 130,313,931,791.52	\$ 106,964,850,644.29
b. Non-Entity Seized Iraqi Cash	77,285,422.99	166,023,057.98
c. Non-Entity-Other	261,122,571.02	89,930,610.50
2. Investments (Note 4)	3,552,511.39	3,075,335.89
3. Accounts Receivable (Note 5)	461,530,027.71	887,611,898.45
4. Other Assets (Note 6)	783,297,724.95	427,025,750.90
5. Total Intragovernmental Assets	<hr/> \$ 131,900,720,049.58	<hr/> \$ 108,538,517,298.01
B. Cash and Other Monetary Assets (Note 7)	\$ 1,767,614,048.58	\$ 1,525,354,065.28
C. Accounts Receivable (Note 5)	687,231,870.80	785,207,200.80
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	35,294,115,215.72	35,283,607,476.87
F. General Property, Plant and Equipment (Note 10)	117,047,465,782.79	114,254,822,710.53
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	3,908,962,797.87	3,793,415,188.06
<b>2. TOTAL ASSETS</b>	<hr/> <hr/> \$ 290,606,109,765.34	<hr/> <hr/> \$ 264,180,923,939.55
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 2,305,057,678.60	\$ 1,791,055,480.47
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & Note 16)	2,720,040,958.53	2,333,034,728.10
4. Total Intragovernmental Liabilities	<hr/> \$ 5,025,098,637.13	<hr/> \$ 4,124,090,208.57
B. Accounts Payable (Note 12)	\$ 9,537,954,144.11	\$ 8,688,354,462.58
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,632,842,810.96	1,761,317,085.50
D. Environmental Liabilities (Note 14)	39,538,732,000.00	37,400,262,000.00
E. Loan Guarantee Liability (Note 8)	12,352,470.32	1,272,636.32
F. Other Liabilities (Note 15 & Note 16)	8,429,611,561.77	8,798,078,864.45
<b>4. TOTAL LIABILITIES</b>	<hr/> \$ 64,176,591,624.29	<hr/> \$ 60,773,375,257.42
<b>5. NET POSITION</b>		
A. Unexpended Appropriations	\$ 120,074,208,762.73	\$ 98,489,731,119.02
B. Cumulative Results of Operations	106,355,309,378.32	104,917,817,563.11
<b>6. TOTAL NET POSITION</b>	<hr/> \$ 226,429,518,141.05	<hr/> \$ 203,407,548,682.13
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<hr/> <hr/> \$ 290,606,109,765.34	<hr/> <hr/> \$ 264,180,923,939.55

Department of Defense  
 Department of the Army  
**CONSOLIDATED STATEMENT OF NET COST**  
 For the periods ended June 30, 2005 and 2004

	<b>2005 Consolidated</b>	<b>2004 Consolidated</b>
<b>1. Program Costs</b>		
A. Intragovernmental Gross Costs	\$ 31,571,167,358.55	\$ 26,013,245,542.27
B. (Less: Intragovernmental Earned Revenue)	(5,875,810,184.25)	(4,919,758,414.84)
C. Intragovernmental Net Costs	<u>\$ 25,695,357,174.30</u>	<u>\$ 21,093,487,127.43</u>
D. Gross Costs With the Public	81,770,587,133.69	77,062,699,455.15
E. (Less: Earned Revenue From the Public)	(882,931,105.12)	(836,982,431.42)
F. Net Costs With the Public	<u>\$ 80,887,656,028.57</u>	<u>\$ 76,225,717,023.73</u>
G. Total Net Cost	<u>\$ 106,583,013,202.87</u>	<u>\$ 97,319,204,151.16</u>
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	<u><u>\$ 106,583,013,202.87</u></u>	<u><u>\$ 97,319,204,151.16</u></u>

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 109,208,001,018.58	\$ 100,631,645,865.98
<b>2. Prior period adjustments (+/-)</b>		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	0.00
2.B. Beginning Balance, Restated	109,208,001,018.58	100,631,645,865.98
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
<b>3. Beginning Balances, as adjusted</b>	109,208,001,018.58	100,631,645,865.98
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	7,740,561,000.00
4.D. Appropriations used	104,428,698,000.88	87,212,378,508.03
4.E. Nonexchange revenue	9,215,995.23	3,660,784.54
4.F. Donations and forfeitures of cash and cash equivalents	2,764,564.22	4,385,016.45
4.G. Transfers-in/out without reimbursement (+/-)	3,033,534,781.00	2,686,000,000.00
4.H. Other budgetary financing sources (+/-)	(5,020,914,866.61)	3,286,777,094.45
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	418,421,752.11	12,459,657.04
5.C. Imputed financing from costs absorbed by others	858,601,335.78	659,153,787.78
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	103,730,321,562.61	101,605,375,848.29
<b>7. Net Cost of Operations (+/-)</b>	106,583,013,202.87	97,319,204,151.16
<b>8. Ending Balances</b>	\$ 106,355,309,378.32	\$ 104,917,817,563.11

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>1. Beginning Balances</b>	\$ 73,238,303,727.98	\$ 47,674,713,331.05
<b>2. Prior period adjustments (+/-)</b>		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	0.00
2.B. Beginning Balance, Restated	73,238,303,727.98	47,674,713,331.05
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
<b>3. Beginning Balances, as adjusted</b>	73,238,303,727.98	47,674,713,331.05
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received	149,831,938,000.00	134,165,126,000.00
4.B. Appropriations transferred-in/out (+/-)	1,755,106,329.00	4,595,315,296.00
4.C. Other adjustments (rescissions, etc) (+/-)	(322,441,293.37)	(733,045,000.00)
4.D. Appropriations used	(104,428,698,000.88)	(87,212,378,508.03)
4.E. Nonexchange revenue	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	46,835,905,034.75	50,815,017,787.97
<b>7. Net Cost of Operations (+/-)</b>		
<b>8. Ending Balances</b>	\$ 120,074,208,762.73	\$ 98,489,731,119.02

Department of Defense  
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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended June 30, 2005 and 2004

	<b>2005 Combined</b>	<b>2004 Combined</b>
	<hr/>	<hr/>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Budget Authority:		
1a. Appropriations received	\$ 149,843,977,655.50	\$ 134,176,222,277.46
1b. Borrowing authority	0.00	0.00
1c. Contract authority	0.00	0.00
1d. Net transfers (+/-)	640,570,000.00	2,419,525,000.00
1e. Other	442,859.02	492,213.84
2. Unobligated balance:		
2a. Beginning of period	22,880,756,443.64	8,212,991,527.13
2b. Net transfers, actual (+/-)	1,364,536,329.00	4,395,790,296.00
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	14,468,385,584.43	12,910,649,467.62
2. Receivable from Federal sources	(252,363,162.58)	437,206,929.29
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	131,494,661.21	233,939,039.94
2. Without advance from Federal sources	4,316,996,694.27	4,295,767,092.14
3c. Anticipated for the rest of year, without advances	512,033,419.16	742,973,185.88
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	<hr/> 19,176,547,196.49	<hr/> 18,620,535,714.87
4. Recoveries of prior year obligations	18,628,381,959.87	8,471,699,101.28
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(322,441,293.37)	(732,939,220.40)
<b>7. Total Budgetary Resources</b>	<hr/> <hr/> \$ 212,212,771,150.15	<hr/> <hr/> \$ 175,564,316,910.18



Department of Defense  
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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended June 30, 2005 and 2004

	<b>2005 Combined</b>	<b>2004 Combined</b>
	<hr/>	<hr/>
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Budget Authority:		
1a. Appropriations received	\$ 0.00	\$ 0.00
1b. Borrowing authority	0.00	0.00
1c. Contract authority	0.00	0.00
1d. Net transfers (+/-)	0.00	0.00
1e. Other	0.00	0.00
2. Unobligated balance:		
2a. Beginning of period	1,424,460.32	1,272,636.32
2b. Net transfers, actual (+/-)	0.00	0.00
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	59,500.00	0.00
2. Receivable from Federal sources	0.00	0.00
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	0.00	0.00
2. Without advance from Federal sources	0.00	0.00
3c. Anticipated for the rest of year, without advances	0.00	0.00
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	<hr/> 59,500.00	<hr/> 0.00
4. Recoveries of prior year obligations	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
<b>7. Total Budgetary Resources</b>	<hr/> <b>\$ 1,483,960.32</b> <hr/>	<hr/> <b>\$ 1,272,636.32</b> <hr/>

Department of Defense  
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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended June 30, 2005 and 2004

	<u>2005 Combined</u>	<u>2004 Combined</u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
8. Obligations incurred:		
8a. Direct	\$ 0.00	\$ 0.00
8b. Reimbursable	0.00	0.00
8c. Subtotal	<u>0.00</u>	<u>0.00</u>
9. Unobligated balance:		
9a. Apportioned	1,483,960.32	0.00
9b. Exempt from apportionment	0.00	0.00
9c. Other available	0.00	0.00
10. Unobligated Balances Not Available	0.00	1,272,636.32
<b>11. Total, Status of Budgetary Resources</b>	<u>\$ 1,483,960.32</u>	<u>\$ 1,272,636.32</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
12. Obligated Balance, Net - beginning of period	\$ 0.00	\$ 0.00
13. Obligated Balance transferred, net (+/-)	0.00	0.00
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	0.00	0.00
14b. Unfilled customer order from Federal sources	0.00	0.00
14c. Undelivered orders	0.00	0.00
14d. Accounts payable	0.00	0.00
15. Outlays:		
15a. Disbursements	0.00	0.00
15b. Collections	(59,500.00)	0.00
15c. Subtotal	<u>(59,500.00)</u>	<u>0.00</u>
16. Less: Offsetting receipts	0.00	0.00
<b>17. Net Outlays</b>	<u>\$ (59,500.00)</u>	<u>\$ 0.00</u>



Department of Defense  
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**COMBINED STATEMENT OF FINANCING**  
For the periods ended June 30, 2005 and 2004

	<b>2005 Combined</b>	<b>2004 Combined</b>
	<hr/>	<hr/>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 150,439,987,845.23	\$ 127,898,480,490.16
2. Less: Spending authority from offsetting collections and recoveries (-)	(37,292,955,237.20)	(26,349,261,630.27)
3. Obligations net of offsetting collections and recoveries	113,147,032,608.03	101,549,218,859.89
4. Less: Offsetting receipts (-)	(142,836,984.09)	(41,615,258.10)
5. Net obligations	<hr/> 113,004,195,623.94	<hr/> 101,507,603,601.79
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	418,421,752.11	12,459,657.04
8. Imputed financing from costs absorbed by others	858,601,335.78	659,153,787.78
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	<hr/> 1,277,023,087.89	<hr/> 671,613,444.82
<b>11. Total resources used to finance activities</b>	<hr/> <b>114,281,218,711.83</b>	<hr/> <b>102,179,217,046.61</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(7,957,886,040.57)	(11,676,753,918.26)
12b. Unfilled Customer Orders	4,448,491,355.48	4,529,706,132.08
13. Resources that fund expenses recognized in prior periods	(1,576,715,369.36)	(322,344,262.84)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	142,896,484.09	41,615,258.10
15. Resources that finance the acquisition of assets	(17,780,956,537.98)	(5,467,475,022.03)
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	0.00	0.00
16b. Other (+/-)	(418,421,752.11)	(12,459,657.04)
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<hr/> <b>(23,142,591,860.45)</b>	<hr/> <b>(12,907,711,469.99)</b>
<b>18. Total resources used to finance the net cost of operations</b>	<hr/> <b>91,138,626,851.38</b>	<hr/> <b>89,271,505,576.62</b>

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**COMBINED STATEMENT OF FINANCING**  
 For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
	<hr/>	<hr/>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	245,635,846.96	321,768,351.77
20. Increase in environmental and disposal liability	0.00	4,850,000.00
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 (+/-)	7,688.37	8,793,357.67
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 245,643,535.33	<hr/> 335,411,709.44
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	11,591,114,576.43	7,288,166,275.39
26. Revaluation of assets or liabilities (+/-)	1,073,955.46	(6,268,130.84)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(58,496.43)	(26,255.80)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	3,606,612,780.70	430,414,976.35
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 15,198,742,816.16	<hr/> 7,712,286,865.10
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<hr/> 15,444,386,351.49	<hr/> 8,047,698,574.54
<b>30. Net Cost of Operations</b>	<hr/> <hr/> 106,583,013,202.87	<hr/> <hr/> 97,319,204,151.16

Department of Defense  
 Department of the Army  
**COMBINED STATEMENT OF CUSTODIAL ACTIVITY**  
 For the periods ended June 30, 2005 and 2004

	<b>2005 Combined</b>	<b>2004 Combined</b>
<b>1.SOURCE OF COLLECTIONS</b>		
A. Deposits by Foreign Governments	\$ 136,000,000.00	\$ 0.00
B. Seized Iraqi Cash	700.00	117,962,889.58
C. Other Collections	0.00	0.00
D. Total Cash Collections	<u>\$ 136,000,700.00</u>	<u>\$ 117,962,889.58</u>
E. Accrual Adjustments (+/-)	\$ 0.00	\$ 0.00
F. Total Custodial Collections	<u>\$ 136,000,700.00</u>	<u>\$ 117,962,889.58</u>
<b>2.DISPOSITION OF COLLECTIONS</b>		
A. Disbursed on Behalf of Foreign Governments and International Organizations	\$ 61,807,006.95	\$ 0.00
B. Seized Assets Disbursed on behalf of Iraqi People	36,145,259.17	230,078,607.58
C. Increase (Decrease) in Amounts to be Transferred	74,192,993.05	0.00
D. Collections Used for Refunds and Other Payments	0.00	0.00
E. Retained by The Reporting Entity	0.00	0.00
F. Seized Assets Retained for Support of the Iraqi People	(36,144,559.17)	(112,115,718.00)
G. Total Disposition of Collections	<u>\$ 136,000,700.00</u>	<u>\$ 117,962,889.58</u>
<b>3. NET CUSTODIAL COLLECTION ACTIVITY</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

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

The Army is unable to fully implement all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial and non-financial 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 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, the Army cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The Army continues to implement process and system improvements addressing the limitations of its financial and non-financial feeder systems. Further explanation of these financial statement elements is provided in the applicable note.

