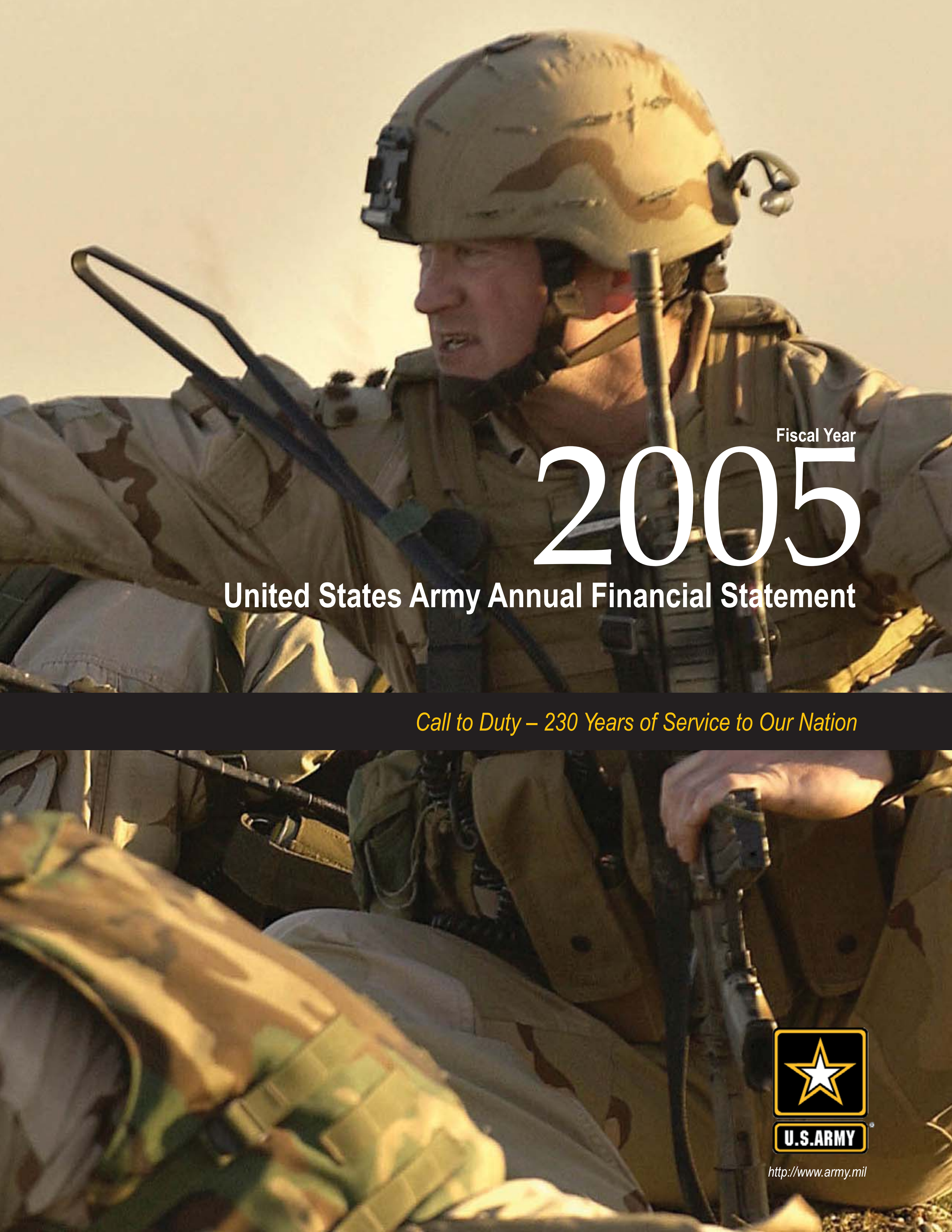

Fiscal Year

2005

United States Army Annual Financial Statement

Call to Duty – 230 Years of Service to Our Nation

U.S.ARMY

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Department of the Army

Office of the Deputy Assistant Secretary of the Army (Financial Management and Comptroller)

Office of the Financial Reporting Directorate

Room 3A312, 109 Army Pentagon

Washington, DC 20310-0109

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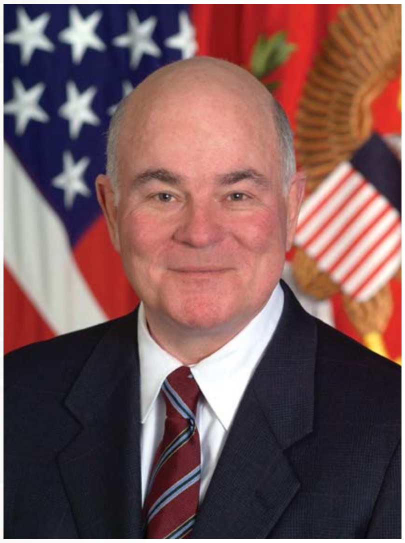
U.S.ARMY

The Honorable Francis J. Harvey



As the President stated on July 07, 2005, the day terrorists struck in London, "the war on terror goes on." This long war is likely to continue for the foreseeable future. Consequently, the Army must be ready and relevant today and tomorrow, always able to accomplish our mission of protecting America and providing the necessary forces and capabilities to the combatant commanders in support of the National Security and Defense Strategies.

In parallel with fighting the global war on terror, the Army is undertaking its largest transformation since WWII. The transformed force will be more powerful, flexible, rapidly deployable and it positions the Army to defeat new and emerging threats. Over the past year we continued to build the modular brigade combat teams, which are the centerpiece of the transformed force and to increase the size of the operational Army. Additionally, ongoing unit rebalancing, in conjunction with our new modular forces, will reduce the stress on our force by permitting more predictable rotation cycles with longer periods at home for our Soldiers.

The Army is also transforming its "back office" by streamlining its business practices and processes that enable us to more effectively manage people, cost and schedule – components which make up the backbone of business. The Army is beginning a critical review of the institutional Army to determine what resources, material, and property are essential to organizations, missions, and structures. We are adopting proven management analysis tools and procedures to analyze our manufacturing, repair, and administrative processes which will reduce cost while freeing up resources for the operational Army. We also awarded the contract for the General Fund Enterprise Business System, which will produce accurate, reliable, and timely financial information enabling better decisions and support for our Soldiers and their families.

To achieve our vision of remaining the preeminent landpower on earth, our Soldiers must remain the best trained, organized, equipped, and sustained in the world. Soldiers, and their civilian colleagues, are performing magnificently today in Iraq, Afghanistan, and in over 100 other countries around the globe; they deserve the best support we can provide. Consequently, transformation is ingrained in everything the Army does, operationally and institutionally.

Francis J. Harvey
Secretary of the Army

Valerie Lynn Baldwin

During fiscal year 2005, the Army managed $149 billion of appropriated funds. This included $58.4 billion in Global War On Terrorism supplemental funds. Among numerous accomplishments, we maintained a high operations tempo with 19 active component and 10 reserve component brigade combat teams deployed to Iraq, Afghanistan, and throughout the world. We created seven additional modular brigades as part of our Army transformation, and provided support to civil authorities along the Gulf coast for Hurricanes Katrina and Rita.

In addition, we adjusted the financial management strategic planning framework to align with strategic objectives. Under this framework, four financial initiatives were developed to close the gap between Army requirements and funding, improve the quality of financial management information systems, improve accountability and management controls for the Army enterprise, and execute effective financial management.

Providing accurate, timely, and relevant financial information to Army leaders requires sophisticated financial and business case analyses. By stressing innovation, creativity, flexibility, and following the Chief Financial Officer Strategic Plan, solid progress is being made to reach this objective. Thank you for your efforts and for serving this great Army.

Valerie L. Baldwin

Valerie L. Baldwin
Assistant Secretary of the Army
(Financial Management and Comptroller)

John Paul Woodley, Jr.

The Army Corps of Engineers traces its origins back to the construction of fortifications at Bunker Hill in 1775. Since then, the Corps has responded to the challenges of the nation and the Army. Throughout its history, the Corps has been committed to serving the nation and the Army in peace and war by providing comprehensive engineering, management and technical services.

Our responsibilities over time have continually evolved to reflect America's priorities. What began as a military engineering mission for nation building in the 18th Century expanded into a major peacetime mission in the 19th Century. The Corps helped a young nation map the frontier and expand westward by surveying roads and canals. The Corps contributed to the nation's economy by developing an inland navigation system that moved commerce across states and keeping ports and harbors open, a role critical for national defense. In the 20th Century, the Corps' civil mission expanded again with the adoption of more water resources development and management duties, including flood control, hydropower, recreation, water supply, shore protection, and disaster relief. More recently, environmental protection and restoration responsibilities were entrusted to the Corps.

As society's requirements and values have changed, the Civil Works mission has reflected changing national priorities for public water management. The Corps' abilities to evaluate, facilitate, advise, develop, operate, and manage provide a robust set of capabilities for the nation's benefit in facilitating an integrated approach to water resources management.

Responsibilities for the development, management, and protection of water resources constitute the current Army Civil Works mission. One of the great strengths of the Corps is the force multiplier effect between civil and military missions. In addition to the direct contributions that the Civil Works mission makes to our economic and environmental security and prosperity, the Corps also applies its Civil Works assets to support the Army in times of national need to enhance homeland security. In turn, the Civil Works mission derives greater capability and effectiveness by being an integral part of the larger Army and Defense team.

Looking to the future, we must seek to do everything within our authorities to ensure that our country's economy remains strong and its natural resources protected. Our nation's water resources are finite, and in managing those resources we are increasingly challenged to reach decisions that achieve an appropriate balance between the social and economic benefits of development with the need to protect the environment. As science and engineering continue to advance, we will seek to leverage these advancements to strike that balance.

We are dedicated to continuing a national water resources program that serves the best interest of our citizens. In that regard, I will continue to rely on the Strategic Plan for the Army Civil Works mission that sets forth the framework for enhancing the sustainability of America's water resources.

John Paul Woodley, Jr.

John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

Year in Review

"When the nation calls, the Army always has and always will answer that call. But we cannot stand still…we need to change."

The Honorable Francis J. Harvey, Secretary of the Army

FY 2005 In Review

Overview

The operations of the Army tempo remained high in fiscal year (FY) 2005. More than 250,000 Soldiers - a significant proportion of active and reserve component combat forces – are deployed in 120 countries around the world. Most of these Soldiers are in Iraq and Afghanistan, engaged in direct support of the Global War on Terrorism (GWOT); but the Army also continues to deter aggression and assist U.S. Allies in Korea; Europe, including the Balkans; South America; Africa; and in numerous other locations. In addition, Soldiers perform much essential work throughout the United States, to include providing homeland defense, supporting firefighting efforts in national forests, and most recently, supporting the relief effort following Hurricanes Katrina and Rita.

"We are the best Army in the world without a question. We just want to be a better Army."

The Honorable Francis J. Harvey, Secretary of the Army

This 21st century security environment is one characterized by uncertainty and unpredictability. The Army is transforming to adapt to this environment, at a pace that is steadily increasing due to the demands of being at war. The transformation effort is focused on the Army's centerpiece, the Soldier, and specifically on improving the capabilities of Soldiers to accomplish their missions. This focus ensures the Army accomplishes its mission of providing necessary forces and capabilities to the combatant commanders, and realizes its vision of remaining relevant and ready, today and tomorrow.

As FY 2005 came to a close, the Army had 1,014,910 men and women in uniform with 492,728 in the active force, 189,005 in the Army Reserve (USAR) and 333,177 in the Army National Guard (ARNG). In addition, the Army employed 235,645 civilian personnel.