Fiscal Year (FY) 2005 is the fifteenth year that the Army has prepared financial statements required by the CFO Act, GMRA, and Federal Financial Management Improvement Act of 1996 (FFMIA), (P.L. 104-208). The purpose of the CFO Act was to bring more effective general and financial management practices to the Federal government through statutory provisions; provide for improvement of accounting, systems, financial management, and internal controls; and provide for the production of complete, reliable, timely, and consistent financial information. GMRA extended the CFO Act to all activities of Executive Branch agencies. FFMIA expanded reporting requirements under the CFO Act. The reporting entities within the Army changed to facilitate these reporting requirements.

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

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

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

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

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

The Army's 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's missions.

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

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

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

Special funds account for government receipts earmarked for a specific purpose.

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

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

The Army generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2005, the Army's financial management systems were unable to meet all of the requirements for full accrual accounting. Many of the Army's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. In addition, most of the Army's financial management systems do not comply with the U.S. Government Standard General Ledger (USSGL) at the transaction level. The Army has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of Army accounting systems to record transactions based on the USSGL. Until such time as the Army's systems and processes are updated to collect and report financial information as required by Federal GAAP, the Army's financial data will be based on budgetary transactions, non-financial feeder system transactions, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. When possible, the financial statements are presented on the accrual accounting basis. One example of information presented on the budgetary basis is data on the Statement of Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, 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 Statement of Federal Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

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

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

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

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

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

The Army adjusted operating expenses as a result of the elimination of balances between DoD components. See Note 18, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

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

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

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

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

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

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

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



The Army's accounting systems do not capture trading partner information at the transaction level. Therefore, current systems cannot produce data necessary for reconciliations between buyers and sellers, nor eliminate all intragovernmental transactions between trading partners. As a result, the Army's balances are compared to seller-side data summarized at the component trial balance level. Based on these comparisons, the amount of intragovernmental transactions on the buyer-side is forced to agree with seller-side information.

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

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

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

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

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

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections

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

**1.J. Foreign Currency**

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

**1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. The Army bases the allowances for uncollectible accounts that are due from the public upon analysis of collection experience by fund type. The Army does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other Federal agencies are to be resolved between the agencies. See Note 5., Accounts Receivable, for material disclosures.

**1.L. Loans Receivable**

Not applicable.

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

Effective October 1, 2002, SFFAS No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). This standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment (e.g., ships, aircraft, combat vehicles, and weapons) as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Likewise, military equipment (previously referred to as NDPP&E) also includes items which will now be classified as OM&S.

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

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

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

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

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

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

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

The Army reports investments in Treasury securities at cost, net of unamortized premiums or discounts. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Army's intent is to hold investments until maturity, unless needed to finance claims or otherwise sustain operations. Consequently, the Army does not make provisions for unrealized gains or losses on these securities. Material disclosures related to investments in treasury securities are provided in Note 4, Investments.

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

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

##### **Military Equipment**

Effective October 1, 2002, SFFAS No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). This standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment (e.g., ships, aircraft, combat vehicles, and weapons) as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

##### **Contractor Provided**

When it is in the best interest of the government, the Army provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Army, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E meets the normal DoD capitalization criteria, such PP&E is required to be included in the value of General PP&E reported on the Army's Balance Sheet. DoD is developing new policies and a contractor reporting process

that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Army currently reports only the portion of government property in the possession of contractors that is maintained in the Army's property systems.

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

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

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

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

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

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

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

The Army conducts business with commercial contractors under two primary types of contracts--fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army provides financing payments. One type of financing payment that the Army makes, for real property, is based upon a percentage of completion. In accordance with SFFAS No.

1, *Accounting for Selected Assets and Liabilities*, such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

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

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

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Army. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable, and the amount of loss can be reasonably estimated.

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

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

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

For material disclosures, see:

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

Note 14, Environmental Liabilities and Disposal Liabilities.

Note 15, Other Liabilities.

**1.T. Accrued Leave**

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

**1.U. Net Position**

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

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

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

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

**1.W. Comparative Data**

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for the 3rd Quarter, FY 2005.

Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between the 3rd Quarter, FY 2004 and 3rd Quarter, FY 2005, are explained within the Notes to the Financial Statements.

**1.X. Unexpended Obligations**

The Army 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/services not yet delivered.

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

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports.

The Department of Defense policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. The Army uses specific identification to categorize supported undistributed collections as federal or nonfederal accounts receivable. The Army allocates all undistributed disbursements based on a comparison of accounts payable to the accounts receivable of federal entities providing goods and services to the Army. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections should be recorded in other liabilities; however, all Army undistributed collections are supported.

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

On June 28, 2004, transfer of power from the Coalition Provisional Authority (CPA) to the Interim Iraqi Government (IIG) occurred. Prior to the transfer, the CPA was responsible for the management and accounting of the Development Fund for Iraq (DFI). Ongoing resolution of issues surrounding transfers of approximately \$1,700,000 thousand of DFI assets, including \$86,000 thousand transferred from IIG to the Multi-National Force-Iraq in August 2004, will require additional disclosure in future financial statements. The Army has established a plan to reconcile and account for these amounts and record DFI funds received. As of the 3rd Quarter, FY 2005, the Army has reconciled the \$86,000 thousand transferred from IIG. The Army has recorded a total of \$136,000 thousand in DFI assets, which includes the \$86,000 thousand reconciled and a \$50,000 thousand transfer in 1st Quarter, FY 2005. See Note 22 for additional discussion on DFI.



<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2005	2004
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 338,407,994.01	\$ 255,953,668.48
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	0.00
D. Other Assets	0.00	0.00
E. Total Intragovernmental Assets	\$ 338,407,994.01	\$ 255,953,668.48
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 1,767,614,048.58	\$ 1,525,354,065.28
B. Accounts Receivable	80,071,007.28	79,191,672.66
C. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	131,632.12	0.00
H. Total Nonfederal Assets	\$ 1,847,816,687.98	\$ 1,604,545,737.94
<b>3. Total Nonentity Assets</b>	\$ 2,186,224,681.99	\$ 1,860,499,406.42
<b>4. Total Entity Assets</b>	\$ 288,419,885,083.35	\$ 262,320,424,533.13
<b>5. Total Assets</b>	\$ 290,606,109,765.34	\$ 264,180,923,939.55

### Relevant Information for Comprehension

Nonentity Intragovernmental Fund Balance with Treasury of \$338,408 thousand is made up of \$74,193 thousand in custodial funds for the Developmental Fund for Iraq, \$77,285 thousand in Iraqi custodial funds that coalition forces seized during Operation Iraqi Freedom to be used in support of the Iraqi people, and \$186,930 thousand in deposit funds. Further explanation on the Iraqi custodial funds is disclosed in Note 22.

Nonentity Non-Federal Cash and Other Monetary Assets of \$1,767,614 thousand represent both cash and foreign currency.

Nonentity Non-Federal Accounts Receivable of \$80,071 thousand represents receivables that originated in appropriations that are closed and are no longer available to execute Army missions. Army continues to pursue collection actions and any amounts collected are deposited into the Treasury's miscellaneous receipt account.

The Army has \$288,419,885 thousand in Entity Assets. Entity Assets consist of resources that the Army has the authority to use, or where management is legally obligated to use funds to meet current year obligations.

## **Fluctuations and/or Abnormalities**

Nonentity Fund Balance with Treasury increased \$82,454 thousand or 32 percent primarily due to \$111,354 thousand increase in suspense accounts. In 2nd Quarter, FY 2005 the Office of the Secretary of Defense required that suspense accounts be reported as Entity. In FY 2004 these accounts reflected a negative balance thus the required reporting change caused an increase in Fund Balance with Treasury. The fluctuation also includes a \$14,354 thousand decrease in deposit accounts, \$88,738 thousand decrease in Iraqi Seized Assets, and an increase of \$74,192 thousand in Developmental Fund for Iraq was first reported in 1st Quarter, FY 2005.

Cash and Other Monetary Assets increased \$242,260 thousand or 16 percent in FY 2005 primarily due to continued support of the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom. Specifically, foreign currency increased approximately \$160,619 thousand to pay foreign vendors in support of the Army's forward-deployed tactical units.

Other Assets of \$132 thousand consists of Advances to Others reported on the Statement of Accountability in 3rd Quarter, FY 2005. Statement of Accountability transactions are considered non-entity.

## **Note Reference**

For additional line item discussion, see:

Note 3, Fund Balance with Treasury

Note 4, Investments

Note 5, Accounts Receivable

Note 6, Other Assets

Note 7, Cash and Other Monetary Assets

Note 8, Direct Loan and/or Loan Guarantee Programs

Note 9, Inventory and Related Property

Note 10, General PPE, Net

Note 22, Disclosures Related to the Statement of Custodial Activity

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of June 30	2005	2004
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 121,671,058,763.83	\$ 99,428,452,840.00
B. Revolving Funds	49,623,546.86	34,410,351.66
C. Trust Funds	933,546.86	1,367,224.60
D. Special Funds	42,053,308.81	0.00
E. Other Fund Types	8,888,670,619.17	7,756,573,896.51
F. Total Fund Balances	<u>\$ 130,652,339,785.53</u>	<u>\$ 107,220,804,312.77</u>
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 130,629,525,717.23	\$ 107,220,804,312.77
B. Fund Balance per Army	<u>130,652,339,785.53</u>	<u>107,220,804,312.77</u>
<b>3. Reconciling Amount</b>	<u>\$ (22,814,068.30)</u>	<u>\$ 0.00</u>

The Fund Balance with Treasury represents the amount of available funding to be utilized for executing the Army mission and is reconciled to the Treasury Trial Balance. During June 2005, Army made a net adjustment of \$(1,214) thousand for disbursements and collections to bring the fund balance reported by Army into agreement with Treasury.

Army reports an additional \$22,814 thousand in Fund Balance with Treasury than reported on the Treasury Trial Balance. This represents \$48,441 thousand in parent account transfers reported in the Army's fund balance but included on the child's Treasury Trial Balance and \$71,255 thousand in child account transfers reported on the Army's Treasury Trial Balance but included in the parent's fund balance.

### Fluctuations and/or Abnormalities

Army's Appropriated Funds increased \$22,242,606 thousand or 22 percent. Procurement appropriations increased \$11,910,002 thousand primarily due to the \$10,103,419 thousand received for the "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005". Iraqi appropriations increased due to \$6,985,000 thousand in Iraq Security Forces Fund, Army and Afghanistan Security Forces Fund, Army first reported in 3rd Quarter, FY 2005. Research, Development, Test, and Evaluation and Military Construction increased \$1,445,130 thousand and \$1,564,674 thousand, respectively due to increased appropriations received. The remaining \$337,800 thousand increase is due to other miscellaneous appropriations.

Revolving Funds increased \$15,213 thousand or 44 percent due to increases in the Conventional Ammunition Working Capital Fund.

Trust Funds decreased \$434 thousand or 32 percent due to the purchase of additional investments since 3rd Quarter, FY 2004.

Special Funds increased \$42,053 thousand or 100 percent due to revised Office of the Secretary of Defense guidance requiring that special funds be reported on a separate line. In FY 2004, special funds were reported under Other Fund Types.

Other Fund Types increased \$1,132,097 thousand or 15 percent from FY 2004 which consists of increases of \$1,085,728 thousand in Iraqi Relief and Reconstruction Fund and decreases of \$29,337 thousand in Other Miscellaneous Fund Accounts. The remainder of the fluctuation is the result of financial statement guidance that directed special funds and suspense accounts be reported as Special Funds and Appropriated Funds, respectively, in 3rd Quarter, FY 2005.

### **Intragovernmental Payment and Collection (IPAC)**

The Intragovernmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. The Army had no IPAC differences greater than 180 days old as of June 2005.

Automated reconciliation tools have virtually eliminated all existing differences for the Army. Field sites requiring additional backup to record the transaction in their accounting system, accounting errors, or timing differences between disbursing and Treasury cut-off dates are the primary reasons for an IPAC difference to exist today.

### **Check Issue Discrepancy**

For June 2005, the Army 2100 Comparison of Checks Issued Report received from Treasury includes the following:

(Amounts in thousands)

<b>DFAS</b>	<b>0-60 DAYS</b>	<b>61-180 DAYS</b>	<b>&gt; 180 DAYS</b>	<b>TOTAL</b>
Indianapolis	\$ (56,479)	\$ 2,903	\$ 0	\$ (53,576)
Columbus (Army DSSNs)*	20,140	697	(5,575)	15,262
Columbus (Transp Pay)	357	16	0	373
Columbus (Def Agencies)	<u>69,826</u>	<u>0</u>	<u>0</u>	<u>69,826</u>
<b>TOTAL (2100 ARMY)</b>	<b>\$ 33,844</b>	<b>\$ 3,616</b>	<b>\$ (5,575)</b>	<b>\$ 31,885</b>

\*DSSN is Disbursing Station Symbol Number

Check issue differences in the 0-60 days category are considered timing differences due to in-transit time between reporting check issues by the field and processing into the Treasury Check Payments and Reconciliation System.

### **Deposit Differences**

The deposit differences are reconcilable differences reported by the Treasury or the Army. The Army had no deposit differences greater than 180 days old as of June 2005.

## Vested Iraqi Cash

The Army has collected \$1,724,131 thousand of Vested Iraqi Cash. This cash is vested in accordance with the International Emergency Economic Powers Act, Section 1701 and will be used in support of the Iraqi people. The Army has disbursed \$1,689,356 thousand in support of the Iraqi people as follows:

(Amounts in thousands)	<u>Amount</u>
<b>Collected</b>	\$ 1,724,131
<b>Disbursed</b>	
Iraqi Salaries	\$ 1,184,888
Repair/Reconstruction/Humanitarian Assistance	147,654
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	<u>356,814</u>
Total Disbursed	<u>\$ 1,689,356</u>
<b>Remaining Funds</b>	<u>\$ 34,775</u>

## Other Fund Types

The \$8,888,671 thousand in Other Fund Types consists of \$8,550,263 thousand in the Iraqi Relief and Reconstruction Fund, \$186,931 thousand in deposit funds, \$74,192 thousand in Development Fund for Iraq, and \$77,285 thousand in Iraqi Custodial Funds (Seized Iraqi Cash).

## Note Reference

See Note 1.I., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

For additional line item discussion, see:

Note 2, Nonentity Assets

Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 22, Disclosures Related to the Statement of Custodial Activity

## Status of Fund Balance with Treasury

As of June 30

	2005	2004
<b>1. Unobligated Balance</b>		
A. Available	\$ 58,739,522,539.79	\$ 45,055,817,990.80
B. Unavailable	2,521,754,623.27	1,866,825,665.82
<b>2. Obligated Balance not yet Disbursed</b>	\$ 60,415,639,055.59	\$ 52,577,892,400.39
<b>3. Total</b>	\$ 121,676,916,218.65	\$ 99,500,536,057.01

### Fluctuations and/or Abnormalities

Unobligated Balance – Available increased \$13,682,221 thousand due to the \$15,667,755 thousand or 12 percent increase in appropriations received.

Unobligated Balance - Unavailable increased \$656,353 thousand due to an increase in expired authority related to the FY 2004 increase in appropriations received.

Obligated Balance not yet Disbursed increased \$7,837,747 thousand primarily due to the undisbursed portion of the \$13,550,000 thousand supplemental received in August 2004 for Operations and Maintenance related to Operation Iraqi Freedom.

### 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	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
<b><u>Account</u></b>				
F3875	\$ (77,638,415.89)	\$ (48,259,297.56)	\$87,572,200.82	135,831,498.3
F3880	(12,547,381.76)	(4,155,887.31)	8,532,180.31	\$ 8
F3882	(1,021,259.39)	(799,477.23)	(983,924.66)	12,688,067.62
			(10,497,564.1	(184,447.43)
F3885	(167,794,096.39)	(62,734,976.25)	3)	52,237,412.12
F3886	304,505.41	161,839.19	177,388.06	15,548.87
<b>Total</b>	<u>\$ (258,696,648.02)</u>	<u>\$ (115,787,799.16)</u>	<u>\$84,800,280.40</u>	<u>200,588,079.5</u>
				<u>6</u>

### Relevant Information for Comprehension

The Army established policies and procedures to ensure accurate and consistent use of Suspense and Budget Clearing accounts. Suspense reconciliations have been reported as a material weakness since 1997.

Under the authority of Section 1009 of Public Law 107-314, "Clearance of Certain Transactions Recorded in Treasury Suspense Accounts and Resolution of Certain Check Issue Discrepancies," the Army General fund wrote-off \$180,792 thousand net and \$33,962,982 thousand absolute from the suspense accounts in 4th Quarter, FY 2004.

## Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDS)	\$ 279,884,821.73	\$ 318,139,009.18	\$ 90,338,907.82	(227,800,101.36)
B. Negative Unliquidated Obligations (NULO)	74,369,407.47	87,569,608.52	117,825,782.42	30,256,173.90
<b>2. Total In-transit Disbursements, Net</b>				
	\$ 1,058,832,692.76	\$ 1,686,961,806.94	\$ 2,133,294,527.21	446,332,720.27

### Definitions

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

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

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

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

### Aged UMDs and NULOs

The Army's absolute value UMDs, NULOs, and \$34,518 thousand in aged in-transit disbursements represent problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30-day aging category. After 30 days, they are considered as problem disbursements. Fluctuations in the schedule represent normal activity for UMDs and NULOs based on the inflow of undistributed disbursements received for processing. Total in-transit balances have increased at the primary accounting sites supporting the war, contingency operations, and supply and materiel replenishment.



<b>Note 4.</b>	<b>Investments and Related Interest</b>
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As of June 30	2005				2004	
	Par Value/Cost	Amortization Method	Unamortized (Premium/Discount)	Investments, Net	Market Value Disclosure	Investments, Net
<b>1. Intragovernmental Securities</b>						
A. Non-Marketable, Market-Based	\$ 3,548,025.00	Effective interest	\$ (8,985.36)	\$ 3,539,039.64	\$ 3,532,873.22	\$ 3,062,953.56
B. Accrued Interest	13,471.75			13,471.75	13,471.75	12,382.33
C. Total Intragovernmental Securities	<u>\$ 3,561,496.75</u>		<u>\$ (8,985.36)</u>	<u>\$ 3,552,511.39</u>	<u>\$ 3,546,344.97</u>	<u>\$ 3,075,335.89</u>
<b>2. Other Investments</b>	<u>\$ 0.00</u>		<u>0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>	<u>\$ 0.00</u>

**Fluctuations and/or Abnormalities**

The Department of the Army Investments increased \$477 thousand or 16 percent. The majority of the increase, \$350 thousand, occurred in August 2004 when additional donations were received which increased the investments balance.

**Relevant Information for Comprehension**

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

**Note Reference**

See Note 1.N., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing investments in U.S. Treasury securities.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of June 30	2005			2004
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 461,530,027.71	N/A	\$ 461,530,027.71	\$ 887,611,898.45
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 812,959,775.25	\$ (125,727,904.45)	\$ 687,231,870.80	\$ 785,207,200.80
<b>3. Total Accounts Receivable</b>	\$ 1,274,489,802.96	\$ (125,727,904.45)	\$ 1,148,761,898.51	\$ 1,672,819,099.25

**Allowance Method**

The method to estimate Allowance for Loss on Accounts Receivable was changed from percentage of actual write-offs to percentage of aged receivables by category. The allowance is calculated by using 50 percent of aged receivables in the 180-day to 2-year category and 100 percent of aged receivables in the greater than 2-year category. The aged categories are taken from the 3rd Quarter, FY 2005 Quarterly Accounts Receivable Report. The Allowance for Loss on Accounts Receivable will be reestimated annually in compliance with standards.

**Fluctuations and/or Abnormalities**

Intragovernmental Receivables decreased \$426,082 thousand or 48 percent from 3rd Quarter, FY 2004 to 3rd Quarter, FY 2005. The major decrease is the recoupment of a FY 2003 overpayment to the DoD Medicare Eligible Retiree Health Care Fund (\$394,650 thousand) in 3rd Quarter, FY 2005.

Net Non-federal Receivables (from the Public) decreased \$97,975 thousand or 12 percent from 3rd Quarter, FY 2004 to 3rd Quarter, FY 2005. The decrease is primarily attributable to the efforts of matching collections with receivables. There is continuous effort to monitor receivables and ensure proper recording of collections resulting in the reduction of Non-federal Receivables.

## Army General Fund

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

(Amounts in thousands) <u>Type of Debt</u>	<u>Amount</u>
Contractor Debt	\$ 95,387
Individual (Out-of-Service)	183,369
Military Pay (In-Service)	111,924
Civilian Pay (In-Service)	32,300
Sales of Goods & Services	55,146
Interest	333,759
Foreign Military Sales	112,391
Foreign Governments	292,064
Non-Appropriated Funds Instrumentalities	110,652
Vendor Debt	3,974
Other	<u>25,913</u>
Subtotal	\$ 856,879
Undistributed Collections Public	<u>(43,919)</u>
Gross Non-Federal Accounts Receivable (from the Public)	<u>\$ 812,960</u>

### **Relevant Information for Comprehension**

#### Allocation of Undistributed Collections

The Army reported \$43,919 thousand of supported undistributed collections. The Army supported undistributed collections are reported as either federal or public.

#### Elimination Adjustments

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

#### Accounts Receivable Over 180 Days

The Army reported \$229,243 thousand of Non-Federal Accounts Receivable (from the Public) and \$4,898 thousand of Intragovernmental Accounts Receivable over 180 days. Over 50 percent of Non-Federal Accounts Receivable (from the Public) consisted of personnel and contractor debt. The Intragovernmental Accounts Receivable consisted of debt from reimbursable transactions within DoD.

Army General Fund

Non-Federal Refunds Receivable

Refunds Receivable are presented in the table below. Amounts reported for Public Refunds Receivable primarily originated from debts owed by military service members collectible to Army's active military personnel appropriation.

(Amounts in thousands)		
<u>FY 2005 Non-Federal Refunds Receivable</u>	<u>FY 2005 Non-Federal Accounts Receivable (Net)</u>	<u>Percent of Net Amount</u>
\$342,826	\$687,232	50%

**Note Reference**

See Note 1.K., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing accounts receivable.

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30	2005	2004
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 783,297,724.95	\$ 427,025,750.90
B. Total Intragovernmental Other Assets	\$ 783,297,724.95	\$ 427,025,750.90
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 3,470,388,913.45	\$ 3,324,396,109.39
B. Other Assets (With the Public)	438,573,884.42	469,019,078.67
C. Total Nonfederal Other Assets	\$ 3,908,962,797.87	\$ 3,793,415,188.06
<b>3. Total Other Assets</b>	<b>\$ 4,692,260,522.82</b>	<b>\$ 4,220,440,938.96</b>

### Relevant Information for Comprehension

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

### Fluctuation and/or Abnormalities

Intragovernmental Advances and Prepayments increased \$356,272 thousand or 83 percent from 3rd Quarter, FY 2004. Improved business processes of using Treasury's Intragovernmental Reconciliation Agency System have allowed Army to capture advances to others with agencies outside of DoD. Advances to the Department of Interior for \$598,998 thousand, Office of Personnel Management for \$16,161 thousand, Department of Homeland Security for \$56,854 thousand, and the National Aeronautics and Space Administration for \$19,140 thousand make up the majority of the overall increase.

The Other Assets (With the Public) decreased \$30,445 thousand or 6 percent. The following chart provides a breakdown of the report data types for FY 2005:

(Amounts in thousands)

<u>Type of Assets</u>	<u>FY 2005</u>	<u>FY 2004</u>
Advances to Others:		
Military Pay Advances	\$ 125,490	\$ 187,661
Travel Advances	313,084	235,534
Other	0	45,824
<b>Totals</b>	<b>\$ 438,574</b>	<b>\$ 469,019</b>

Military Pay Advances decreased \$62,171 thousand in 3rd Quarter, FY 2005 and can be attributed to a change in the process of recording the collection of Military Pay Advances. Military Advances are collected from the service member's end-of-month pay in Officer Pay and Enlisted Pay. These collections never offset the Military Pay Advances and represent a change in process resulting from a reconciliation of Military Pay Advances.

Travel Advances increased \$77,550 thousand and can be attributed the increase in per diem in January 2005.

Other-Advances to Others decreased \$45,824 thousand or 100 percent from 3rd Quarter, FY 2004. The balance represents an entry to reclassify Operating Materials and Supplies (OM&S) to Other Assets for Firm Fixed Price contracts. The entry to reclassify OM&S to Other Assets was discontinued in September 2004 based on review of the *DoD Financial Management Regulation* Volume 6B, Chapter 4, Paragraph 040203.H.

### **Intragovernmental Eliminations**

The buyer-side Advances and Prepayments balances were adjusted upward \$840,881 thousand to agree with seller-side unearned revenue on the books for other DoD reporting entities. In addition, \$57,760 thousand of intra-Army General Fund transactions were eliminated leaving a balance of \$783,298 thousand.

### **Note Reference**

See Note 1. R., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing other assets.

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

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of June 30	2005	2004
<b>1. Cash</b>	\$ 1,287,474,233.43	\$ 1,205,832,880.23
<b>2. Foreign Currency (non-purchased)</b>	480,139,815.15	319,521,185.05
<b>3. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	<u>\$ 1,767,614,048.58</u>	<u>\$ 1,525,354,065.28</u>

**Definitions**

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

Foreign Currency – Consists of the total U.S. dollar equivalent of purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account.