Operation Iraqi Freedom and Iraq Reconstruction

Operation Iraqi Freedom continues to be the most significant mission in terms of troop levels and other resources. The Army force at the end of the fiscal year consisted of approximately 105,000 active and reserve component Soldiers. These Soldiers continue to assist the Iraqi people on their path toward a democratic state through the elimination of insurgents, provision of security, training of Iraqi security forces, and rebuilding of Iraqi infrastructure. On January 30, 2005, they worked with the Iraqi security forces to provide security for a high voter turnout and the successful election of the new Iraqi assembly.

The United States Army Corps of Engineers (USACE) is involved significantly in the reconstruction of Iraq's infrastructure. Its Gulf Region Division has execution, quality control, and quality assurance oversight of the Iraq Reconstruction and Relief Program. These military, civilian, and contractor professionals not only deal with the normal issues and concerns of rebuilding a crumbling infrastructure, but must do so under threat of attack from insurgents. Progress nonetheless is being made. The USACE, working with the Iraq Project and Contracting Office, which manages the approximately $18.4 billion Iraq Relief and Reconstruction Fund, certified over 1,600 of the 3,200 planned infrastructure projects as successfully completed by the end of the fiscal year. In fact, in June 2004, when Iraq transitioned to sovereignty, just over

Maj. Roger Alsup, a Missouri National Guardsman from the U.S. Army Corps of Engineers and principal of T.S. Hill Middle School in Dexter, Mo., distributes school supplies to Iraqi children in Fallujah. (by Norris Jones)

Army engineers from Alaska-based Company C, 864th Engineer Combat Battalion, level a portion of the nearly completed 117-kilometer TK Road, stretching from Kandahar to Tarin Kowt, Afghanistan. (by 1st Lt. Laura Walker)

200 projects were started. Today, more than 2,700 projects have been started. Improvements have been made to schools, hospitals, rail stations, bridges, water treatment stations, electric power plants, oil processing facilities, and many other infrastructure areas.

Operation Enduring Freedom – Afghanistan

Operation Enduring Freedom continues as well. At the end of the fiscal year, the Army had approximately 15,000 Soldiers in Afghanistan supporting the Afghan people's quest for freedom and democracy. Significant progress continues with the presidential election being held in October 2004 followed by parliamentary elections in September 2005. In addition to the elections, success was achieved through continued improvements in security and infrastructure. The Afghan National Army continues to grow in number and skill as well as the Afghan National Police, which welcomed its first class of graduates from the Kabul Police Academy. On the infrastructure side, one of the USACE's major efforts is the construction of roads in order to extend transportation routes into more rural areas of the country. One specific project, the road linking the cities of Kandahar and Tarin Kowt, was finished in September 2005. Enhancing transportation within Afghanistan will strengthen the newly elected government's credibility throughout the nation. In addition, the Afghanistan – Tajikistan Bridge Project was started in March 2005. Upon its completion in 2007, the bridge will significantly enhance the market economy of both nations. Work also continues to improve schools, hospitals, and other infrastructure projects.

Homeland Security

Homeland security is a team effort lead by the Department of Homeland Security. Within the Department of Defense (DoD), the mission of supporting homeland security rests with the U.S. Northern Command (USNORTHCOM) whose roles include homeland defense and civil support. Specifically, the command's mission is to conduct operations to deter, prevent, and defeat threats and aggression aimed at the United States and its territories, and to assist civil authorities as directed by the President or the Secretary of Defense. The Army's role in fulfilling this mission is executed primarily by the ARNG.

Army Reserve Soldiers from the 357th, 366th and 401st Chemical Companies, practice nuclear, chemical and biological decontamination and treatment procedures for simulated casualties at a joint civilian-military exercise at Fort McCoy, Wisc. (by Staff Sgt. Brian D. Lehnhardt)

The USNORTHCOM and National Guard Bureau, which includes both the Army and Air National Guards, held a homeland defense conference in February 2005 in order to ensure both parties know how to work together in accomplishing the mission of defending the homeland. Army involvement in homeland security included participation in numerous training exercises including Alaska Shield/Northern Edge 2005. Alaska Shield/Northern Edge provided a wide range of simulated natural disasters and terrorist actions in 21 Alaskan communities. The purpose was to challenge civilian and military first responders and test organizational and integration skills at all levels of government. In addition, Soldiers from Fort Hood's 4th Infantry Division participated in a USNORTHCOM quick reaction force (QRF) exercise at Lackland Air Force Base. The QRF exercises are designed to ensure ground forces can be deployed rapidly throughout the United States to accomplish the command's homeland defense mission. ARNG Soldiers participated in Operation Winter Freeze, a three-month operation with the U.S. Customs and Border Patrol along the U.S. – Canadian border, to keep terrorists out of the country and to break up smuggling rings supporting the terrorist threat.

In addition to assisting with homeland defense operations and training, the Army played a major role in the civil support mission, particularly in providing support after Hurricane Katrina that struck the Gulf Coast in early September followed closely by Hurricane Rita. Katrina brought devastation unprecedented by any other natural disaster in the United States and, as a result, required unparalleled support from the DoD and Army. The ARNG committed over 50,000 troops to the recovery operation, supported by more than 7,000 Soldiers from the active Army. These Soldiers participated in rescue and recovery operations, the provision of medical care, the distribution of supplies,

Paratroopers from the 82nd Airborne Division, perform a search and rescue mission in flood-ravaged New Orleans. (by by Staff Sgt. Christopher J. Crawford Sr)

the restoration of communications infrastructure, and the provision of security. The USACE also played a critical role, repairing damaged levees, pumping flood water out of New Orleans, and repairing damaged homes, among other support missions.

Transformation

The Army continued to move forward in all of its transformation initiatives, to include several of the most important: modularity, rebalancing, stabilization, growing the operational Army, and business process transformation. Success in these initiatives is crucial to becoming a 21st century Army able to meet current and future threats.

The reorganization of warfighting units into new, modular brigade combat teams (BCTs) continued with 12 more BCTs, to include one Stryker BCT becoming operational, and seven new BCTs created in FY 2005. The modularity initiative ultimately will result in more combat power for the Army along with more efficient and effective planning and logistics support due to the standardized makeup of the modular brigades.

"We're on a continual path to transformation. We're never going to arrive someplace that we're going to stop. It's open-ended. It's forever."

General Peter J. Schoomaker, Chief of Staff of the Army

The current and future security environments have required the Army to begin a rebalancing of its active and reserve component forces to ensure the right capabilities exist, in the right numbers and within the right component, to enhance mission accomplishment. Progress continued in FY 2005 with the rebalancing of over 26,000 positions. This rebalancing also will result in reduced stress on high demand/low density units and will improve readiness for rapid response operations.

The stabilization of Soldiers within units and at installations is critical to both unit combat effectiveness and Soldier and family quality of life. The Army is implementing life cycle management in its new brigades with the goal of Soldiers being assigned to a BCT for 36 months. This enhances the combat capabilities of the unit along with predictability and quality of life for Soldiers and their families. The Army brought five BCTs under the new life cycle management plan in FY 2005 with one more following shortly thereafter. The combination of the modularity, rebalancing, and stabilization initiatives result in an Army Force Generation model that is much improved and that will reduce the stress on the force significantly.

Another critical initiative in which the Army is making progress is growing its operational force strength from 315,000 to 355,000 by the end of FY 2007. This is necessary to ensure proper manning of the new modular BCTs, the redesigned division and corps headquarters, and the maneuver support and sustainment units of the operational Army. In FY 2005, approximately 8,000 positions in the institutional Army were converted from military to civilian staffing, thus releasing Soldiers for the operational Army. The goal for military to civilian conversions by the end of the program is 29,000. The balance of 11,000 Soldiers to be added to the operational force will come from a reduction in the number of Soldiers not assigned directly to units.

Business Transformation

Business transformation has grown significantly in importance within the Army in FY 2005. Limited resources in conjunction with a very high optempo security environment have required the institutional Army to ensure it is operating as effectively and efficiently as possible to free up resources for the operational Army and its warfighting mission.

"Any activity that you undertake, you have to approach it almost everyday asking yourself a very simple question…what will I do today or what have I done today to change and improve this organization? That's transformation."

The Honorable Francis J. Harvey, Secretary of the Army

Numerous initiatives have either been energized or have come into existence in the business transformation arena. One of the most significant is the application of the Lean/Six Sigma business process improvement tool. These techniques are being applied to manufacturing, repairing, resetting, service, and administrative processes. In the manufacturing, repairing, and resetting arenas, the Army Materiel Command is using Lean/Six Sigma extensively, particularly at its numerous depots. The results are impressive. At Letterkenny Army Depot, for example, savings from the application of Lean/Six Sigma are projected to be $21.5 million for the period FY 2003-2006. In addition, it enabled the depot to handle an increase in workload of 52 percent from FY 2004 to FY 2005 with a manning increase of just 27 percent.

The Army is also using the Base Realignment and Closure (BRAC) program to further its transformation efforts. At the end of the fiscal year the President submitted to Congress recommendations that included closing 12 and realigning six major Army installations. The process allowed the Army to make more sound restationing decisions for the modularized BCTs to ensure power projection capabilities are optimally positioned to meet the challenges of the 21st century, and to take maximum advantage of existing infrastructure assets.

Financial Management Transformation and Improvements

The Army is also transforming its financial management. One of its most significant advances in FY 2005 came with the awarding of the General Fund Enterprise Business System (GFEBS) contract. GFEBS will modernize the Army's business operations through a world-class integrated business system that provides transparent, auditable financial information in real time to enhance the management of the Army's resources. It will replace old, outdated technology, improve the commander's ability to finance requirements, and provide cost information that managers can use to manage their operations. It is a commercial software product widely used in government and industry and will become the common system that provides a single authoritative source for the Army's financial management information. The timeline for full implementation is aggressive, with the first technical demonstration scheduled for 2006 and full operational capability to come in 2009.

The Joint Reconciliation Program also is helping to improve the Army's financial results. Army efforts to reduce unliquidated obligations for canceling appropriations were again successful as it reduced the balance from $409 million at the beginning of FY 2005 to an ending balance of $21 million. This is a key performance measure for public sector financial management effectiveness and reduces the potential requirement of the Army having to use current resources for past years' requirements.

In FY 2005 the Army also continued implementation of the Defense Travel System (DTS), deploying DTS to all 29 sites scheduled for the year. DTS is an e-commerce initiative that reduces the number of steps a traveler must execute by more than half. In addition, each travel voucher processed using DTS saves the Army approximately $25 compared to those processed by legacy financial systems, a savings of over 500 percent on voucher processing alone. When fully deployed, DTS will support over 3.2 million military and DoD civilian personnel who make approximately 5.6 million trips annually.

Army Systems, Controls, and Legal Compliance

The Army continues to move forward with the implementation of its Chief Financial Officers (CFO) Strategic Plan, which is designed to synchronize Army efforts via a single comprehensive management plan with the overall objective of providing quality information to decision-makers. High-quality information is one of the foundations required for achieving a favorable audit opinion.

The plan is moving forward in numerous areas. In one example, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA (FM&C)) worked with the Defense Finance and Accounting Service (DFAS) to create interfaces between Army property systems and the DFAS Corporate Database (DCD), a component of the Business Enterprise Information Services infrastructure required by the DoD Business Management Modernization Program. Successful completion of this initiative will produce automated quarterly reporting of Army General Property, Plant, and Equipment (GPP&E), streamlining current financial reporting processes and moving the Army toward eliminating manual data.