Other Monetary Assets - Includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

**Fluctuations and/or Abnormalities**

Cash and foreign currency increased \$242,260 thousand or 16 percent, primarily due to continued support of the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom. Overall foreign currency increased approximately \$160,619 thousand or 50 percent, which includes currency to pay foreign vendors and cash in the custody of foreign agents primarily in support of the Army's forward deployed tactical units.

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

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

**Note Reference**

See Note 1.J., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing foreign currency.



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

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

**Military Housing Privatization Initiative**

Congress established the Military Housing Privatization Initiative (MHPI) in 1996 as a tool to help the military improve the quality of life for its service members by improving the condition of their housing. The MHPI was designed and developed to attract private sector financing, expertise and innovation to provide necessary housing faster and more efficiently than traditional Military Construction processes would allow. The Office of the Secretary of Defense has delegated to the Military Services the MHPI and they are authorized to enter into agreements with private developers selected in a competitive process to own, maintain and operate family housing via a fifty-year lease. MHPI addresses two significant problems concerning housing for military Service members and their families: (1) the poor condition of DoD owned housing and (2) a shortage of quality affordable private housing. Under the MHPI authorities, DoD works with the private sector to revitalize our military family housing through a variety of financial tools such as direct loans, loan guarantees, equity investments, and conveyance or leasing of land and/or housing and other facilities. Military Service members receive a basic allowance where they can choose to live in private sector housing, or privatized housing. MHPI is reported by DoD.

**Armament Retooling and Manufacturing Support Initiative**

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

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

Army General Fund

**Direct Loans Obligated After FY 1991**

As of June 30

	2005	2004
Loan Programs		
<b>Military Housing Privatization Initiative</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

Army General Fund

<b>Total Amount of Direct Loans Disbursed</b>		
As of June 30		
	2005	2004
<b>Direct Loan Programs</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

## Subsidy Expense for Post-1991 Direct Loans

As of June 30

2005	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Direct Loans Disbursed:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Direct Loan Modifications and Reestimates:</b> Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<hr/>					
		2005	2004		
<b>5. Total Direct Loan Subsidy Expense:</b> Military Housing Privatization Initiative	\$	0.00	\$	0.00	

Not applicable.

Army General Fund

## Subsidy Rate for Direct Loans

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

Not applicable.

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

As of June 30

	2005	2004
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$ 0.00	\$ 0.00
<b>3. Adjustments</b>		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
<b>G. Total of the above Adjustment Components</b>	\$ 0.00	\$ 0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$ 0.00	\$ 0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/default Re-estimate	0.00	0.00
<b>C. Total of the above Re-estimate Components</b>	\$ 0.00	\$ 0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00

Not applicable.

## Defaulted Guaranteed Loans from Post-1991 Guarantees

As of June 30

	2005	2004
<b>Loan Guarantee Program(s)</b>		
<b>1. Military Housing Privatization Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
<b>2. Armament Retooling &amp; Manufacturing Support Initiative</b>		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
<b>3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>	\$ 0.00	\$ 0.00

Not applicable.

<b>Guaranteed Loans Outstanding</b>		
As of June 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 27,561,517.03	\$ 24,701,455.66
<b>3. Total</b>	<b>\$ 27,561,517.03</b>	<b>\$ 24,701,455.66</b>
<b>2005</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 739,852.83	\$ 628,874.91
<b>3. Total</b>	<b>\$ 739,852.83</b>	<b>\$ 628,874.91</b>
<b>2004</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>



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

As of June 30

	2005	2004
<b>Loan Guarantee Program</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	12,352,470.32	1,272,636.32
<b>3. Total</b>	<b>\$ 12,352,470.32</b>	<b>\$ 1,272,636.32</b>

Total Loan Guarantee Liabilities increased \$11,079 thousand between the 3rd Quarter, FY 2005 and 3rd Quarter, FY 2004 primarily due to the new FY 2004 loan obligation and a liability for an impending loss claim.

## Subsidy Expense for Post-1991 Loan Guarantees

As of June 30

2005	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2005	2004		
<b>5. Total Loan Guarantee:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00		0.00		
Total	\$ 0.00	\$ 0.00	0.00		

There has been no loan activity in FY 2005.

## Subsidy Rate for Loan Guarantees

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Loan Guarantees:</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	3.75%	-1.79%	0.00%	1.96%

This budgeted subsidy rate in effect for the FY 2005 remained the same for the entire fiscal year.

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

As of June 30

	2005	2004
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$ 12,292,970.32	\$ 1,272,636.32
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>3. Adjustments</b>		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	59,500.00	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
<b>H. Total of the above Adjustments</b>	<b>\$ 59,500.00</b>	<b>\$ 0.00</b>
<b>4. Ending Balance of the Loan Guarantee Liability before Re-estimates</b>	<b>\$ 12,352,470.32</b>	<b>\$ 1,272,636.32</b>
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	0.00	0.00
B. Technical/default Re-estimate	0.00	0.00
<b>C. Total of the above Re-estimate Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 12,352,470.32</b>	<b>\$ 1,272,636.32</b>

The \$60 thousand increase in Fees Received is due to loan fees related to the new FY 2004 loan obligation.

Army General Fund

<b>Administrative Expense</b>		
As of June 30	2005	2004
<b>1. Direct Loans</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Loan Guarantees</b>		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	<b>\$ 0.00</b>	<b>\$ 0.00</b>

No administrative expenses were processed in FY 2005.

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of June 30	2005	2004
<b>1. Inventory, Net</b>	\$ 108,488,085.24	\$ 230,166,864.32
<b>2. Operating Materials &amp; Supplies, Net</b>	35,185,627,130.48	35,053,440,612.55
<b>3. Stockpile Materials, Net</b>	0.00	0.00
<b>4. Total</b>	<u>\$ 35,294,115,215.72</u>	<u>\$ 35,283,607,476.87</u>

## Inventory, Net

As of June 30

	2005			2004		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
<b>1. Inventory Categories</b>						
A. Available and Purchased for Resale	\$ 24,133,134.00	\$ (5,196,219.58)	18,936,914.42	\$ 38,691,017.53		LAC
B. Held for Repair	0.00	0.00	0.00	0.00		
C. Excess, Obsolete, and Unserviceable	12,353,332.00	(12,353,332.00)	0.00	0.00		NRV
D. Raw Materials	0.00	0.00	0.00	0.00		
E. Work in Process	89,551,170.82	0.00	89,551,170.82	191,475,846.79		SP
<b>F. Total</b>	<b>\$ 126,037,636.82</b>	<b>\$ (17,549,551.58)</b>	<b>108,488,085.24</b>	<b>\$ 230,166,864.32</b>		

### Legend for Valuation Methods:

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

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

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

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

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

### Other Information

#### General Composition of Inventory

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

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

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

### Decision Criteria for Identifying the Category to Which Inventory is Assigned

Managers determine which items are more costly to repair than replace. Items retained for management purposes are coded condemned. The net value of these items is zero, and is shown as excess, obsolete, and unserviceable. The category held for sale includes all issuable material. Economically repairable material is categorized as held for repair. Prior to FY 2002, the Army showed potentially redistributable material, regardless of condition, as excess, obsolete, and unserviceable.

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

The CAWCF reports balances for Inventory Available and Purchased for Resale; Inventory Excess, Obsolete, and Unserviceable; and Inventory Work-in-Process. Inventory sales are primarily made to the Military Departments. CAWCF Total Inventory, Net, showed an overall decrease of \$121,679 thousand or 53 percent, in 3rd Quarter, FY 2005. CAWCF Available and Purchased for Resale Inventory, Net showed a decrease of \$19,754 thousand or 51 percent and Work in Process showed a decrease of \$101,925 thousand or 53 percent. Both decreases are attributable to the close out of CAWCF.

A year-to-year decrease in CAWCF Inventory is expected as the program progresses toward its final closeout on September 30, 2007. Effective September 30, 1998, CAWCF officially stopped the acceptance of new orders for the procurement of Conventional Ammunitions. At this time, only a few undelivered customer orders remain to be shipped. All deliveries of existing CAWCF customer orders are still expected to be made prior to September 30, 2005. All billings and collections will be completed by September 30, 2005. Obligations and disbursements to cover inventory clean up will continue after September 30, 2005.

### **Note Reference**

See Note 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing inventory and related property.



## Operating Materials and Supplies, Net

As of June 30

	2005			2004	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
<b>1. OM&amp;S Categories</b>					
A. Held for Use	\$ 35,185,627,130.48	\$ 0.00	\$ 35,185,627,130.48	\$ 35,053,440,612.55	LAC
B. Held for Repair	0.00	0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	1,265,757,473.96	(1,265,757,473.96)	0.00	0.00	SP
D. Total	\$ 36,451,384,604.44	\$ (1,265,757,473.96)	\$ 35,185,627,130.48	\$ 35,053,440,612.55	

### Legend for Valuation Methods:

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

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

### Relevant Information for Comprehension

#### Restrictions on OM&S

The total tonnage of munitions stock, to include chemical stocks awaiting destruction for FY 2005 and out years, is 445,444 tons.

The Army reported \$3,315,625 thousand of Operating Materials and Supplies (OM&S) Held for Future Use. This amount represents ammunition held under a host nation treaty agreement and is not intended for use by U.S. Forces. The ammunition is intended for use in defense of the host nation by the host nation.

#### General Composition of OM&S

OM&S includes spare and repair parts, ammunition, and tactical missiles.

#### Changes in the Criteria for Identifying the Category to which OM&S are Assigned

The category Held for Use includes all issuable material. Economically repairable material is categorized as held for repair.

#### Decision Criteria for Identifying the Category to which OM&S are Assigned

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

Total Excess, Obsolete and Unserviceable

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

Government Furnished Material (GFM) and Contractor Acquired Material (CAM)

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

**Note Reference**

See Note 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing inventory and related property.

Army General Fund

## Stockpile Materials, Net

As of June 30

	2005			2004		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
<b>1. Stockpile Materials Categories</b>						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	0.00	
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	

### Legend for Valuation Methods:

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

NRV = Net Realizable Value  
 O = Other

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

As of June 30	2005					2004
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes</b>						
A. Land	N/A	N/A	\$ 466,565,249.98	N/A	\$ 466,565,249.98	\$ 438,125,190.04
B. Buildings, Structures, and Facilities	S/L	20 Or 40	42,190,341,680.08	\$ (27,028,247,247.34)	15,162,094,432.74	15,332,238,520.63
C. Leasehold Improvements	S/L	lease term	13,383,077.00	(11,165,981.00)	2,217,096.00	1,904,747.00
D. Software	S/L	2-5 Or 10	507,183,910.85	(171,198,846.64)	335,985,064.21	266,836,317.94
E. General Equipment	S/L	5 or 10	2,738,263,288.20	(1,825,448,417.90)	912,814,870.30	906,442,262.01
F. Military Equipment	S/L	Various	396,970,000,000.00	(302,400,000,000.00)	94,570,000,000.00	91,320,000,000.00
G. Assets Under Capital Lease	S/L	lease term	166,616,689.13	(136,491,194.26)	30,125,494.87	38,093,316.79
H. Construction-in-Progress	N/A	N/A	5,549,215,592.69	N/A	5,549,215,592.69	5,932,604,506.12
I. Other			18,447,982.00	0.00	18,447,982.00	18,577,850.00
<b>2. Total General PP&amp;E</b>			<b>\$ 448,620,017,469.93</b>	<b>\$ (331,572,551,687.14)</b>	<b>\$ 117,047,465,782.79</b>	<b>\$ 114,254,822,710.53</b>

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

Legend for Valuation Methods:

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

**Fluctuations and/or Abnormalities**

The Net Book Value (NBV) of Leasehold Improvements increased \$312 thousand or 16 percent. The increase is attributed to more accurate reporting as a result of quality assurance/quality control reviews by the Army's Assistant Chief of Staff for Installation Management.

The Army reported an increase in Software NBV of \$69,149 thousand or 26 percent. This increase is attributed to an initiative to report internal use software such as: Reserve Component Automation System, Joint Computer Aided Acquisition and Logistic Support, Transportation Information System Block I, Property Book Unit Supply Enhancement and various other projects.

**Relevant Information for Comprehension**

Military Equipment

In 3rd Quarter, FY 2005, the Army reported military equipment with an acquisition value of \$396,970,000 thousand and accumulated depreciation of \$302,400,000 thousand for a NBV of \$94,570,000 thousand.

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, in May 2003. This standard, which is effective for accounting periods beginning after September 30, 2002, established generally accepted accounting principles (GAAP) for valuing and reporting military equipment (e.g., ships,

aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The DoD has determined that it is not practicable at this time to accumulate from internal records the information necessary to value military equipment in accordance with GAAP, because the Army and DoD are currently working to revise their accounting processes and systems to support informational needs of management and compliance with GAAP. In the interim, DoD will base the value of military equipment for financial statement presentation purposes on data provided by the Bureau of Economic Analysis (BEA), Department of Commerce.

The data, provided by BEA, consists of investment and net book value data for 84 groups of military equipment such as tracked vehicles, aircraft, ships and combat vehicles. BEA uses DoD budget, expenditure, and delivery data to calculate the Army's annual investment in military equipment, after recognizing any equipment transfers or war losses. DoD adjusts BEA data to eliminate equipment items that are not accounted for as military equipment, such as spares, munitions, and inventory items, which are accounted for and reported as Inventory and Related Property.