Another example involves the Integrated Facilities System (IFS), an installation business system that addresses public works functions to include real property inventory, job cost accounting, work estimating and management, supply, and contract administration. The Army has modified IFS to make it compliant with the Federal Financial Management Integrity Act (FFMIA) of 1996 in terms of its ability to provide accurate, reliable, and timely financial information to Army managers regarding real property. In FY 2005, the U.S. Army Audit Agency (USAAA) performed an audit and assured that the system modifications provide the necessary capabilities to ensure compliance. Efforts now turn toward assessing the accuracy of real property data.

Full implementation of the Army CFO Strategic Plan will result in the elimination of noncompliant financial management and feeder systems, the introduction and

Soldiers from 1st Battalion, 508th Infantry Regiment, 173rd Airborne Brigade, board a CH-47 Chinook helicopter for a counterinsurgency operation near Mangritae, Afghanistan. (by Spc. Harold Fields)

use of state-of-the-art financial management systems, and the introduction of more effective and efficient business processes and management controls. The high-quality information thus produced will enable Army leaders to make better decisions and to provide better support to the Soldier.

Photo Credits

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Soldiers from 1st Battalion, 155th Brigade Combat Team and Marines from the 2nd Air Naval Gunfire Liaison Company, search for insurgents who launched mortars at them near Al Iskandariyah, Iraq. (by Kurt Gibbons II)

Year in Review Opening Photo

Soldiers from 2nd Platoon, Troop C, 4th Squadron, 14th Cavalry Regiment, keep a sharp lookout for insurgents while fellow Soldiers and Marines (not shown) search an area of Iraq near the Syrian border for weapons caches. (by Tech. Sgt. Andy Dunaway)

General Fund

"The war that we're currently engaged in, this level of operational demand, in fact is both a stressor on the force, as well as a vehicle to help us change because it gives us velocity. It gives us additional resources we otherwise wouldn't have."

General Peter J. Schoomaker, Chief of Staff of the Army

General Fund – Management's Discussion & Analysis

Overview

The Army General Fund is the largest Army fund. It finances military operations; supporting services; personnel; facilities; procurement; research, development, test, and evaluation (RDT&E); and nearly every other function required to keep the Army operating. A majority of the General Fund's revenue comes from congressional appropriations. In FY 2005, the Army received over $149 billion in appropriations from Congress.

Mission

The Army mission is to support the National Security and Defense Strategies by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission encompasses the intent of Congress, as defined in Title 10 of the United States (U.S.) Code, to:

1) Preserve the peace and security, and provide for the defense, of the U.S., the territories, commonwealths, and possessions of the U.S., and any areas occupied by the U.S.;
2) Support the national policies;
3) Implement national objectives; and
4) Overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 230 year existence of the Army, but the environment and nature of conflict have undergone many changes over time, especially recently with the Global War on Terrorism (GWOT). This has required the Army to undergo a simultaneous transformation process in the way that it fights and in the way that it trains and equips its Soldiers. This transformation is progressing rapidly, but must be taken to its full conclusion if the Army is to be relevant and ready, today and into the future.

Vision

The Army vision is to remain the world's preeminent landpower, relevant and ready at all times to serve the nation. The Army must fully train and appropriately organize its forces, develop innovative and adaptive leaders, and design support structures in accordance with the new global security environment. The Army must supply its combatant commanders with the forces necessary to meet and defeat any adversary, in any situation, at any time.

Organization

The Army is a very large and complex organization. Soldiers are its centerpiece, focus, and key component. The Soldier either makes up the various organizational elements of the Army, or is the reason for the element's existence. The Soldier is a professional, the ultimate expression of what the Army provides to the nation.

The Army, however, consists of more than just Soldiers. It also includes civilians in leadership and support roles at all levels. Civilian employees are essential to the successful accomplishments of the Army mission and the Soldiers. Soldiers and civilians alike are united by the common purpose of service to the nation. A third tier of personnel are the civilian contractors who provide specialized support and services to sustain and enhance readiness and operations. All three groups - Soldiers, Army civilians and contractors - serve the Army in both the garrison and deployed environments.

The Army is organized with the primary objective of supporting the mobilization, training, deployment, and sustainment of its Soldiers, anywhere in the world. The Headquarters, Department of the Army (HQDA) leads and manages the entire Army according

Relevant and Ready Landpower in Service to the Nation

The Nation has entrusted the Army with preserving its peace and freedom, defending its democracy, and providing opportunities for its Soldiers to serve the country and personally develop their skills and citizenship. Consequently, we are and will continuously strive to remain among the most respected institutions in the United States. To fulfill our solemn obligation to the Nation, we must remain the preeminent land power on earth-the ultimate instrument of national resolve; strategically dominant on the ground where our Soldiers' engagements are decisive.

The Honorable Francis J. Harvey, Secretary of the Army
April 2005

Staff Sgt. Chris Golde, a squad leader with Company A, Task Force 1-21, 25th Infantry Division, patrols Kirkuk, Iraq. (by Spc. Sean Kimmon)

"**Army Values, Soldier's Creed, Warrior Ethos**… These three statements establish the guiding value and standards of the Army profession. To understand Soldiers, you must know about them. To be a Soldier, you must live them."

CSA, MAY 2005

to the instructions of the Executive Office of the Headquarters, which includes the Secretary of the Army and the Chief of Staff. It is within the Executive Office that decision making authority is unified, enabling responsive actions to the dynamic mission requirements of the 21st century security environment.

Below headquarters level the Army is organized into the major commands (MACOMs) within which most Soldiers, civilians, and contractors reside (see Figure 2).

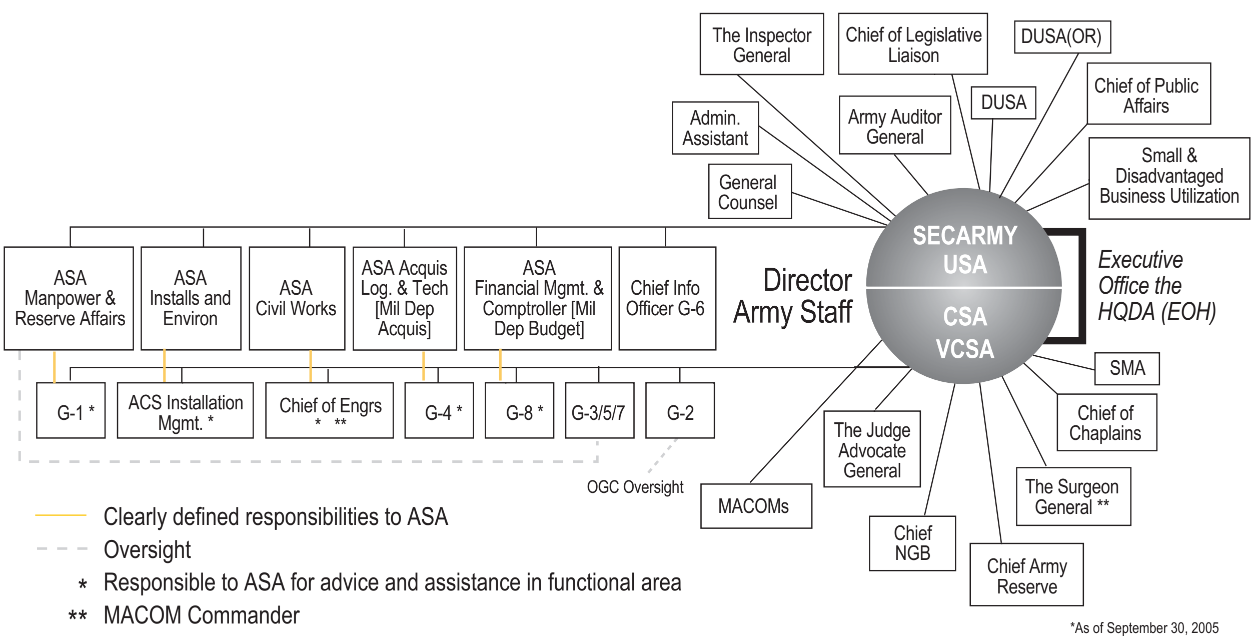


Figure 1. Headquarters, Department of the Army (HQDA)

Of these, Forces Command (FORSCOM) is the largest, encompassing the majority of the Army combat organizations (e.g. armies, corps, divisions, brigades, battalions, companies, platoons, and squads) and more than 730,000 Soldiers of the active and reserve components.

Figure 2. Major Commands (MACOMS)
Eighth U.S. Army, Korea
Military Surface Deployment and Distribution Command (SDDC), VA, United States
U.S. Army Corps of Engineers (USACE), DC, United States
U.S. Army Criminal Investigation Command, VA, United States
U.S. Army Europe (USAREUR), Germany
U.S. Army Forces Command (FORSCOM), GA, United States
U.S. Army Intelligence and Security Command, VA, United States
U.S. Army Materiel Command (AMC), VA, United States
U.S. Army Medical Command (MEDCOM), TX, United States
U.S. Army Military District of Washington, DC, United States
U.S. Army Pacific Command (USARPAC), HI, United States
U.S. Army South (USARSO), TX, United States
U.S. Army Space and Missile Defense Command (SMDC), VA, United States
U.S. Army Special Operations Command (USASOC), NC, United States
U.S. Army Training and Doctrine Command (TRADOC), VA, United States

The Army organization can be broken down by component or according to functionality. In terms of functionality, it divides into institutional and operational arms. The institutional Army mission is to support the warfighter by providing the training, facilities, and equipment necessary to best prepare Soldiers for their mission. Examples of the institutional Army functions and facilities are:

- Accessions
- Training
- Doctrine development
- Human resource management
- Medical support and health sustainment
- Civil engineer and infrastructure support
- Acquisition and procurement activities
- Organic industrial facilities
- Laboratories and research centers
- Hospitals and clinics
- Corps of Engineers districts

The operational Army, led by FORSCOM, provides the landpower capabilities for the combatant commander. Within the operational Army, the transition from a division-centric warfighting force to a brigade-centric force continues. At the heart of this change is the modularization and standardization of Army brigade combat teams, a process that will see the evolution of a more rapidly deployable, flexible, and powerful force.

Viewed by component, the Army can be separated into the active and reserve components. The active component consists of full-time Soldiers and Army civilians assigned to the operational and institutional organizations that perform the day-to-day Army missions. Congress annually reviews and mandates the number of Soldiers that the Army may maintain.

"The metaphor of the racecar to describe the difference between the operational army and the institutional army, I think, is a good one. The pit crew would be the institutional army. It's those things that stand behind the operational force and enable it to be properly trained, properly equipped, properly recruited, properly manned and properly structured."

MG N. Ross Thompson, III, Army Director of Program, Analysis and Evaluation

Soldiers from the 3rd Infantry Division move swiftly into their M1A1 Abrams Main Battle Tanks for a mission to Baqubah, Iraq. (by Staff Sgt. Suzanne Day)

The reserve component comprises of the ARNG and the USAR. The ARNG has two missions: federal and state. Its federal mission is to provide trained and ready forces for wartime, national emergencies, and other missions. Its state mission is to train for and respond to domestic emergencies and other missions as required by state law. Unless federally mobilized, ARNG units are commanded by their state executive, usually the governor.

Soldiers from the Tactical Psychological Operations Team 1092, 155th Brigade Combat Team, patrol Tak, Iraq, in their Bradley Fighting Vehicle. (by Lance Cpl. Michael J. O'Brien)

The USAR is the primary federal reserve force of the Army. The primary role of the USAR is to provide specialized units and resources to support the deployment and sustainment of Army forces around the globe. In addition, the USAR is the main source of individual Soldiers for headquarters staff augmentations and to fill vacancies in the active component. Throughout FY 2005 and immediate prior fiscal years, the Army has experienced unprecedented high levels of reserve component activation and deployment. This fact, combined with brigade modularization, makes this the period of most profound change in the Army since World War II.

21st Century Strategic Framework and Army Transformation

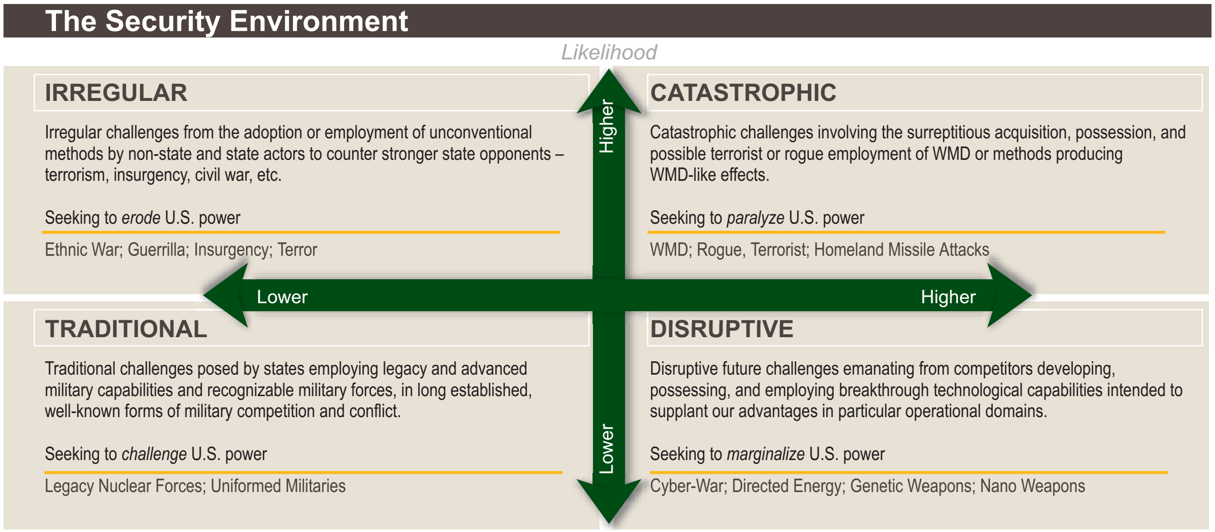
"The security environment of the 21st century is characterized in particular by what we call irregular warfare which we see going on real time in Iraq with counterinsurgencies coupled with stability and reconstruction operations."

The Honorable Francis J. Harvey, Secretary of the Army

On November 19, 2004 the Army appointed its 19th Secretary, Dr. Francis J. Harvey. It is the responsibility of the Secretary to direct the Army in pursuit of its vision, and Dr. Harvey accordingly has introduced a strategic framework within which the Army will operate as it maneuvers through today's unpredictable security environment. This environment is characterized by what is predicted to be a persistent state of conflict presenting the Army with four types of challenges: traditional, irregular, catastrophic, and disruptive (see Figure 3). It is an environment far different from anything that the Army has faced in the past, and requires significant and rapid transformation to remain relevant and ready.

Within this framework (see Figure 4), the Army has four overarching and interrelated strategies for accomplishing its mission of providing necessary forces and capabilities to the combatant commanders in support of the National Security and Defense Strategies. The effective and efficient achievement of these strategies is imperative to success; imperative to reaching the Army's strategic vision. The common thread uniting each of these strategies is transformation.

Figure 3. The Security Environment



The four strategies are to: (1) develop ready and relevant land forces for the 21st century security environment; (2) train and equip Soldiers to serve as warriors and grow adaptive leaders; (3) attain a quality of life for Soldiers and their families that matches the quality of their service; and (4) provide infrastructure to enable the force to fulfill its strategic roles and missions. Each strategy has a number of supporting initiatives, 21 in all. These strategies and initiatives are necessary to meet today's commitments while preparing for the future. Their common focus is the Soldier, directly in the provision of training and resources and indirectly in the provision of care for the Soldier's family. Soldiers ultimately accomplish the mission and therefore the focus must be on them to ensure they are prepared in every way to perform their duties at the highest possible level.

Figure 4. The Strategic Framework

The performance results section that follows details the progress throughout FY 2005 that the Army has made toward each of its four strategic goals.

Business Transformation

Business transformation has been given a new and stronger emphasis with Secretary Harvey's arrival. There have been detached business transformation initiatives within the Army for many years, but they have lacked the focus required for business enterprise transformation. The Army Posture Statement for 2005 clearly states that business transformation is a strategic imperative. Focusing on the warfighter, the statement mandates that all resources be expended efficiently in support of the effectiveness of the operational Army. This imperative requires a fundamental change in the way the business of the Army is viewed as well as the manner in which it allocates resources and measures the effectiveness of the employment of those resources.

The primary goal of business transformation is to streamline or eliminate redundant operations and to redirect resources to the warfighting mission. To accomplish this goal, the Army has set for itself the objectives for establishing a performance culture;

"We are looking at transforming the entire system that supports the Soldier both at home and on the battlefield and provides us an Army where we have a great deal of confidence that what we are fielding are whole teams that have been together, that are well-equipped, well-trained, and capable of accomplishing a wide range of tasks for the challenges of the 21st century."

General Peter J. Schoomaker, Chief of Staff of the Army

improve its reset, repair, manufacturing, and business processes; outsource where it makes sense; apply information technology; and empower its leaders to make the necessary changes and hold them accountable for their decisions.

Initiatives are underway to accomplish the goal of transforming business processes and achieving significant efficiencies. The Army will use the resources harvested from these efforts to provide additional warfighting capabilities as well as to continue the transformation of business processes. Below are short descriptions of the major initiatives or associated efforts that the Army will leverage to achieve additional efficiencies.

"We have to look at how we do business. Lean Six Sigma is reducing the cycle time of processes used to conduct business. They could be manufacturing processes; they can be repair processes. It applies to everybody. It applies to the factory floor; it applies to the engineering; it applies to the administration."

The Honorable Francis J. Harvey, Secretary of the Army

Lean/Six Sigma: This is a manufacturing best business practice process improvement tool that combines Six Sigma and Lean manufacturing techniques to achieve both greater efficiency and increased quality or effectiveness. This approach has been adapted for use in management and administration as well as in traditional industrial operations. The Army has conducted executive-level training and identified high payoff processes in which to employ Lean/Six Sigma. The Army has completed a first round of process reviews that included the planning, programming, budgeting, and execution process and the processes and functions associated with the Office of the Administrative Assistant to the Secretary of the Army. The Army anticipates at least a 30 percent reduction in personnel resources in these two process areas with the use of the Lean/Six Sigma process. Lean/Six Sigma is also being applied to some of the Army's manufacturing and repair processes at depots of the Army Materiel Command.

Information Management Systems Portfolio Management: This process takes a disciplined and logical approach to reviewing information technology (IT) enabling processes against required capabilities to determine redundancies and gaps. In addition to providing the management tool to eliminate redundant systems and applications, this process also allows the enforcement of financial statutory requirements associated with information management systems. The cost savings from the elimination of redundant systems will contribute significantly to the funding of IT modernization and enabling business process re-engineering initiatives.

Institutional Army Adaptation: This initiative entails a critical review of the institutional, or business, side of the Army with the objective of focusing the business processes and organization structure to provide maximum effectiveness and efficiency to optimize its support of the operational side. Organizations such as the Training and Doctrine Command and the Army Materiel Command are being assessed to determine the business processes that are core and essential to the missions of these commands and, from that, the organizational structure that best supports the execution of these processes. The Army expects to realize significant human resource savings as the recommendations of this initiative are put into place.

Business Initiatives Council: The Business Initiatives Council (BIC) has been in place since 2001 and has generated significant improvements. It initially consisted of both a DoD component and an Army component, but currently is focused within the service. Initiatives undertaken to date by the BIC have focused on areas such as privatization of installation housing and guest lodging, cost effective approaches to environmental characterization and clean up, efficient methods of providing for household moves for Soldiers, and a number of other projects in that vein. In addition, initiatives have been identified that are function or task focused, but have had similar cost effectiveness impacts. This program operates across the Army and actively encourages participation from everyone at all levels to substantially improve operating methods. In the case of the BIC, these are not confined to the realm of the institutional Army, but also include numerous initiatives focused on delivering operational capability.

Base Realignment and Closure (BRAC): While BRAC is concerned with the alignment of infrastructure with Army and joint current and future requirements, there are opportunities to identify other efficiencies and process improvements leveraging the BRAC analyses and recommendations. For example, organizations that are relocating may be analyzed to determine if processes performed can be made more efficient and effective, thereby reducing the personnel and associated infrastructure requirements. To perform these analyses before relocating can conserve transportation funding as well as limit the potential construction or modification requirements at the receiving location.

As previously stated, the Army is using every opportunity and is making a significant culture change to transform the business of the Army. Changing business practices has many potential benefits such as focusing on increasing effectiveness while reducing costs. The goal of the Army's fundamental business enterprise transformation effort is to create revolutionary results through continuous assessments of business processes and incremental transformation. The benefits that the Army will garner from this initiative are increased capabilities and resource efficiencies that will result in better support to the Soldier.

Financial Management Strategic Framework and Transformation

In accordance with the Army strategic context update, the OASA (FM&C) updated its own strategic priorities for financial management (see Figure 5).

The Army financial management team must execute these priorities in a financial management environment characterized by tight budgets, an emphasis on controls, increasing accountability and transparency, the need for timely resource decision-making, enterprise systems, and an emphasis on results-oriented governance. It is in this environment that the Army financial management community must accomplish its mission of providing the resources to support Army missions while controlling the distribution of funds, accounting for assets, and ensuring the efficient and effective stewardship of the nation's resources entrusted to the Army.

The financial management strategic priorities are: (1) close the gap between Army requirements and funding, (2) improve the quality of the financial management information systems, (3) improve accountability and management controls for the Army enterprise, and (4) execute effective financial management. Just as with the Army overarching priorities, the common thread woven through each of these priorities is transformation. The first priority supports the provision of well-trained, equipped Soldiers, and adaptive leaders while each of the last three priorities directly supports business transformation initiatives. The OASA (FM&C) moved

Figure 5. Strategic Priorities for Army Financial Management

21st Century Financial Management Environment

- Constrained budget
- Increasing accountability, transparency
- Enterprise systems
- Emphasis on controls
- Need for timely resource decision-making
- Emphasis on results-oriented government

Intent: Army financial management will be an effective, efficient provider of support to the Joint and expeditionary Army.

Mission: Provide the resources to support Army missions. Control the distribution of funds, account for Army assets and ensure the efficient and effective stewardship of the Nation's resources entrusted to Department of the Army.

Loyalty – Duty – Respect – Selfless-Service – Honor – Integrity – Personal Courage

Overarching Strategy:	Overarching Strategy:	Overarching Strategy:	Overarching Strategy:
1. Close the gap between Army requirements and funding	2. Improve the quality of financial management information systems	3. Improve accountability and management controls for the Army enterprise	4. Execute effective financial management

Human and Financial Resources

Risk: Increasing or constant requirements in the face of limited resources.

forward with each of its priorities in FY 2005, as detailed below.