#### Other

The \$18,448 thousand for Other represents the projected value of forest product sales (timber reserves) for FY 2005.

#### **Note Reference**

See Note 1.O., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing general property, plant and equipment.

## Assets Under Capital Lease

As of June 30

	2005	2004
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 166,070,564.45	\$ 166,070,564.45
B. Equipment	546,124.68	0.00
C. Other	0.00	0.00
D. Accumulated Amortization	(136,491,194.26)	(127,977,247.66)
E. Total Capital Leases	<u>\$ 30,125,494.87</u>	<u>\$ 38,093,316.79</u>

### Fluctuations and/or Abnormalities

Assets Under Capital Lease decreased by \$7,968 thousand or 21 percent due to straight-line amortization of leased assets.

### Relevant Information for Comprehension

The Army is the lessee in eight Section 801 Family Housing Leases for two on-post and six off-post housing facilities. These leases have between two and eight years remaining on their terms. The Eighth U.S. Army G3 Aviation is also the lessee in an equipment lease for a training simulator. This is a lease first reported in 3rd Quarter, FY 2005. As shown in Note 15, the liability is valued at \$26,558 thousand for current and \$23,789 thousand for non-current. The future executory and imputed interest costs, as shown in a combined form in Note 15 Capital Lease Liability section, are \$12,150 thousand and \$10,033 thousand, respectively. Future executory costs are estimates based on historical data. The imputed interest that was necessary to reduce the net minimum lease payments to the present value was calculated at the incremental borrowing rate at the inception of the leases.

### Note Reference

See Note 1.Q., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing leases.

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30	2005	2004
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	454,927,536.45	551,501,835.97
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 454,927,536.45</b>	<b>\$ 551,501,835.97</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 73,139,707.35	\$ 52,247,280.70
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,632,842,810.96	1,761,317,085.50
C. Environmental Liabilities	37,479,864,000.00	33,868,711,000.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	4,524,399,480.32	5,432,699,842.10
<b>F. Total Nonfederal Liabilities</b>	<b>\$ 43,710,245,998.63</b>	<b>\$ 41,114,975,208.30</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 44,165,173,535.08</b>	<b>\$ 41,666,477,044.27</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 20,011,418,089.21</b>	<b>\$ 19,106,898,213.15</b>
<b>5. Total Liabilities</b>	<b>\$ 64,176,591,624.29</b>	<b>\$ 60,773,375,257.42</b>

**Relevant Information for Comprehension**

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

The schedule below identifies the Army Other Intragovernmental and Non-Federal liabilities. Fluctuation explanations are presented in Note 15.

	Amounts (in thousands)	
<u>Intragovernmental Liabilities-Other</u>	<b>FY 2005</b>	<b>FY 2004</b>
FECA	\$ 243,444	\$ 248,407
Unemployment Benefits	124,181	107,034
Cancelled Accts Receivable	87,303	79,192
Judgment Fund	0	113,674
Judgment Fund – NO FEAR	0	865
Education Benefits Fund	0	2,330
Total Intragovernmental- Other	\$ 454,928	\$ 551,502
<u>Non-Federal Liabilities - Other Liabilities</u>		
Annual Leave	\$ 2,902,144	\$ 2,884,298
Nonenvironmental – Disposal	1,250,307	1,186,981
Contingent Liabilities	196,680	1,159,371
Iraqi Seized Cash	77,285	166,023
Development Fund for Iraq	74,193	0
Capital Leases	23,790	36,027
Total Non-Federal- Other	\$ 4,524,399	\$ 5,432,700

Per new Treasury guidance in FY 2005, the Judgment Fund liability is now reported as part of Accounts Payable. Education Benefits Fund changed from Unfunded to Funded in 4<sup>th</sup> Quarter, FY 2004. The Development Fund for Iraq was not reported until 1st Quarter, FY 2005.

#### **Note Reference**

For additional line item discussion, see:

Note 8, Direct Loan and/or Loan Guarantee Programs

Note 12, Accounts Payable

Note 13, Debt

Note 14, Environmental Liabilities and Disposal Liabilities

Note 15, Other Liabilities

Note 16, Commitments and Contingencies

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

Note 22, Disclosures Related to the Statement of Custodial Activity



<b>Note 12.</b>	<b>Accounts Payable</b>
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As of June 30	2005			2004
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
<b>1. Intragovernmental Payables</b>	\$ 2,305,057,678.60	\$ N/A	\$ 2,305,057,678.60	\$ 1,791,055,480.47
<b>2. Non-Federal Payables (to the Public)</b>	9,537,793,837.21	160,306.90	9,537,954,144.11	8,688,354,462.58
<b>3. Total</b>	<u>\$ 11,842,851,515.81</u>	<u>\$ 160,306.90</u>	<u>\$ 11,843,011,822.71</u>	<u>\$ 10,479,409,943.05</u>

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Accounts Payable (to the Public) are payables to entities other than the federal government.

**Fluctuations and/or Abnormalities**

Intragovernmental Accounts Payable with entities other than the Army General Fund increased \$514,003 thousand or 29 percent primarily due in support of contingency missions. Fluctuations were reported by the following activities.

(Amounts in thousands)

<u>Activities/Trading Partner</u>	<u>FY 2005</u>	<u>FY 2004</u>	<u>Change</u>	<u>Percent Change</u>
General Service Administration	\$778,009	\$0	\$778,009	100
US Transportation Command Component	164,396	535,576	(371,180)	(69)
Army Working Capital Fund Component	465,524	339,047	126,477	37
Department of Labor	13	115,337	(115,324)	(100)
Department of the Treasury	201,095	141,083	60,012	43
Defense Logistics Agency WCF Component	336,484	279,550	56,934	20
Department of Energy	15,526	33,645	(18,119)	(54)
Defense Information Services Agency WCF Component	53,801	70,569	(16,768)	(24)
Environmental Protection Agency	12,582	28,944	(16,362)	(57)
Defense Health Program Component	6,935	22,690	(15,755)	(69)
Tricare Management Agency Component	81,590	66,021	15,569	24
USACE - Revolving Fund	794	16,102	(15,308)	(95)
Defense Technical Information Center	14,948	0	14,948	100
Department of Transportation	13,444	0	13,444	100
Other Fluctuations	<u>159,916</u>	<u>142,490</u>	<u>17,426</u>	<u>12</u>
<b>Totals</b>	<b><u>\$2,305,057</u></b>	<b><u>\$1,791,054</u></b>	<b><u>\$514,003</u></b>	<b><u>29</u></b>

## **Relevant Information for Comprehension**

### Mapping Changes

In 1st Quarter, FY 2005, the report mapping for Judgment Fund liabilities was changed, as directed by the Treasury, from U.S. Standard General Ledger (USSGL) 2990 to USSGL 2110 which moved the reporting from Note 15, Other Liabilities to Note 12, Accounts Payable. In FY 2005, this caused an increase of \$97,251 thousand in Intragovernmental Accounts Payable.

### Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the detail level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329, Statement of Transactions and DD 1400, Statement of Interfund.

Supported undistributed disbursements are allocated to Non-Federal Accounts Payable. As a result, Accounts Payable was adjusted downward in the amount of \$1,561,167 thousand. Unsupported undistributed disbursements were taken from the Undistributed Disbursements and Collections Report, HDF 090, and recorded in USSGL account 2120, Disbursements in Transit.

### Intragovernmental Eliminations

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

The DoD summary level seller Accounts Receivables were compared to the Army Accounts Payable. An adjustment was posted to Accounts Payable based on the comparison with the Accounts Receivable of the DoD Components providing goods and services to the Army. Intragovernmental Accounts Payable were adjusted upward for \$356,610 thousand while Non-Federal Accounts Payable were adjusted downward for the same amount. The Army intends to develop long-term systems improvements that will include sufficient upfront edits and controls to eliminate the need for after-the-fact reconciliations. In addition, \$864,466 thousand of intra-Army General Fund transactions were eliminated leaving a balance of \$2,207,807 thousand.

### **Note Reference**

See Note 1.G., Significant Accounting Policies, for additional discussion on financial reporting requirements and the DoD policies governing accounts payable.

<b>Note 13.</b>	<b>Debt</b>
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As of June 30	2005			2004
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
<b>1. Agency Debt</b>				
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Total Debt</b>	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities – Non Federal</b>				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations-- Environmental Restoration (ER)	\$ 585,076,000.00	\$ 2,673,653,000.00	\$ 3,258,729,000.00	\$ 3,538,205,000.00
2. Active Installations--ER for Closed Ranges	19,515,000.00	5,474,525,000.00	5,494,040,000.00	3,133,855,000.00
3. Formerly Used Defense Sites (FUDS) -- ER	220,317,000.00	3,977,640,000.00	4,197,957,000.00	4,141,912,000.00
4. FUDS--ER for Transferred Ranges	97,022,000.00	13,810,031,000.00	13,907,053,000.00	13,611,181,000.00
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations-- Environmental Corrective Action	38,385,000.00	220,649,000.00	259,034,000.00	259,034,000.00
2. Active Installations-- Environmental Closure Requirements	9,822,000.00	41,393,000.00	51,215,000.00	51,215,000.00
3. Active Installations-- Environ.Response at Active Ranges	62,500,000.00	205,132,000.00	267,632,000.00	267,632,000.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations-- Environmental Restoration (ER)	84,005,000.00	513,342,000.00	597,347,000.00	518,716,000.00
2. BRAC Installations--ER for Transferring Ranges	5,571,000.00	474,551,000.00	480,122,000.00	496,075,000.00
3. BRAC Installations-- Environmental Corrective Action	1,637,000.00	23,328,000.00	24,965,000.00	48,031,000.00
4. Other	167,924,000.00	0.00	167,924,000.00	211,364,000.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	767,094,000.00	10,065,620,000.00	10,832,714,000.00	11,123,042,000.00
6. Other	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities:</b>	<b>\$ 2,058,868,000.00</b>	<b>\$ 37,479,864,000.00</b>	<b>\$ 39,538,732,000.00</b>	<b>\$ 37,400,262,000.00</b>

Relevant Information For Comprehension

Environmental Cost Liabilities

The Defense Environmental Restoration Program (DERP) was established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code (USC) 2701. Related sections in Title 10 of the USC, 2701-2706 and 2810-2811 further define the program. The DERP is implemented in accordance with the Department of Defense (DoD) Directive 4715.1, Environmental Security, February 24, 1996; and DoD Instruction 4715.7, Environmental Restoration Program, April 22, 1996, and the Management Guidance for the Defense Environmental Restoration Program, September 28, 2001. Environmental

liabilities for the Department of the Army DERP and the Base Realignment and Closure (BRAC) are prepared in accordance with the Management Guidance for the Defense Environmental Restoration Program and the DoD *Financial Management Regulation* (FMR) 7000.14.

The assigned total current liability cost includes the current year budget (FY 2005) and the total prior year (FY 2004) unliquidated obligations.

There is no unrecognized portion of the estimated total cleanup cost associated with general property, plant and equipment and there are no material changes in the total estimated liability due to changes in laws, technology, or plans. The major change in technology affecting the liability estimate was standardizing use of the estimating tools consistently across the Army programs.

The estimates used for environmental liability calculations are estimates of the cost to complete all activities at a site of environmental concern. The cost estimates are calculated at the site level using a validated cost-estimating model or an engineered cost and entered into a database. There were no changes to the total liability cost due to inflation, deflation, or applicable laws and regulations.

#### Environmental Disposal Cost Liabilities

Army Accrued Environmental Costs (Non-DERP) – The Resource Conservation and Recovery Act (RCRA), as well as host nation requirements, require the Army to take corrective actions to clean up areas where there has been a release related to hazardous material/waste handling and/or storage activities. A release includes any activity that resulted in contamination due to disposal practices, leaks, spills, and other activities that create a risk to public health or the environment. Failure to comply with legal mandates and agreements can put the Army at risk of fines and penalties.

#### Range Characteristics

For 3rd Quarter, FY 2005 and 3rd Quarter, FY 2004, the Army estimated that its environmental liability at closed, transferred, and transferring ranges was \$19,881,215 thousand and \$17,241,111 thousand, respectively. The Army has completed its inventory of all closed, transferred and transferring ranges.

#### Closed Ranges

The Army identified \$5,494,040 thousand to characterize, investigate and cleanup closed ranges. An inventory of closed ranges was completed in December 2003. Closed ranges have been taken out of service as a range and put to new use (incompatible with range activities), or are not considered by the Military Departments to be a potential range area. A closed range is still under the control of a DoD Component.

#### Transferring Ranges

Site level investigations reveal that the total environmental liability for these types of ranges is \$480,122 thousand. Transferring ranges are proposed for transfer or will be returned from DoD to another entity, including other federal entities.

## Transferred Ranges

An inventory of these ranges has been completed and the estimated liability for those ranges is \$13,907,053 thousand. These are properties formerly used as a military range that are no longer under military control and have been leased by DoD, transferred, or returned from the DoD to another entity, including federal entities.