Narrowing the Requirements Gap: First, the Army planning, programming and budgeting communities are working to narrow the gap between requirements and resources by exercising greater discipline throughout the requirements generation and prioritization process. The OASA (FM&C) initiated a plan to review requirements and associated historical data to determine potential opportunities for reductions or divestitures. It also devised a strategy to better estimate and monitor acquisition costs in order to enhance decision making and determine if there are any opportunities for reductions. Finally, the OASA (FM&C) continued to improve the communication of the Army story to the American public, including Congress, to ensure that the members of Congress and their staff are fully educated on Army programs.

Improving Financial Management Information Systems: The OASA (FM&C) moved forward in accomplishing its strategy of improving the quality of financial management information systems by awarding the General Fund Enterprise Business System (GFEBS) contract. Not only will this new commercial-off-the-shelf enterprise resource planning system provide Army decision makers with more relevant and reliable financial information, but it will also eliminate a substantial number of legacy systems by integrating their functionality. At this point, the OASA (FM&C) has identified 252 candidate legacy financial management systems and have developed a timeline for eliminating 29. Decisions for the remaining systems will be made as GFEBS development and implementation continues.

Improving Accountability and Management Controls: The OASA (FM&C) made progress in improving accountability and management controls by hiring a new principal deputy for controls who will focus on this particular strategy. Strong controls are a requirement for ensuring proper management of Army resources and that information is accurate and timely. The OASA (FM&C) also has progressed in budget performance integration (BPI) metrics having associated 83 percent of the Army's total obligation authority with BPI metrics, meeting the DoD requirement of 80 percent for FY 2006. In addition, the OASA (FM&C) continued to improve management controls by monitoring their implementation progress for Anti-deficiency Act cases, government travel and purchase card delinquencies, and Defense Travel System usage.

Executing Effective Financial Management: Finally, the OASA (FM&C) enhanced financial management throughout FY 2005 by applying Lean/Six Sigma to several of the Army's internal processes that resulted in significant time and money savings. The Army streamlined its BIC procedure by cutting the process time in half and simplified both the Anti-Deficiency Act and Contract Disputes Act processes to reduce investigative cycle time and interest payments, respectively. In addition, the Army Comptroller Proponency office provided training, education, and leadership development opportunities to the future financial management workforce by exceeding professional training and education enrollment level goals in each quarter. The resource management community also has begun the revision of the planning, programming, budgeting, and execution process with the goal of allowing for continuous resource decision making informed by strategy, priorities, execution analysis, and changing global conditions.

The Army CFO Strategic Plan has been updated to include these and other initiatives to ensure the Army makes consistent progress toward reaching each of these priorities along with achieving a favorable audit opinion on its financial statements. The CFO Strategic Plan is the Army's road map to full compliance with the Chief Financial Officers (CFO) Act of 1990. The plan continues to result in better quality information being provided to Army leaders, decision makers, and stakeholders enabling them to make more informed decisions.

A Soldier from the 35th Infantry Regiment, 25th Infantry Division (Light), in Zabol Province, Afghanistan, carefully scales the side of a homemade ladder to search for Taliban insurgents and weapons caches. (by Spc. Jerry T. Combes)

General Fund Performance Goals, Objectives, and Results

The current national security environment requires the Army to be engaged fully to provide capabilities required to fight and win the GWOT and to sustain the full range of the nation's global commitments. Additionally, the security environment demands the Army transform its forces today to meet tomorrow's needs by providing a campaign-quality Army with joint and expeditionary capabilities. As previously stated, the Army is pursuing four overarching and interrelated strategies to meet both today's and tomorrow's needs.

This section describes the Army FY 2005 performance goals, objectives, and results in terms of its four strategies and supporting initiatives. Since the Army must address both operational demands and transformation initiatives, the results indicate how the performance is balanced within the defense strategy's four spheres of risk -- force management, operational, institutional, and future challenges. The results of the report also describe how the Army will fulfill the obligation to defend the nation and its interests by remaining the preeminent landpower on earth, ready to meet the challenges of the complex 21st century security environment.

Army Performance Results

The four major strategies laid out by Army leadership are supported by 21 initiatives. These 21 initiatives are constructed to guide the Army through the transformation of the operational force and streamlining of business processes. The Army is in the process of aligning all programs to the 21 initiatives. Some of the initiatives have mature performance measures that are currently reporting actionable results. These initiatives will be discussed in detail below.

Strategy: Develop Ready and Relevant Land Forces for the 21st Century Security Environment

The Army's first overarching strategy is to develop ready and relevant land forces in support of the combatant commanders and the joint force to sustain the full range of global commitments. The initiatives supporting this strategy are:

- Build a campaign-quality force with joint and expeditionary capabilities;
- Enhance joint interdependence;
- Reset the force;
- Convert to a brigade-based modular force;
- Rebalance active and reserve component units and skills;
- Stabilize Soldiers and units to enhance cohesion and predictability;
- Leverage Army science and technology programs;
- Spin out Future Combat Systems (FCS) capabilities in the current force; and
- Restructure Army aviation.

Initiative: Build a campaign-quality force with joint and expeditionary capabilities.

An environment of persistent conflict requires a campaign-quality force capable of sustaining significant levels of commitment. The Army will provide that force through modular conversion, development and implementation of the Army force generation (ARFORGEN) model, development and fielding of the FCS, and several of the other initiatives.

Modular conversion is at the heart of the strategy to build a campaign-quality force with joint and expeditionary capabilities. Modular conversion migrates capabilities previously found in divisions and corps to the brigade, enabling the Army to be more responsive to combatant commander requirements and providing increased capabilities to the joint force commander. Additionally, modular army, division, and corps headquarters provide the combatant commander with readily deployable, scalable, headquarters that are joint task force or coalition joint force capable.

ARFORGEN, when fully implemented, will enable the Army to routinely sustain a commitment of up to 20 brigade combat teams (BCTs) and surge to provide 40 BCTs on short notice, if required, providing a truly campaign-quality force. The Army has made significant progress on the ARFORGEN model in FY

2005 and will publish a complete implementation plan in January 2006.

The Army is also providing combatant commanders with improved joint and expeditionary capabilities through the development and fielding of the FCS. FCS-equipped BCTs will provide the joint force commander with a truly expeditionary force capable of fighting on arrival, even on a distant battlefield. Mature FCS technologies will be spun out to the field well before full fielding, providing the current force with increased capabilities.

Initiative: Enhance joint interdependence.
Joint interdependence is essentially the purposeful reliance on other services to provide required capabilities to Army units. As part of ongoing transformation efforts, the Army has substantially reduced the number of artillery and air defense units within its force structure. The Army has done this in recognition of the fact that sister services, as part of a joint team, can deliver these capabilities to ground forces. The Army re-invested resources from this divestiture into additional brigade combat teams and other forms of landpower that provide the joint force with capabilities complimentary to those of the other services.

Initiative: Reset the force.
Major combat operations in Iraq and Afghanistan are placing tremendous demands on the Soldiers and equipment. The reset program is designed to address the effects of combat stress on equipment and to prepare that equipment and Soldiers for future missions. In FY 2005, the 4th Infantry Division and the 101st Airborne Division (Air Assault) completed the reset program. The 2nd Light Cavalry Regiment, the 10th Mountain Division, the 1st Armored Division, the 76th Infantry Brigade (Indiana), the 30th Infantry Brigade (North Carolina), and the 82nd Airborne Division are in various stages of the reset program.

Amidst the constant demands of war, equipment is aging far more rapidly than projected. In FY 2005, the Army goal was to recapitalize over 6,500 tracked and wheeled vehicles. The Army exceeded this goal in FY 2005 funding the recapitalization of a total of 7,050 tracked and wheeled vehicles.

Initiative: Convert to a brigade based modular force.
Conversion to the Army modular force (see Figure 6) started in FY 2004 and continues today. This conversion touches all aspects of the Army—from structure to training methodologies to the global footprint of the force—enabling the Army to be more responsive to combatant commanders' requirements.

Soldiers from 2nd Squadron, 14th Cavalry Regiment, roll through the desert in their Stryker vehicle during a patrol near the Iraq/Syria border. (by Staff Sgt. Kyle Davis)

Figure 6. Conversion to a Brigade Based Modular Force

This graphic depicts units that have converted to the modular (BCT) structure; units trained, equipped, and ready to deploy; and units that will restructure in the upcoming year.

The modularity initiative represents the transition of the Army from a division-centric structure to one that is centered on the BCT. The conversion increases the number of active brigades from 33 to 43 and the total number of brigades (active and reserve) in the rotational pool to 77. Modular conversion standardizes brigade formations across the active and reserve force and increases capabilities of the BCTs by organizing them the way they will operate. In combination with ARFORGEN, lifecycle manning, and other initiatives, modular conversion will reduce stress on the force by increasing the number of BCTs in the rotational pool and enabling predictable rotation cycles. Additionally, modular brigades will provide the organizational framework for implementing the Future Combat Force Strategy (FCFS).

In FY 2005, the goal was for 11 BCTs and one Stryker brigade to be operational. The Army achieved this goal by converting four brigades from the 101st Airborne Division (Air Assault), three brigades from the 10th Mountain Division, four brigades from 4th Infantry Division, and the 172nd Stryker (SBCT), completing the modular conversion of four of the Army's ten divisions. These BCTs are trained, equipped, and ready, and will deploy in support of Operation Iraqi Freedom (OIF) or Operation Enduring Freedom (OEF) in FY 2006.

The Army's newly created modular formations are making a difference now. The FCFS will allow the Army to take advantage of technologies as they are developed and place them into the hands of Soldiers.

Table 1. Convert to a Brigade-Based Modular Force

	FY 2005 Goal	FY 2005 Actual
Number of BCTs ready to deploy	11	11
Number of SBCTs fielded	1	1

Initiative: Rebalance active and reserve component units and skills.

To meet the demands of the new security environment, the Army is rebalancing the active and reserve components in order to: increase the Army's capabilities in military police, military intelligence, special forces, chemical, civil affairs, and psychological operations; decrease the necessity for involuntary mobilization of reserve component units during the first 15 days of a rapid response operation; and eliminate over-structure in the reserve components to fill remaining units to 100 percent. Under this initiative the Army will restructure over 125,000 positions by FY 2011.

The Army had planned to rebalance over 26,000 positions this year and it met that goal. Currently, the Army remains on track to complete the rebalance initiatives by FY 2011. Additionally, the Army continues to identify and convert positions in its institutional force from military to civilian to free up additional Soldiers to fill requirements in the operating force. The Army met the FY 2005 goal by converting 7,604 positions from military to civilian.

Initiative: Stabilize Soldiers and units to enhance cohesion and predictability

To improve unit cohesion and readiness, while reducing both turbulence in units and uncertainty for families, the Army has changed how it mans units. Under lifecycle management, the Army stabilizes Soldiers inside a BCT for approximately 36 months. Lifecycle management will build more deployable, combat capable units while also improving long term stability, predictability, and quality of life for Soldiers and their families. In FY 2005 the Army planned to resource six BCTs under lifecycle management. To date the Army has implemented lifecycle management in five BCTs with the sixth unit coming on-line in October 2006.

Initiative: Spin out future combat systems capabilities into the current force.