## Active Ranges

At this time, the Army is conducting only one active range investigation and characterization, that being for Massachusetts Military Reservation. The cost of characterization and investigation is \$267,632 thousand. This amount pays for sampling and analysis, groundwater monitoring, feasibility studies, soil and groundwater cleanup, and unexploded ordnance (UXO) investigation and response. Active ranges include military ranges that are currently in service and are being regularly used, that are still considered by the cognizant Military Service to be a potential range area, and that have not been put to a new use that is incompatible with range activities.

## Methodology Used to Estimate Environmental Liabilities

The Army uses annual cost-to-complete estimates as the basis for the environmental liability calculation. A cost-to-complete estimate is prepared for each site in the DERP in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

## Accrued Environmental Restoration (DERP Funded) Costs

For Active Installations the cost-to-complete estimate is collected in the Army Environmental Database – Restoration (AEDB-R). The current liability number is based on the FY 2005 allocation and unliquidated obligations (ULOs). The ULO data are pulled from reports provided by Defense Finance and Accounting Service (DFAS). Non-current liabilities include the cost-to-complete estimates from FY 2006 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Quarterly updates to the current liability numbers are based on changes to the ULOs reported in DFAS monthly reports.

At Formerly Used Defense Sites (FUDS) properties, the cost-to-complete estimate is collected in the FUDS Management Information System (FUDMIS). The current liability number is also based on FY 2005 allocation and the ULOs. The ULO data are obtained from the Corps of Engineers Financial Management System (CEFMS), which feeds the DFAS monthly reports. Non-current liabilities include the cost-to-complete estimates from FY 2005 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Quarterly updates to the current liability numbers are based on changes to the unliquidated obligations recorded in CEFMS.

## Active Installations – Environmental Restoration (ER) for Closed Ranges

The liability for ER for closed ranges is a developing requirement based on the results of an Army-wide inventory of all ranges. The inventory for closed ranges is 100 percent complete as of December 2003. The ER liability estimate for closed ranges is the probable cost and is based on site level data.

## FUDS – Environmental Restoration for Transferred Ranges

The liability for ER for transferred ranges is based on results of site level cost data developed for inventoried properties.

## Other Accrued Environmental Costs (Non-DERP Funds)

### Active Installations – Environmental Corrective Action

This reflects the total of active projects in the FY 2003 Environmental Program Requirements (EPR) database which are reported under 1) RCRA Subtitle C with Environmental Category (ECAT) Corrective Actions (CORAs), 2) RCRA Subtitle D with ECAT CORAs, 3) RCRA Subtitle I with ECAT Underground Storage Tanks and the Superfund/Cleanup with all ECATs (including those for Preliminary Assessments/Site Investigations, Remedial Action (CONUS Cleanup), and Removal Actions (Overseas Cleanup). The current liability total reflects costs recorded in the EPR for FY 2004, while the non-current liability total reflects total estimated costs for FY 2005 through FY 2016.

The 3rd Quarter, FY 2005 total Active Installations – Environmental Corrective Action liability of \$259,034 thousand, the 3rd Quarter, FY 2005 total Active Installations – Environmental Closure liability of \$51,215 thousand and the 3rd Quarter, FY 2005 total Active Installations – Environmental Response at Active Ranges liability of \$267,632 thousand did not change from the amounts reported in 3rd Quarter, FY 2004. The liability amounts did not change because the Army is adjusting its methodologies to achieve compliance with the Chief Financial Officer Act requirements for non-DERP liabilities and is also adjusting its reporting timeline to bring the non-DERP liability reporting periods into line with the other Army environmental programs. Previously, all total non-DERP environmental liabilities were updated as of June 30 for the fiscal year. Beginning with 4th Quarter, FY 2005 all total non-DERP environmental liabilities will be updated as of September 30, 2005.

### Active Installations – Environmental Closure Requirements

Reflects the total of validated December 2003 (FY 2004) active projects in the EPR database which are reported under 1) the Law/Reg RCRA-C with ECAT Closure Plan (CPLN) and 2) RCRA-D with ECAT CPLN. The current liability total reflects costs recorded in the EPR for FY 2004, while the non-current liability total reflects total estimated costs for FY 2005 through FY 2016.

### Active installations – Environmental Response at Active Ranges

The estimated total Non-DERP liability for Environmental Response at Active Ranges reflects costs for the Massachusetts Military Reservation, broken out into current and non-current liabilities. This amount includes soil and groundwater cleanup and UXO detection and removal.

### Base Realignment and Closure (BRAC)

For BRAC installations, the cost-to-complete estimate is collected in the AEDB-R. Because BRAC installations are funded separately using the base closure account, restoration and program management are reported as environmental restoration liabilities; munitions response is reported as Environmental Restoration for Transferring Ranges; and compliance is reported as Environmental Corrective Action. For current liabilities, the number is based on the FY 2005 allocation and reported ULOs. Because prior year BRAC ULOs are not identified by individual program, BRAC ULOs are provided as BRAC-Other. Non-current liabilities include the cost-to-complete estimates from FY 2006 through program completion (collected in AEDB-R) in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Quarterly updates to the current liability numbers are based on changes to the ULO obligations reported in DFAS monthly reports.

## BRAC – Environmental Restoration for Transferring Ranges

The liability for ER for transferring ranges is based on results of an inventory of sites at transferring ranges. The inventory of transferring ranges is 100 percent complete with site level cost data.

## Environmental Disposal for Weapons Systems Programs

The Chemical Demilitarization Program is based on the fiscal year 1986 National Defense Authorization Act (PL 99-145, as amended by subsequent acts) that directed the DoD to destroy the unitary chemical stockpile by April 29, 2004. The Army, as Executive Agent within the DoD, provides policy, direction, and oversight for both the Chemical Stockpile Program and the Non-Stockpile Chemical Materiel Project. As such, the Army is responsible for the safe and economical disposal of the U.S. stockpile of lethal and incapacitating chemical warfare agents and munitions. The program objective is to destroy the U.S. Stockpile of unitary chemical agents and munitions in accordance with the public law and the schedules approved by the Defense Acquisition Decision Memorandum dated September 26, 2001, and updated in the April 2003 Acquisition Program Baseline. In prior quarters Army reported Chemical Stockpile Program separately on Note 14 and the Non-Stockpile Chemical Materiel Project on Note 15. In FY 2005, stockpile and non-stockpile liabilities will be reported together on Note 14. It is expected that the baseline will be updated in future quarters which may cause a significant change in the liability.

### **Changes in the Liability Estimate (greater than 10 percent change)**

The 3rd Quarter, FY 2005 total Active Installations – ER liability for Closed Ranges of \$5,494,040 thousand increased 75 percent from \$3,133,855 thousand reported in 3rd Quarter, FY 2004. The major factor contributing to the increase is the completion of the Army inventory for closed ranges resulting in 100 percent reporting of site level data.

The 3rd Quarter, FY 2005 total BRAC Installations – Environmental Restoration (ER) liability of \$597,347 thousand increased 15 percent from \$518,716 thousand in 3rd Quarter, FY 2004 due to increased remediation efforts required at several sites. The 3rd Quarter, FY 2005 total BRAC Installations – Environmental Corrective Action liability of \$24,965 thousand is a 48 percent decrease from the \$48,031 thousand liability reported in 3rd Quarter, FY 2004. The major factor contributing to the decrease is a change in cleanup action required at a site. The 3rd Quarter, FY2005 total BRAC Installations- Other liability of \$167,924 thousand is a 21 percent decrease from the \$211,364 thousand reported in 3rd Quarter, FY 2004 due to disbursements of current unliquidated obligations.

### **Other Information**

#### Others Category Disclosure Comparative Table (amounts in thousands):

<u>Types</u>	<u>FY 2005</u>	<u>FY 2004</u>
<b>BRAC – Other</b>		
Prior Year BRAC ULOs That Cannot Be Identified To A Specific Program	\$167,924	\$211,364
<b>Total</b>	<b>\$167,924</b>	<b>\$211,364</b>



<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 140,921,249.89	\$ 0.00	\$ 140,921,249.89	\$ 90,423,883.44
B. Deposit Funds and Suspense Account Liabilities	273,178,695.77	0.00	273,178,695.77	89,930,610.50
C. Disbursing Officer Cash	1,767,745,680.70	0.00	1,767,745,680.70	1,529,563,246.60
D. Judgment Fund Liabilities	0.00	0.00	0.00	114,538,235.79
E. FECA Reimbursement to the Department of Labor	119,127,165.90	124,316,399.03	243,443,564.93	248,407,434.43
F. Other Liabilities	294,751,767.24	0.00	294,751,767.24	260,171,317.34
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 2,595,724,559.50</b>	<b>\$ 124,316,399.03</b>	<b>\$ 2,720,040,958.53</b>	<b>\$ 2,333,034,728.10</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 1,737,705,604.66	\$ 0.00	\$ 1,737,705,604.66	\$ 1,740,283,650.55
B. Advances from Others	944,841,753.88	0.00	944,841,753.88	735,665,726.29
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	0.00
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	1,250,307,433.32	1,250,307,433.32	1,186,981,296.00
(4) Other	82,011.60	0.00	82,011.60	(486,192.06)
G. Accrued Unfunded Annual Leave	2,902,144,063.31	0.00	2,902,144,063.31	2,884,297,754.23
H. Capital Lease Liability	13,688,896.11	36,658,902.59	50,347,798.70	62,425,325.22
I. Other Liabilities	1,347,502,799.30	196,680,097.00	1,544,182,896.30	2,188,911,304.22
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 6,945,965,128.86</b>	<b>\$ 1,483,646,432.91</b>	<b>\$ 8,429,611,561.77</b>	<b>\$ 8,798,078,864.45</b>
<b>3. Total Other Liabilities</b>	<b>\$ 9,541,689,688.36</b>	<b>\$ 1,607,962,831.94</b>	<b>\$ 11,149,652,520.30</b>	<b>\$ 11,131,113,592.55</b>

## Fluctuations and/or Abnormalities

### Intragovernmental Liabilities

Advances from Others increased \$50,497 thousand or 56 percent. The majority of the increase is attributable to advances from the Office of National Drug Control Policy (ONDCP), the Executive Office of The President for special projects and Department of Homeland Security (DHS).

The balance reported for the Deposit Funds and Suspense Account liabilities increased by \$183,248 thousand or 204 percent. The majority of the increase is attributable to the legislative write-off for the negative Suspense Account balances under Section 1009 of Public Law 107-314.

Disbursing Officer Cash increased \$238,182 thousand or 16 percent, primarily to support contingency missions Operation Iraqi Freedom and Operation Enduring Freedom.

Treasury issued guidance in FY 2005 to report Judgment Fund Liabilities for Contract Disputes Act (CDA) and the Notification and Federal Employee Antidiscrimination and Retaliation (No FEAR) Act as Accounts Payable. Judgment Fund Liabilities were reported as part of Other Liabilities in FY 2004.

Other Liabilities increased \$34,580 thousand or 13 percent. The majority of the increase is attributable to Unemployment Benefit of \$17,147 thousand and Cancelled Accounts Receivables of \$8,111 thousand. Other Liabilities of Civilian Service Retirement System/Federal Employees Retirement System (CSRS/FERS) of \$7,866 thousand and Health Benefits of \$4,771 thousand account for the rest of the increase.

Intragovernmental - Other Liabilities	Amounts (in thousands)	
	FY 2005	FY 2004
Unemployment	\$ 124,181	\$ 107,034
Accounts Receivable Cancelled	87,303	79,192
Retirement (CSRS/FERS)	46,369	38,503
Health Benefits	34,399	29,628
Education Benefits Fund	1,713	2,330
Life Insurance	787	688
Voluntary Separation Incentive Pay	-	2,796
Total Intragovernmental - Other Liabilities	<u>\$ 294,752</u>	<u>\$ 260,171</u>

### Non-Federal Liabilities

Advances from Others increased \$209,176 thousand or 28 percent, primarily due to the USACE Pacific Ocean Division receiving advances for various construction projects in support of the Multi-National Division in Iraq and pre-payments from the Kuwait government in support of the Global War on Terrorism (GWOT).

The Conventional Ammunitions Working Capital Fund (CAWCF) reported a \$486 thousand abnormal balance in Other Liabilities for the 3rd Quarter, FY 2004 which has been cleared.

Capital Lease Liability decreased \$12,077 thousand or 19 percent as a result of annual amortization.

Other Liabilities decreased \$644,728 thousand or 29 percent. The decrease is attributable to decreases in Contingent Liabilities probable (non-current and current) for U.S. Claims Service (Personnel Claims, Tort Claims, Judgment Fund Liabilities and North Atlantic Treaty Organization – Status of Forces Agreement (NATO SOFA)), the Chemical Demilitarization (Non-Stockpile) in the net amount of \$1,220,207 thousand, Contract Holdbacks in the amount of \$132,543 thousand, Iraqi Seized Cash of \$88,737 thousand, and other

miscellaneous for \$11,138 thousand. Other Liabilities increases are attributable to employer contributions to employee benefit plans in the amount of \$733,704 thousand and Developmental Fund for Iraqi first reported in FY 2005 for \$74,193 thousand.

Non-Federal – Other Liabilities	Amounts (in thousands)	
	FY 2005	FY 2004
Employer Contributions and Payroll Taxes	\$ 1,010,821	\$ 277,116
Contingent Non-Funded	196,680	1,159,371
Contract Holdbacks	174,550	307,093
Iraqi Seized Cash	77,285	166,023
Development Fund for Iraq	74,193	-
Contingent Funded	10,654	268,170
Other	-	11,138
Total Intragovernmental - Other Liabilities	<u>\$ 1,544,183</u>	<u>\$ 2,188,911</u>

### Note Reference

For additional line item discussion, see Note 12 Accounts Payable.

## Capital Lease Liability

As of June 30

	2005				2004
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
<b>1. Future Payments Due</b>					
A. 2005	\$ 25,981,156.37	\$ 179,645.00	\$ 0.00	\$ 26,160,801.37	\$ 25,981,156.38
B. 2006	18,009,100.99	149,952.00	0.00	18,159,052.99	20,784,925.10
C. 2007	8,528,654.77	155,951.00	0.00	8,684,605.77	18,009,100.99
D. 2008	5,375,522.96	93,058.00	0.00	5,468,580.96	8,528,654.77
E. 2009	5,375,522.96	0.00	0.00	5,375,522.96	5,375,522.96
F. After 5 Years	8,682,395.27	0.00	0.00	8,682,395.27	14,057,918.23
G. Total Future Lease Payments Due	\$ 71,952,353.32	\$ 578,606.00	\$ 0.00	\$ 72,530,959.32	\$ 92,737,278.43
H. Less: Imputed Interest Executory Costs	22,028,385.13	154,775.48	0.00	22,183,160.61	30,311,952.83
I. Net Capital Lease Liability	\$ 49,923,968.19	\$ 423,830.52	\$ 0.00	\$ 50,347,798.71	\$ 62,425,325.60
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 26,558,328.05	\$ 26,398,874.70
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 23,789,470.65	\$ 36,026,450.89

The Army is the lessee in eight capital leases for military family housing and one equipment lease. The Office of Management and Budget Bulletin 01-09 and Circular A-11 direct that any capital leases entered into during FY 1992 or later are required to be fully funded in the first year of the lease.

### Capital Lease Liabilities Covered by Budgetary Resources

The present value of the lease payments, \$26,558 thousand, for leases originating after FY 1991 plus the current portion of the Pre-1992 leases is shown as Covered by Budgetary Resources.

### Capital Lease Liabilities Not Covered by Budgetary Resources

The remaining six leases, that originated before FY 1992, are funded on a fiscal year basis causing the noncurrent amounts of \$23,789 thousand to be shown as Not Covered by Budgetary Resources.

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

**Relevant Information for Comprehension**Nature of Contingency

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

As of June 30, 2005, the Army General Fund has approximately \$9,579,306 thousand in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table:

Estimate of the Possible Liability

(Amounts in thousands)

**Title of Contingent Liabilities****Estimate**

Non-Stockpile Chemical Materiel Demilitarization	\$ 9,200,000
Litigation Division	192,111
Administrative Tort Claims (Army Fund)	85,000
European Environmental Claims (Army Fund)	40,000
Low-Level Radioactive Waste Disposal	26,955
Army Contract Appeals Division	22,000
Army Environmental Law Division	12,151
NETCOM German Tax Liability	908
Army Personnel Claims	181
<b>Total</b>	<b><u>\$ 9,579,306</u></b>

**Note Reference**

See Note 1. S., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing contingencies and other liabilities.

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

Army General Fund

As of June 30	2005				2004
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits</b>					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Other</b>					
A. FECA	\$ 1,632,842,810.96		\$ 0.00	\$ 1,632,842,810.96	\$ 1,761,317,085.50
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. <u>{Enter Program Name}</u>	0.00		0.00	0.00	0.00
E. Total Other	\$ 1,632,842,810.96		\$ 0.00	\$ 1,632,842,810.96	\$ 1,761,317,085.50
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	\$ 1,632,842,810.96		\$ 0.00	\$ 1,632,842,810.96	\$ 1,761,317,085.50

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

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

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

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

## **Federal Employees Compensation Act (FECA)**

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

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

<b>Note 18.</b>	<b>Disclosures Related to the Statement of Net Cost</b>
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### Gross Cost and Earned Revenue by Budget Functional Classification

As of June 30

	2005			2004
Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost	
<b>Budget Functional Classification</b>				
1. Department of Defense Military (051)	\$ 0.00	\$ 0.00	\$ 0.00	
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	0.00	0.00	0.00	
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	
<b>7. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	

Not applicable.

#### Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity. The amounts presented in the Consolidated Statement of Net Cost are based on funding, obligation, accrual and disbursing transactions, which are not always recorded using accrual accounting. Army systems do not always record the transactions on an accrual basis as is required by the generally accepted accounting principles. The information presented also includes data from non-financial feeder systems to capture all cost and financing sources for the Army.

#### Program Costs

Intragovernmental Gross Costs of \$31,571,167 thousand primarily consists of costs with Army Working Capital Fund for \$6,231,551 thousand, Defense Logistics Agency for \$5,012,885 thousand, Military Retirement Trust Fund for \$4,649,255 thousand, DoD Medicare-Eligible Retiree Health Care Fund for \$3,282,956 thousand, General Services Administration for \$2,837,745 thousand, and United States Transportation Command for \$2,805,722 thousand.



The Total Net Costs increased \$9,263,809 thousand or 10 percent between 3rd Quarter, FY 2005 and 3rd Quarter, FY 2004. The Intragovernmental Net Costs increased \$4,601,870 thousand or 22 percent due to the increased accrued expenditures in support of contingency operations. Further explanation on the increased funding is disclosed in Note 20.

### **Program Revenues**

Intragovernmental Earned Revenue increased \$956,052 thousand or 19 percent. The increase reflects the additional revenues of \$330,499 thousand from Intragovernmental programs supporting contingency missions for security services. Revenues were also received for service-wide support to the United States Army Corps of Engineer (USACE) of \$309,719 thousand, research development project of \$184,440 thousand, and other logistics and personnel related support of \$131,394 thousand.

Army General Fund

**Gross Cost to Generate Intragovernmental Revenue and Earned Revenue (Transactions with Other Federal—Non-DoD—Entities) by Budget Functional Classification**

As of June 30

	2005			2004
	Gross Cost to Generate Intragovernmental Revenue	(Less: Earned Revenue)	Net Cost	Net Cost
1. Department of Defense Military (051)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	0.00
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	0.00
4. Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund (602)	0.00	0.00	0.00	0.00
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	0.00
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	0.00
<b>7. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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	2005		2004	
As of June 30	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Other Prior Period Adjustments	0.00	0.00	0.00	0.00
D. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 232,633,158.94	\$ 0.00	\$ 242,689,909.17	\$ 0.00
B. Civilian Health	390,043,623.15	0.00	351,329,351.50	0.00
C. Civilian Life Insurance	1,195,603.13	0.00	1,128,271.85	0.00
D. Judgment Fund	234,728,950.56	0.00	64,006,255.26	0.00
E. Intra-Entity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 858,601,335.78	\$ 0.00	\$ 659,153,787.78	\$ 0.00

**Fluctuations and/or Abnormalities**Imputed Financing

The \$38,715 thousand or 11 percent increase in Civilian Health is attributable to an increase in the average enrollment and a higher cost factor used by the Office of Personnel and Management in FY 2005. The increase in Judgment Fund of \$170,723 thousand or 267 percent is attributable to payments by the Court of Claims for four claims of \$51,035 thousand, Torts for 657 claims of \$123,701 thousand, and a decrease in Small Claims of \$4,013 thousand since October 1, 2004. Court of Claims payments were \$504 thousand, Torts were \$58,506 thousand, and Small Claims were \$983 thousand as of the 3rd Quarter, FY 2005.

Cumulative Results of Operations

Other Adjustments decreased \$7,740,561 thousand or 100 percent and Budgetary financing sources transfers-in/out without reimbursement increased \$347,535 thousand or 13 percent due to a change in the reporting process for Iraqi Relief and Reconstruction Fund. The fund is a material child transfer account from the Executive Office of the

President that was recorded as Other Financing Sources in 3rd Quarter, FY 2005. Guidance indicated that the proper accounting of a material child transfer account was to record the source of funds in the Non-expenditure Financing Source – Transferred In. The \$4,707,026 thousand or 61 percent decrease in transfers received is due to a lower amount of funds transferred from the Executive Office of the President.

Appropriations used increased \$17,216,319 thousand or 20 percent primarily related to the \$15,667,755 thousand or 12 percent increase of appropriations received on the Statement of Budgetary Resources.

Non-Exchange revenue increased \$5,555 thousand or 152 percent due to the erroneous reporting of Nonexchange revenue in 3rd Quarter, FY 2004. The 3rd Quarter, FY 2004 amount should have reflected \$6,692 thousand causing a \$2,523 thousand increase. The increase is primarily due to an increase in collections for the Forest and Wildlife Conservation.

Donations and forfeitures of cash and cash equivalents decreased \$1,620 thousand or 37 percent due to decreased donations to the Army Gift Fund.

Other budgetary financing sources represent adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. The net effect of these adjustments is reflected on Other budgetary financing sources of the Statement of Net Position. The \$8,307,692 thousand or 253 percent decrease is entirely due to fluctuations in the differences between budgetary and proprietary balances from 3rd Quarter, FY 2004.

Other Financing Sources Transfers-in/out without reimbursement is comprised of transfers of Property, Plant and Equipment (PP&E) and Construction in Progress (CIP). FY 2005 Transfers in/out without reimbursement of \$418,422 thousand includes \$33,857 thousand of PP&E transferred from the Air Force and CIP transfers of \$26,137 thousand from U.S. Special Operations Command, \$15,931 thousand from the Defense Logistic Agency, and \$342,497 thousand from Other Defense Organizations. FY 2004 Transfers in/out without reimbursement of \$12,460 thousand was comprised of \$85,985 thousand of PP&E transferred to the Air Force and CIP transfers of \$72,405 thousand from Tricare Management Activity, \$14,788 thousand from Missile Defense Agency, and \$11,252 thousand from Other Defense Organizations.

#### Unexpended Appropriations

Appropriations received increased \$15,666,812 thousand or 12 percent and is directly related to the increase in the overall Army appropriations. Further explanation on the fluctuation is provided in Note 20.

Appropriations transferred-in/out of \$1,755,106 thousand represents \$649,505 thousand in Iraqi Freedom Fund in support of contingency missions, \$457,503 thousand in Drug Interdiction for Military Personnel, \$350,568 thousand from Foreign Currency Fluctuations, \$265,652 thousand in Restoration of Formerly Used Defense Sites, and \$31,878 thousand in miscellaneous transfers.

Other adjustments decreased \$410,604 thousand or 56 percent due to decreases in appropriation rescissions for Operations and Maintenance, Procurement, and Military Construction.

Appropriations used increased \$17,216,321 thousand or 20 percent and is directly related to the increase in appropriations received of \$15,667,755 thousand or 12 percent on the Statement of Budgetary Resources.

**Note Reference**

For regulatory disclosure related to “The Statement of Changes in Net Position”, see the *Department of Defense Financial Management Regulation*, Volume 6B, Chapter 10, paragraph 1022.

For additional line item discussion, see:

Note 18, Disclosures Related to the Statement of Net Cost

Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 21, Disclosures Related to the Statement of Financing

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2005	2004
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 68,539,017,047.99	\$ 60,072,196,499.76
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

**Fluctuations and/or Abnormalities**

Overall 3rd Quarter, FY 2005 Appropriations received increased \$15,667,755 thousand or 12 percent. The major fluctuations are due to the Military Pay, Operations and Maintenance, Procurement, and Iraqi appropriations.

Operations and Maintenance appropriations decreased \$6,161,783 thousand primarily due to the decrease in appropriations received from the Emergency supplementals. In FY 2004, Army Operations and Maintenance received \$24,144,164 thousand for the "Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004". In FY 2005, \$16,980,304 thousand was received for the "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005".

Military Pay increased \$2,711,345 thousand primarily due to the FY 2005 Military Authorization Act that requires an across the board 3.5 base pay increase for all military personnel.

Procurement appropriations increased \$10,315,134 thousand primarily due to the \$10,103,419 thousand received for the "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005".

Research, Development, Test, and Evaluation appropriation increased by \$318,718 thousand. The funding included increases for emergency preparedness training, Army missile defense system integration, and advanced technology development.

The Iraq Security Forces Fund, Army and Afghanistan Security Forces Fund, Army first reported \$6,985,000 thousand in FY 2005. These funds are available for the purpose of allowing the Commander, Combined Forces Command—Afghanistan and the Commander, Multi-National Security Transition Command—Iraq to provide the security forces of Afghanistan and Iraq the provision of equipment, supplies, services, training, facility and infrastructure repair, renovation, construction, and funding.

Budget Authority - Net Transfers of \$640,570 thousand consists of appropriation transfers of \$457,503 thousand in Drug Interdiction, \$265,652 thousand in Restoration of Formerly Used Defense Sites, (\$73,790) thousand in National Nuclear Security Administration,

(\$15,395) thousand with Defense Agencies, and \$6,600 thousand in miscellaneous transfers. The decrease of \$1,778,955 thousand or 74 percent is largely due to decreases in transfers received from the Office of the President and the Iraqi Freedom Fund in support of Iraqi Security and Stability and contingency missions.

Budget Authority – Other decreased \$49 thousand due to a decrease in anticipated appropriations from the Sale of Hunting and Fishing Permits.