The FCS program is a holistic approach to designing and producing a family of manned and unmanned systems that are fully networked, information based, and integrated across the Army as part of the joint team. FCS will use evolutionary acquisition to develop, field, and upgrade FCS components throughout their lifecycle. The Army will accelerate fielding of select FCS capabilities (called spin outs) to reduce operational risk to the current force. The modular formations, enabled by FCS, will ensure Soldiers and leaders have the capabilities needed to win decisively whenever and wherever the nation calls them to do so.

The Army restructured the FCS program to accelerate the introduction of battle command, the Army network, and other crucial capabilities to the current force, while continuing to build the initial FCS-equipped BCT. Accelerating the fielding of battle command capabilities to establish a more capable and reliable network will support the DoD goal to bring the joint community closer to a common operational picture. The linkage brings improved situational awareness, which will allow warfighters to see, understand, and strike first.

In FY 2005 the Army continued to deploy critical communications systems to provide timely and accurate command and control information to the Soldier in the field. These systems included:

- Single Channel Ground and Airborne Radio System (SINCGARS), a versatile data and voice communications system that operates on the digitized battlefield;
- Multi-Band Interoperable Tactical Radio (MBITR), a light weight hand held tactical radio;
- Force Battle Command, Brigade and Below (FBCB2)/ Blue Force Tracking (BFT), a digital battle command information and integrating system that provides near real-time common picture, navigation tools, messaging capability, and force tracking capability for immediate battlefield identification.
- Enhanced Position Location Reporting System (EPLRS), the mobile wireless data communications backbone for the Army's Tactical Internet, which also works with FBCB2.

These systems supplied tactical internet capabilities for four divisions and three BCTs in OIF and OEF during FY 2005. In FY 2006, the Army plans to continue to equip the forces with these systems, which will enhance mission effectiveness and Soldier survivability significantly. Each acquisition or developmental system has a detailed development plan and milestones. The milestone decision authority must review progress and approve further development at each key decision gate. In addition, program managers report monthly the cost, schedule, and performance variance from the plan for each system.

Initiative: Restructure Army aviation.
In February 2004, the Army canceled the Comanche helicopter program. Reallocation of Comanche funding allowed the Army to modularize, modernize, and improve force protection for aviation units, to include accelerated fielding of aircraft survivability equipment. Modernizing the fleet will reduce maintenance costs, increase survivability, and improve readiness rates. Key components of the aviation modernization plan include: resetting aircraft as they return from Iraq and Afghanistan; producing more MH-47G's; converting aviation brigades to support the Army Modular Force; and recapitalizing UH-60A's and CH-47D's.

Table 2. Restructure Army Aviation

	FY 2005 Goal	FY 2005 Actual
Number of Aircraft Reset (Mix of OEF/OIF Returning Aircraft)	480	506
MH-47G Produced	13	13
Combat Aviation Brigades (CAB)	5	5
UH-60 A-A Recapitalization	26	26
CH-47 D-D Recapitalization	3	3

This program is on track and already is paying dividends. Due to decreased reset costs, the Army was able to complete more aircraft than originally planned. Also, initial data show that Army recapitalized aircraft have a 20 percent higher mission capable rate and are experiencing less than 1 percent non-mission critical failures.

Strategy: Train and Equip Soldiers to Serve as Warriors and Growing Adaptive Leaders

Training and equipping Soldiers to serve as warriors and growing adaptive leaders is the second overarching strategy. The initiatives in this area are:

- Reinforce the centerpiece: Soldiers as warriors;
- Recruit and retain Soldiers;
- Equip Soldiers;
- Train Soldiers and grow adaptive leaders; and
- Enhance the combat training centers.

Initiative: Reinforce the centerpiece: Soldiers as warriors.
Human skills may change as technology and warfare demand greater versatility. No matter how much the tools of warfare improve, it is the Soldier who must

exploit these tools to accomplish the mission. The Soldier will remain the ultimate combination of sensor and shooter.

Mental and physical toughness underpin the beliefs embraced in the Soldier's Creed and must be developed within all Soldiers — without regard to their specialty, their unit, or their location on the battlefield. In FY 2005 the Army implemented the additional rigor and relevance directed by the Chief of Staff, Army's Warrior Ethos concept. The program of instruction in basic combat training increased the Soldier's warfighting capability through enhanced training on 39 individual tasks and nine battle drills. The Army also began implementation of the new officer education system in FY 2005 and created the Basic Officer Leader Course II to focus on critical warrior tasks for all newly commissioned officers. Finally, the Intermediate Level Education (ILE) program replaced the Command and General Staff Officer Course expanding the ability to educate 100 percent of the Army's mid-grade officers while creating focus on officers' specific career paths.

Initiative: Recruit and retain Soldiers.

Recruiting: In FY 2005, 73,373 Soldiers answered the nation's call to service by enlisting in the Army. The Army achieved 92 percent of its FY 2005 goal of 80,000. This is the first shortfall since 1999. The Army is beginning FY 2006 with its smallest pool of recruits in the delayed entry program pipeline in more than two decades -- just 12 percent of its yearly target of 80,000 recruits.

Table 3. Recruiting

	FY 2003 Actual	FY 2004 Actual	FY 2005 Goal	FY 2005 Actual
Active Army	74,132	77,587	80,000	73,373
Army Reserve	27,365	21,292	22,175	19,400
Army National Guard	54,202	49,210	63,002	50,219

Performance Measure: Measures the number of Soldiers recruited during a given fiscal year against the published goals.

The Army did not achieve the end-strength of 502,400 set by Congress, missing this requirement by 9,672. The target end-strength supports the Army's plan to add 10 combat brigades (from 33 to 43 by the end of FY 2007) to the operational force and provides flexibility while being simultaneously engaged in the GWOT. Several factors have contributed to the difficult recruiting environment. These include low unemployment, the GWOT, a lower youth propensity to serve, and a greater reluctance of parents and other influencers to recommend military service.

Table 4. Active Component End-Strength Within 2%

	FY 2003	2004	FY 2005
Goal	480,000	482,400	502,400
Temporary Authority	NA	NA	512,400
Actual	499,301	499,543	492,728
Percent Delta	4.0%	3.6%	(2.0%)

Performance Measure: The number of Soldiers on active duty at the end of the year.

The selected reserve accession goal in FY 2005 was 91,487 (63,002 ARNG and 28,485 USAR). The ARNG missed its accession goal in FY 2005 by 12,783. The USAR also missed its accession goal by 4,626. Lower than expected accessions, coupled with normal attrition, meant that the selected reserve finished the year over 32,000 below desired end-strength. Despite the end-strength shortfalls, both the ARNG and USAR have continued to sustain operations for both federal and civil authorities. The hurricane support for Katrina and Rita deployed over 51,000 ARNG Soldiers in both state active duty and federal status.

Table 5. Selected Reserve (USAR and ARNG) End-Strength Within 2%

	FY 2003	FY 2004	FY 2005
Goal	555,000	555,000	555,000
Actual	562,981	547,049	522,182
Percent Delta	1.4%	(1.4%)	(5.9%)

Performance Measure: The number of Soldiers in the USAR and ARNG at the end of the year.

To address this recruiting shortfall, the Army increased its recruiting force by over 4,000 recruiters (increasing the numbers to 6,279 active, 1,774 USAR, and 5,100 ARNG recruiters). The Army has also increased college fund grants to $70,000 for qualified active component applicants and increased the maximum enlistment bonus from $8,000 to $10,000 for reserve component, non prior service accessions.

Continuing to adapt its recruiting action plan to the challenging environment, the Army set forth other proposals that are currently pending congressional approval. The proposals include a $2,500 referral bonus for Soldiers who influence friends and acquaintances to enlist in the Army. Other incentives include doubling the maximum enlistment bonus, from $20,000 to $40,000, for top-scoring recruits, and a $45,000 tax free home mortgage down payment for Soldiers who stay in the service for six years. Finally, the ARNG and USAR increased the age limit for new recruits from age 35 to 39. The age limit change alone provided 900 new Soldier contracts. The active Army is proposing the same age limit change.

Retention: Another mitigating factor in easing the recruiting shortfall is the Army's success in retaining Soldiers. In FY 2005, the Army exceeded its retention goal for all three components -- active Army, ARNG, and USAR. The Army's success in retention indicates that Soldiers believe in what they are doing and, once recruited, are inclined to stay. Additional bonus money was instrumental in capitalizing on this willingness to serve. For instance, a bonus of $15,000 was offered to any Soldier who reenlisted while deployed to Iraq, Kuwait, or Afghanistan.

Capt. Jeffrey T. Burgoyne, commander, Company B, 1st Battalion, 325th Airborne Infantry Regiment, 82nd Airborne Division, shakes hands with his brother, Sgt. 1st Class Cliff Burgoyne, a platoon sergeant in the same battalion, after reenlisting him during a ceremony at Bagram Airfield, Afghanistan. (by Pfc. Mike Pryor)

The active Army FY 2005 retention goal was 64,162. The Army not only met this goal, but reenlisted 9,500 more Soldiers than last year achieving 108 percent of the retention mission. All 10 active divisions achieved better than 100 percent of their retention goals with the 3rd Infantry Division, which is currently in Iraq, finishing at 138 percent of their FY 2005 goal.

The USAR exceeded their goal by 237 Soldiers and closed the fiscal year at 102 percent of the FY 2005 retention mission by reenlisting 16,485. The ARNG closed out fiscal year 2005 at 104 percent of the FY 2005 retention mission by exceeding their goal by over 1,200 Soldiers.

Table 6. Active and Reserve Component Retention

	FY 2003 Actual	FY 2004 Actual	FY 2005 Goal	FY 2005 Actual
Active Army	54,151	60,010	64,162	69,512
Army Reserve	13,749	16,330	16,248	16,485
Army National Guard	52,832	47,012	32,570	33,804

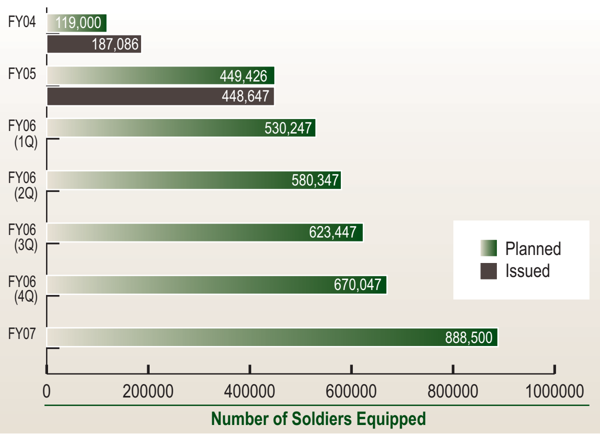
Performance Measure: Measures the number of Soldiers reenlisted during a given FY against the published goals.

Recruiting Soldiers who are confident, adaptive, competent, and able to handle the full complexity of 21st century warfare in this combined, joint, expeditionary environment is highly competitive and very challenging.

Initiative: Equip Soldiers

Operations in Iraq and Afghanistan have highlighted new needs for equipment, and particularly for protective equipment, for Soldiers. The Army is pursuing two programs in particular to protect deployed combat troops: the Rapid Fielding Initiative (RFI) and a program to armor high-mobility, multipurpose wheeled vehicles (HMMWVs).

Figure 7. Rapid Fielding Initiative Status Report



RFI is one of the most innovative, cost-effective, and popular programs that have been launched to ensure troops are properly equipped for the GWOT. The RFI equipment issued reflects the lessons learned during three years of fighting in complex environments and includes such items as optical sights for weapons, grappling hooks, door rams, and fiber optic viewers to enhance Soldiers' abilities to observe from protected positions. Other items enhancing the Soldier's survivability are advanced ballistic helmets, hydration systems, ballistic goggles, knee and elbow pads, and an improved first aid kit. Initially providing 49 separate items of equipment to Soldiers and small units, focus groups from various combat and combat support units identified additional requirements resulting in the current RFI list containing 58 items of equipment.