Unobligated balance - Beginning of period increased \$14,667,765 thousand or 179 percent largely due to the \$13,550,000 thousand supplemental received in September 2004 for Operations and Maintenance related to Operation Iraqi Freedom. As of September 2004, only \$2,518 thousand had been obligated causing the material increase.

Unobligated balance – Net transfers, actual of \$1,364,536 thousand consists of prior year appropriation transfers of \$649,505 thousand from the Iraqi Freedom Fund in support of contingency missions, \$350,568 thousand from Foreign Currency Fluctuations, Defense, and \$364,463 thousand in miscellaneous transfers.

Recoveries of Prior Year Obligations or deobligations increase of \$10,156,683 thousand or 120 percent from 3rd Quarter, FY 2004 consists primarily of \$6,350,749 thousand in Military Personnel and \$2,622,007 thousand in Operation and Maintenance deobligations. This is largely due to systematic correction processes that require the movement of obligations between management structure to first deobligate and then reobligate the funds. The actual Army Military Personnel deobligation is \$509,964 thousand of which \$394,000 thousand was a transfer to Foreign Currency Fluctuations, Defense.

Permanently not available increased \$410,498 thousand or 56 percent due to increases in the amount of appropriation rescissions in Operations and Maintenance, Procurement, and Military Construction.

Obligations incurred, Undelivered orders, Disbursements, and Accounts Payable increased \$22,541,507 thousand or 18 percent, \$8,004,300 thousand or 14 percent, \$15,754,486 thousand or 15 percent, and \$1,475,173 thousand or 11 percent, respectively, primarily due to the \$15,667,755 thousand or 12 percent increase in appropriations received.

Unobligated balance - Apportioned increased \$36,646,717 thousand or 162 percent and Unobligated Balances Not Available decreased \$22,541,419 thousand or 90 percent primarily due to a Treasury required mapping change of Apportionments - Subsequent Period to Unobligated balance - Apportioned in 3rd Quarter, FY 2005. The account was mapped to Unobligated Balances Not Available in 3rd Quarter, FY 2004.

Accounts Receivable and Unfilled Customer Orders from Federal Sources decreased \$276,829 thousand or 14 percent and increased \$1,918,080 thousand or 13 percent, respectively, due to fluctuations in the status of Spending Authority from Offsetting Collections. Spending Authority from Offsetting Collections had an overall increase of \$556,011 thousand, or 3 percent.

Collections increased \$1,455,291 thousand or 11 percent largely due to increases in reimbursable authority in support of logistical activities for Army Procurement and Operations and Maintenance.

Offsetting receipts are primarily comprised of \$40,474 thousand in Recoveries under the Foreign Military Sales, \$74,228 thousand in Army General Fund Proprietary Receipts, \$7,455 thousand in Recoveries of Government Property Lost or Damaged, and \$11,469 thousand in Collections of Receivables from Cancelled Accounts. The \$101,222 thousand, or 243 percent increase is largely attributed to \$44,826 thousand increase in Recoveries under the Foreign Military Sales and \$52,509 thousand increase in General Fund Proprietary Receipts.

### **Accounting Standard U.S. Standard General Ledger**

The Army has not fully implemented the U.S. Government Standard General Ledger in all operational accounting systems. Guidance from the *Treasury Financial Manual*, Part 2, Chapter 4000, Federal Agencies' Centralized Trial Balance System II is used to populate the Army Statement of Budgetary Resources.

The Army accounting systems do not provide or capture data needed for obligations incurred and recoveries of prior year obligations in accordance with Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* requirements. Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined, and may or may not be material.

### **Intra-entity Transactions**

The Statement of Budgetary Resources does not include eliminating entries and therefore a Disaggregated Statement of Budgetary Resources is included in the Required Supplementary Information section of the financial statements.

### **Apportionment Categories**

OMB Bulletin No. 01-09 section 9.27 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from Apportionment. Obligations incurred consists of \$135,773,570 thousand in Category A, Direct; \$688,303 thousand in Category B, Direct; and \$13,978,113 thousand in Category A, Reimbursable. This disclosure agrees with the aggregate of the related information as reported on the agency's Budgetary Execution Report (SF 133) and Obligations Incurred on the Statement of Budgetary Resources.

### **Separate Column for Non-budgetary Credit Program Financing Accounts**

A Non-budgetary Credit Program Finance Account column allows for a clear distinction between budgetary and non-budgetary credit program financing. Non-budgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the United States Government. Separate reporting on the Statement of Budgetary Resources



enhances reconciliation of the two sets of information. Further information on the credit financing accounts is provided in Note 8.

The Unobligated Balance – Apportioned and Unobligated Balances Not Available increased \$1,484 thousand, or 100 percent and decreased \$1,273 thousand, or 100 percent, respectively, due to erroneous reporting in 3rd Quarter, FY 2004. The actual increase \$210 thousand was due to new loan obligations and a liabilities for an impending loss claim. A total of \$59 thousand was collected into the Rural Development appropriation.

### **Offsetting Receipts Line**

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

### **Spending Authority from Offsetting Collections**

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available are not included in the Spending Authority From Offsetting Collections on the Statement of Budgetary Resources or the Spending Authority for Offsetting Collections and Recoveries on the Statement of Financing.

### **Undelivered Orders**

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

<b>Note 21.</b>	<b>Disclosures Related to the Statement of Financing</b>
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The Statement of Financing is intended to articulate and detail the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. Intra-entity transactions have not been eliminated; therefore, the statements are presented as combined and combining.

**Fluctuations and/or Abnormalities**

Obligations incurred and Undelivered orders increased \$22,541,507 thousand or 18 percent and \$3,718,868 thousand or 32 percent, respectively, primarily due to the \$15,667,755 thousand increase in appropriations and the \$10,156,683 thousand increase in recoveries of prior year obligations.

Spending authority from offsetting collections and recoveries increased \$10,943,634 thousand or 42 percent largely due to increases in reimbursable authority in support of logistical activities for Army Procurement and Operations and Maintenance.

Offsetting receipts and Budgetary offsetting collections and receipts that do not affect net cost of operations are primarily comprised of \$40,474 thousand in Recoveries under the Foreign Military Sales, \$74,228 thousand in Army General Fund Proprietary Receipts, \$7,455 thousand in Recoveries of Government Property Lost or Damaged, and \$11,469 thousand in Collections of Receivables from Cancelled Accounts. Offsetting receipts increased \$101,222 thousand or 243 percent. This is largely attributed to a \$52,519 thousand increase in General Fund Proprietary Receipts and a \$44,826 thousand increase in Recoveries under the Foreign Military Sales.

Transfers in/out without reimbursement and Other resources or adjustments to net obligated resources that do not affect net cost of operations are comprised of transfers of Property, Plant and Equipment (PP&E) and Construction in Progress (CIP). FY 2005 Transfers in/out without reimbursement of \$418,422 thousand include \$33,857 thousand of PP&E transferred from the Air Force and CIP transfers of \$26,137 thousand from U.S. Special Operations Command, \$15,931 thousand from the Defense Logistic Agency, and \$342,497 thousand from Other Defense Organizations. FY 2004 Transfers in/out without reimbursement of \$12,460 thousand was comprised of \$85,985 thousand of PP&E transferred to the Air Force and CIP transfers of \$72,405 thousand from Tricare Management Activity, \$14,788 thousand from Missile Defense Agency, and \$11,252 thousand from other defense organizations.

Imputed financing from costs absorbed by others has increased by \$199,447 thousand or 30 percent. Refer to Note 19 for further explanation.

Resources that fund expenses recognized in prior periods decreased \$1,254,371 thousand primarily due to decreases of \$849,174 thousand in Defense Environmental Restoration Program (DERP) liabilities and \$545,557 thousand reduction in contingent liabilities.

Resources that finance the acquisition of assets increased by \$12,313,482 thousand or 225 percent and Depreciation and amortization increased by \$4,302,948 thousand or 59 percent. The Army bases the value of military equipment for financial statement presentation purposes on projections provided by the Bureau of Economic Analysis (BEA), Department of Commerce. BEA revised the military equipment projections resulting in increases in the projected purchase and depreciation of military equipment. Further explanation is provided in Note 10.

Increase in annual leave liability decreased \$76,133 thousand or 24 percent. The increase in annual leave fluctuates with personnel strengths and timing of leave and is not material to the \$2,902,144 thousand annual leave balance.

Increase in environmental and disposal liability decreased \$4,850 thousand or 100 percent. The FY 2005 decrease in environmental and disposal liabilities is reflected in Resources that fund expenses recognized in prior periods.

Other Components Requiring or Generating Resources in Future Period represents increases in future funded expense for various liabilities such as Federal Employment Compensation Act and Unemployment Compensation. In FY 2004, there was an overall increase in these future funded liabilities. In FY 2005, the future funded liabilities decreased causing the \$8,786 thousand or 100 percent decrease in Other Components Requiring or Generating Resources in Future Period.

Revaluation of assets or liabilities represents the \$1,074 thousand in Construction in Progress that was terminated.

Other Trust Fund Exchange Revenue increased by \$32 thousand or 123 percent due to investments earning higher revenue in FY 2005.

Cost of Goods Sold and Operating Material & Supplies Used can not be properly captured or estimated. The Army is continually reviewing and developing procedures to accurately report these values in the future.

Other Components not Requiring or Generating Resources of \$3,606,613 thousand is primarily comprised of Other Expenses not Requiring Budgetary Resources for the Iraqi Relief and Reconstruction Fund. The Iraqi Relief and Reconstruction Fund is a material child transfer where Army is the child and the Department of the Executive Office of The President is the parent. Treasury requires that the financial statements of a material child transfer account be presented in the child's financial statements except for the Statement of Budgetary Resources. A reconciling item is included in Other because Obligations incurred on the Statement of Financing does not include expenses related to the Iraqi Relief and Reconstruction Fund. The \$3,176,198 thousand increase is largely attributed to \$3,268,654 thousand increase in expenses for the Iraqi Relief and Reconstruction Fund.

## **Note Reference**

For additional information related to the Statement of Financing, see:

Note 8, Direct Loan and/or Loan Guarantee Programs

Note 10, General Property Plant & Equipment, Net

Note 11, Liabilities Not Covered By Budgetary Resources

Note 14, Environmental Liabilities and Disposal Liabilities

Note 16, Commitments and Contingencies

Note 20, Disclosures Related to the Statement

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

**Development Fund for Iraq (DFI)**

The DFI is for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. Current year deposits from the Interim Iraqi Government transferred to the Multi-National Force-Iraq are \$136,000 thousand and there have been \$61,807 thousand in disbursements.

	(Amounts in thousands)	
	<b>During FY 2005</b>	<b>Cumulative from Inception</b>
<b>Source of Collections</b>		
Deposits by Foreign Governments	\$136,000	\$ 136,000
<b>Disposition of Collections</b>		
Electric Sector	\$11,792	\$11,792
Water Resources and Sanitation	2,079	2,079
Transportation and Telecommunications	3,148	3,148
Roads, Bridges and Construction	949	949
Health Care	2,239	2,239
Private Sector Development	461	461
Education, Refugees, Human Rights, and Governance	<u>41,139</u>	<u>41,139</u>
Total Disbursed on behalf of Foreign Governments	\$61,807	\$61,807
Retained for Future Support of Foreign Governments	<u>74,193</u>	<u>74,193</u>
Total Disposition of Collections	<u>\$136,000</u>	<u>\$136,000</u>
<b>Net Custodial Collection Activity</b>	<u>\$ 0</u>	<u>\$ 0</u>

## Seized Assets

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi Government that are used in support of the Iraqi people. As of June 30, 2005, \$77,285 thousand of seized monetary assets remain to be disbursed in support of the Iraqi people as shown in the table below.

	(Amount in thousands)	
	<b>During FY 2005</b>	<b>Cumulative from Inception</b>
<b>Source of Collections</b>		
Seized Iraqi Cash	\$ 1	\$ 927,215
<b>Disposition of Collections</b>		
Iraqi Salaries	\$ 0	\$ 30,838
Repair/Reconstruction/Humanitarian Assistance	35,363	479,092
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	781	264,688
Fuel/Supplies	<u>0</u>	<u>75,312</u>
Total Disbursed on behalf of Iraqi People	\$ 36,145	\$ 849,930
Retained for Future Support of the Iraqi People	<u>(36,144)</u>	<u>77,285</u>
Total Disposition of Collections	\$ 1	\$ 927,215
<b>Net Custodial Collection Activity</b>	<u>\$ 0</u>	<u>\$ 0</u>

<b>Note 23.</b>	<b>Other Disclosures</b>
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As of June 30

2005

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

Future Payments Due Fiscal Year	<u>Land and Buildings</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
2005	\$ 1,593,641.14	\$ 0.00	\$ 0.00	\$ 1,593,641.14
2006	6,302,712.55	0.00	0.00	6,302,712.55
2007	6,298,011.17	0.00	0.00	6,298,011.17
2008	4,950,047.72	0.00	0.00	4,950,047.72
2009	3,793,801.84	0.00	0.00	3,793,801.84
After 5 Years	17,668,636.36	0.00	0.00	17,668,636.36
<b>Total Future Lease Payments Due</b>	<b>\$ 40,606,850.78</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 40,606,850.78</b>

**Definitions**

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

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

**Relevant Information for Comprehension**

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