The RFI program is charged with equipping 888,000 Soldiers of the operational Army by the end of FY 2007 (see Figure 7) and has demonstrated tremendous agility in responding to changing requirements. In FY 2004 the initial requirement to equip 119,000 Soldiers quickly grew to 151,000 Soldiers, and by the end of September 2004 over 187,000 Soldiers had been equipped. To meet such dynamic demands, the program uses innovative business techniques such as incentive contracts, just in time inventory, advanced packaging, and radio frequency identification device tracking. An additional 263,000 Soldiers were equipped in FY 2005, bringing the current program total to 450,000 Soldiers.

The Army goal is to provide armor for every vehicle required to operate off base. Up-armoring includes the addition of a protective turret shield around gunners, heavy doors with gun ports, armoring in the front and rear quarter panels and the rocker panel beneath the door, ballistic window glass, bulletproofing behind the rear seats, and other protections not visible. The armored doors feature new heavy-duty latches and have weather-stripping to keep out dust and sand. Eighty-eight percent of all HMMWVs are now up-

Figure 8. Equipping Our Soldiers: Soldier Protection Programs in Iraq and Afghanistan

AREA	WHERE WE WERE IN JANUARY 2005	WHERE WE ARE SEPTEMBER 2005
SOLDIER BODY ARMOR	All Soldiers and DoD civilians in theater equipped; plus 60,000 Deltoid Auxiliary Protectors issued	All soldiers and DoD civilians in theatre equipped; 495,000 IBA/SAPI sets plus 173,000 DAP issued
UP-ARMORED HMMWVs	More than 6,400 HMMWVs fielded	10,194 HMMWVs fielded
TACTICAL WHEELED VEHICLE ADD-ON ARMOR KITS	More than 19,000 vehicles in theatre have add-on armor kits	23,292 vehicles in theatre have add-on-armor kits (LVL I/II)
ARMORED SECURITY VEHICLES (ASV)	82 ASVs in theatre; total requirement of 872 approved	158 FMC in theatre
BRADLEY REACTIVE ARMOR TILES (BRAT)	592 sets delivered; acceleration plan in execution	689 sets delivered; acceleration plan in execution
COUTER-IED DEVICE	1,496 systems in theatre	20,757 systems in theatre
TACTICAL AND SMALL UNMANNED AERIAL VEHICLE (UAV)	128 systems deployed; requirement remains 194	155 systems in theatre (9 Shadow / 146 Raven)
AIRCRAFT SURVIVABILITY EQUIPMENT (ASE)	All theatre aircraft upgraded with basic ASE. In process of upgrading to an advanced Common Missiles Warning System/Improved Countermeasures Munitions Dispenser (CMWS/ISMD)	All theatre rotary wing aircraft to be upgraded with Common Missile Warning System/ Improved Countermeasure Munitions Dispenser (CMWS/ICMD) by 1st Quarter FY07

armored, and the remaining vehicles are restricted to operating only on military bases.

Our up-armoring efforts help (see Figure 8) protect Soldiers from one of the main dangers to troops in Iraq, remotely triggered improvised explosive devices (IEDs). To combat this threat the Army now has over 20,000 counter-IED devices in theatre. Additionally, all Soldiers and DoD civilians are now equipped with interceptor body armor (IBA) and small arms protective inserts (SAPI).

Initiative: Train Soldiers and grow adaptive leaders. A balance of training and education is required to prepare Soldiers to perform their duties. Training prepares Soldiers and leaders to execute complex missions in accordance with the precepts and guidelines of established doctrine, while education gives them the ability and confidence to adapt when uncertain conditions demand an approach for which they cannot be prepared by formal training.

2nd Lt. Veltum, a Transportation Officer Basic Course student, leads fellow students through tactical maneuvers during Manassas Run, a week-long training exercise at Fort A.P. Hill, Va. (by Sgt. Jacob Boyer)

The Army trains the way it intends to fight, according to a combined arms strategy that has armored vehicles and aircraft at its center. The combined arms training strategy determines the resourcing requirements to maintain the combat readiness of its forces. For the active component, the Army requires 899 ground operational tempo (OPTEMPO) miles per year for the M1 Abrams tank (live and virtual miles) and corresponding training support to execute fully the combined arms training strategy. The active component flying hour program requires an average of 14.5 live flying hours per aircrew each month to provide fully qualified and trained air crews.

In FY 2005 the Army over executed the number of OPTEMPO miles and hours because operational tempo is planned according to peacetime needs. The miles and hours shown in the table below include training for deployments as well as mileage/flight hours actually accomplished in support of OIF and OEF.

Table 7. Ground and Air OPTEMPO (Active)

	FY 2002	FY 2003	FY 2004	FY 2005 Goal	FY 2005 Actual
Ground OPTEMPO (Mileage)	944	1,071	1,512	899	991
Air OPTEMPO (Flight Hours)	13.1	15.1	17.4	14.5	18.4

Performance Measure Ground: Compare average miles per tank executed versus goal.
Performance Measure Air: Total monthly hours/crew OPTEMPO versus goal.

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Fully executing the OPTEMPO, which supports the combat readiness of Army Soldiers, is a top priority. The Army strategy incorporates an appropriate mix of live, virtual, and constructive training. The Army maximizes the use of training simulators because they provide cost-effective, on-demand combat training and reduce wear on ranges. The Engagement Skills Trainer 2000, a simulated firing range, represents the new millennium in basic combat training techniques. Integrating computers and lasers to train basic rifle marksmanship fits well with American Soldiers who are accustomed to playing advanced-technology video games on computers.

Initiative: Enhance the combat training centers. The Army undertook major efforts in FY 2005 to integrate lessons learned from all ongoing operations into its individual Soldier and collective training. This required the adoption of the contemporary operating environment at combat training centers (CTCs), which resulted in a training regimen based on the realistic missions and supporting activities. Training at the CTCs prepares Soldiers and units for situations they may encounter while deployed.

The overarching goal at the CTCs is to replicate the increased complexity of the current and future operational environment in controlled circumstances. Investment in the CTCs saves lives. Training sites with mosques and Arabic city layouts populated with an indigenous Arabic-speaking population are now the norm. This forces Soldiers and units to learn and employ the language proficiency and interpreters necessary to act in a culturally correct manner and deal with civilians on the battlefield. It also establishes the conditions for fighting the insurgent forces of a specific culture.

The CTCs now incorporate more role players, non-governmental actors, media representatives, and sites with Arabic names. Para military forces, police organizations, terrorists/criminals, and detainee operations are also an integral part of this training. Information operations are addressed at the fundamental level to ensure an understanding of the importance of individual and unit actions as they relate to the media and the impact of information on operations. Finally, the Iraqi military and security forces are replicated to ensure the unit in training understands the interactions required with these types of units and how to best leverage that resource.

Strategy: Attain a Quality of Life for Soldiers and Their Families that Matches the Quality of Their Service

The third overarching strategy is to attain a quality of life and well-being for Soldiers and their families that match the quality of their service. The Army's initiatives in this area are:

- Maintain the viability of the all-volunteer force; and
- Care for Army families and Soldiers.

The all-volunteer force is the backbone of the United States Army. Maintaining its viability is and always will be an absolute priority.

Initiative: Care for Army families and Soldiers.
The Army well-being programs are vital in maintaining and improving retention rates. To remain successful in this area it must continue to provide exceptional well-being programs and to care for its Soldiers, veterans, and family members.

Aerial view of Ft. Belvoir family housing.

An area of the utmost concern for Soldiers and families is a fully functional and safe place to live. The Army is on track to meet the FY 2007 adequacy goals (FY 2008 overseas) at enduring installations by having programs and resources in place to eliminate inadequate housing through privatization, construction, and divestiture. The Army's privatization of housing efforts ensure sustainment of adequate housing to meets contemporary standards for the long term. In FY 2005 the Army's privatization projects met its goals by improving 4,272 housing units from inadequate to adequate (2,409 renovations, 1,863 new constructions). To date, the Army has privatized over 59,000 units and in the coming years will privatize 24,000 more - over 90 percent of the U.S. inventory. Privatization also ensures long term sustainment of adequate housing that meets contemporary standards. Additionally, the Army completed the renovation and modernization of 8,204 barracks spaces in FY 2005.

Strategy: Provide Infrastructure to Enable the Force to Fulfill Its Strategic Roles and Missions

The Army's fourth strategy is to provide infrastructure to enable the force to fulfill its strategic roles and missions. Transformation of business, resourcing, and acquisition processes promotes the long-term health of the Army. The Army is working aggressively to streamline business processes and practices by taking advantage of industry innovation, outsourcing, and partnering. The initiatives associated with this strategy are:

- Implement business transformation;
- Maintain installations as "flagships of readiness";
- Improve global force posture;
- Develop LandWarNet; and
- Implement BRAC (approved) recommendations.

Initiative: Implement business transformation.
The Army is achieving management improvement results through the implementation of the five government-wide initiatives of the President's management agenda (PMA). There are tasks under each of the five major PMA initiatives (a total of 22 tasks). The Office of the Secretary of Defense rates the services and defense agencies quarterly on progress using a red, yellow, or green stop-light method. (Army results are depicted in a follow-on section titled "Advancing the PMA.")

The Army is improving the process of resourcing the combatant commanders by changing the Planning, Programming, Budgeting, and Execution (PPBE) process. The goal is to commit the "right" resources into the stewardship of commanders when needed, seek ways to increase corporate resourcing flexibility, and increase near-term resourcing responsiveness for current operational requirements to support combatant commanders and an Army at war – today and in the future.

The intent of a new PPBE process is to provide a more robust and responsive financial management system for the force. The FY 2005 goal was to develop a transparent system that provided a method for conducting cross-functional coordination. The revised process allows all stakeholders the ability to evaluate tradeoffs and prioritize needs within available resources and constraints. The Army established a program budget assessment team to serve as a reviewing committee for all new and updated requirements. When complete, the Army's PPBE process will provide users the ability to update needs and monitor the resourcing process continuously.

Another major area of business transformation is initial implementation of the General Fund Enterprise Business System (GFEBS). The GFEBS provides the Army with an integrated financial management system that will provide web-based, online, real-time transaction and information capability, and will be accessible to all Army and DoD components. The GFEBS application will fulfill the requirements of the Federal Financial Management Improvement Act of 1996 and will be certified by the U.S. Army Audit Agency (USAAA). GFEBS will allow the Army to comply with the Chief Financial Officer Act of 1990 by improving performance, standardizing processes, reducing legacy stove-piped systems, and providing all levels of leadership with reliable, relevant, and timely financial information. The FY 2005 goal for GFEBS was to award a contract so the Army could begin work. That contract was awarded in June 2005.

Initiative: Maintain installations as "flagships of readiness".
Installations are an essential component in maintaining the premier army in the world. They are the platforms from which the Army rapidly mobilizes and deploys military power and sustains its military families. Installations play a vital role in training the force and reconstituting it upon return from deployment. Installations also provide deployed commanders with the ability to reach back for information and other support through advanced communications technology.

Installations continue to face many challenges as the Army focuses on the demands of current operations. For example, to enable the creation of new modular brigades, the Army needs new facilities. The Army must allocate construction funding for permanent facilities once the FY 2005 base closure and permanent-stationing decisions are completed. Additionally, the Army is unable to meet the DoD goal of a facilities recapitalization rate of 67 years. In FY 2006, the Army's facilities recapitalization rate is 112 years, and funding plans indicate the Army will not achieve the 67-year recap rate until FY 2011.

Table 8. Facilities Recapitalization Rate[1]

	FY 2002	FY 2003	FY 2004
Actual	80	104	124[2]
Goal	67	67	67

Performance Measure: This is defined as the number of years that it will take to replace all existing buildings at the current annual funding level [Recap Rate (years)=Value of Assets (Plant Replacement Value) divided by the Recap Investment].

[1] *The OSD goal stated in the Quadrennial Defense Report (QDR) is to drive down the recapitalization rate of facilities to 67 years.*
[2] *The actual total Army FY 2005 Recapitalization Rate will not be computed until the release of the FY 2007 President's Budget.*

Performance Measure: This is defined as the number of years that it will take to replace all existing buildings at the current annual funding level [Recap Rate (years)=Value of Assets (Plant Replacement Value) divided by the Recap Investment].

Installations also serve as "Flagships of Readiness" by improving force reception through their use as power projection platforms. These installations project the equipment and capabilities by surface or air to meet requirements in the combatant commander's operational plans, the strategic planning guidance, and the joint swiftness objectives. The Army analyzes throughput capability of railcars and aerial ports of embarkation (APOEs) to measure the performance of installations acting as power projection platforms. In FY 2005, the goal was for installations to achieve 100 percent throughput capability for both railcars and APOEs. Railcars achieved the goal of 100 percent throughput capability, but APOEs only achieved a throughput capability of 72 percent. There are 15 APOE platforms, eight of which are not meeting their throughput requirements. Deployment requirements and capabilities are being reexamined in light of the integrated global presence basing strategy, base realignment and closure, and the Army modular force initiative. These acute changes in the landscape might impact the programming of deployment infrastructure.

Table 9. Throughput Capability

	FY 2005 Goal	FY 2005 Actual
Percent Railcar throughput capability	100%	100%
Percent APOE throughput capability	100%	72%

Initiative: Improve global force posture

The Army has embraced DoD's strategy for changing its global force posture as the Army realigns its capabilities to locations within the continental United States. The 2001 Quadrennial Defense Report (QDR) highlighted the need for more agile, dispersed forces to promote U.S. interests and to better respond to challenges. In FY 2005 the Army developed a strategic rebasing plan that is synchronized with the demands and realities of the GWOT (see Figure 9).

For example, the Army allocated $71 million for renovation of facilities at Fort Carson for the 2nd Brigade of the 2nd Infantry Division's move from Korea. Prior to this undertaking, Fort Carson only had sufficient barracks to accommodate two maneuver brigades adequately - the 3rd Armored Cavalry Regiment and the 3rd Brigade, 4th Infantry Division. When completed, this FY 2005 project will satisfy

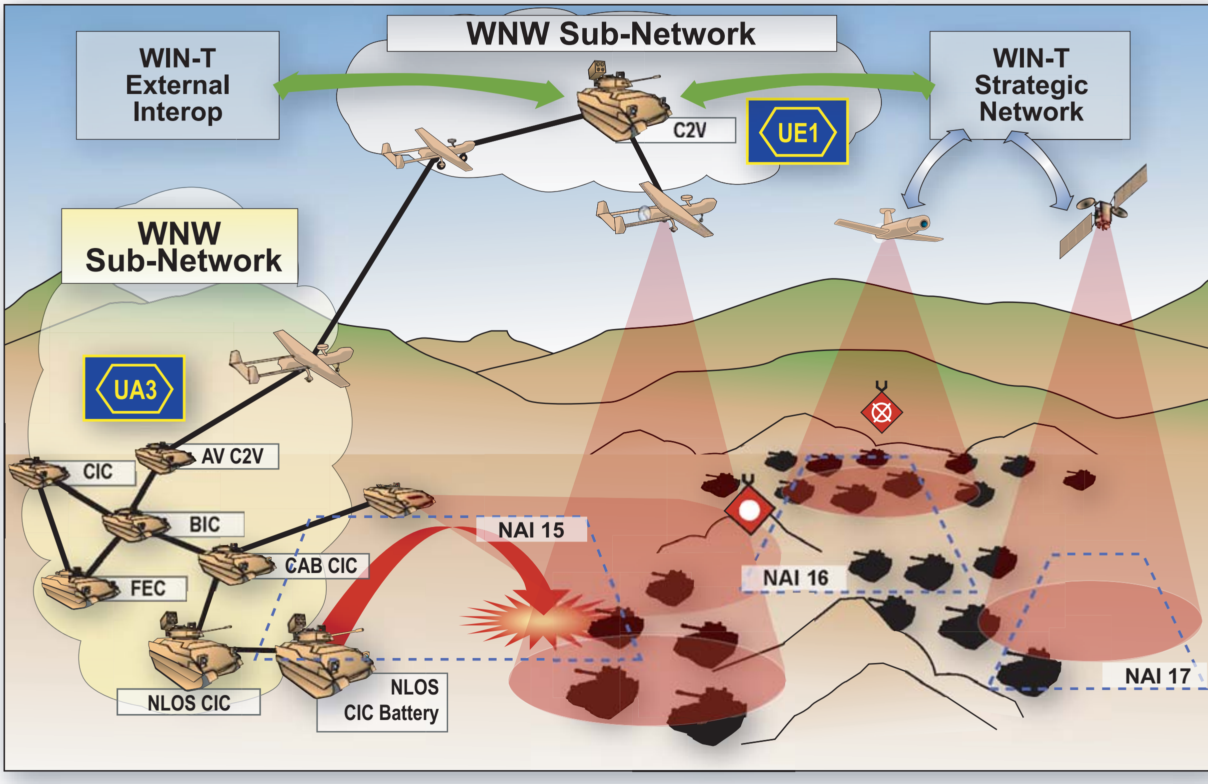
Figure 9. Active Component Brigade Combat Realignment

the unaccompanied housing requirement for the 2nd Brigade by providing a third maneuver brigade set of barracks that complies with the DoD standard.

Initiative: Develop LandWarNet.

LandWarNet (see Figure 10) is the Army portion of the Global Information Grid that will provide a jointly interoperable and integrated network supporting commander-centric battle space communications. A combination of infrastructure and services, it will move both warfighting and business information over a seamless network.

Figure 10. LandWar Net



LandWarNet will unify Army networks and units from the tactical level to the combatant commander level, providing all users with the ability to view the same picture of the battle space. Under the LandWarNet umbrella, the Warfighter Information Network-Tactical (WIN-T) will wirelessly connect vehicles with each other along with distant units, command centers, and satellite networks. The Joint Tactical Radio System (JTRS) will extend the network to individual Soldiers. WIN-T and JTRS will give Soldiers increased situational awareness and information depth that currently resides only at the brigade level and above. In the future, these will enable commanders and leaders to use automated, collaborative decision-support tools to plan, synchronize and virtually rehearse missions no matter where they are in the battle space, while on the move. Commanders will have the same mobility as their Soldiers while maintaining uninterrupted contact with the joint force. Although the WIN-T program is proceeding on schedule, the JTRS program is lagging. The Army is reviewing JTRS with the goal of bringing it back on track.

While WIN-T and JTRS are under development, the Army is fielding the Joint Network Node (JNN) as an interim communications network solution. The Army met the FY 2005 plan (field to critical deploying units), by equipping all deploying units with JNN to enable battle command on the "quick halt" – that is to enable instant communications without the need to set up antennae and other communications equipment.

Initiative: Implement BRAC (approved) recommendations.

Base Realignment and Closure (BRAC) is a means to reconfigure the Army infrastructure into one where operational capacity is optimized for both warfighting capability and efficiency, and to enhance joint activity opportunities. BRAC will provide the Army a comprehensive review of its installation inventory, eliminate physical capacity, align base structure with post-cold war force structure, and provide opportunities for jointness.

At the end of FY 2005, the Army was awaiting the final decision on the BRAC Commission report, which the President forwarded to Congress on September 15, 2005. The report recommended 12 major Army base closures and 6 major Army base realignments that will satisfy the following Army goals.

- Reduce cost and generate savings of $2.5 billion annually and a 20-year net savings of $28 billion;
- Optimize military value;
- Advance the Army modular force initiative;
- Accommodate the rebasing of overseas units;
- Enable the transformation of both the active and reserve components as well as rebalancing the forces; and
- Contribute to joint operations.

With the BRAC recommendations forwarded to Congress, the Army can begin to measure and report the percentage of total acreage removed from the Army's books compared to its goals.

With regard to overall Army transformation, it is important to note that the BRAC recommendations are linked inextricably to the Army modular force initiative because they provide the optimum infrastructure to stand up, train, support, and rapidly deploy brigade combat teams. Using installations as "flagships of readiness," the Army will no longer focus on where the wars of the 20th century ended, but rather look to the future to project force against potential adversaries who threaten national security.

Conclusion

The 21st century financial management environment continues to be challenging as it is characterized by constrained budgets, increasing accountability, transparency, an emphasis on controls, and the need for timely resource decision-making to fund an Army that gets results. To this end, the Army has developed a budget performance integration system to assist senior leadership to make timely, wise, and provident resource decisions. Performance management is the way the Army conducts its day-to-day business. The Army's process of aligning programs with strategies allows it to measure successes and points to the areas that need extra effort.

The GWOT, coupled with supplemental funding over the past several years, has challenged the financial community to focus support for the current force and strategies that will guide the Army into the future. The General Fund Annual Financial Statement provides the final feedback for both Army leadership and the American taxpayer. It shows how the Army spent its money and, through the performance budget, shows what the Army accomplished with those funds.

Future Effects of Existing Conditions

The Risk Management Framework

The Army has embraced the Quadrennial Defense Review risk management framework and has aligned all performance management efforts with the four risk areas: force management risk, operational risk, institutional risk, and future challenges risk. The Army went one step further by adding a fifth risk area, financial management risk, which cuts across all four QDR risk areas. Financial management risk is a key consideration behind all of the Army's decisions in how to develop its performance budget and how to resource its programs. All 21 strategic initiatives are aligned to the risk management framework.

Operational Risk

The Army has done much to mitigate risk, in all dimensions, but particularly in the operational risk quadrant. Operational risk relates to the ability to create plans that can be adapted quickly as events unfold, train for the next real-time mission, and supply Soldiers with what they need now. It relates to achieving near-term objectives, not long-term outcomes—thus, it is an important dimension of the Army's strategy, but not the entire strategy.

Creating modular units; fielding Stryker BCTs; restructuring Army Aviation following the cancellation of the Comanche program; establishing the reset program; and initiating rapid fielding and rapid equipping programs are all helping to meet the demands for Army forces, while reducing the levels of operational risk. Due to dramatically increased operational tempo, the operational fleet's condition and age are affecting current equipment readiness. High mileage and flight hours coupled with the severe environmental conditions encountered in Iraq and Afghanistan have placed greater stress on equipment than expected.

Force Management Risk

To meet these challenges both today and in the future, the Army is pursuing numerous initiatives to reduce force management risk. The Army is working to maintain the viability of the all-volunteer force, and is enhancing recruiting and retention programs. By developing the Army modular forces, the pool of rotating units will increase significantly and, thereby, reduce the stress on the force. The Army is working to stabilize the force, to improve unit cohesion and readiness, and to reduce uncertainty for families. It is also pursuing personnel management improvements to position the force for the future.

Numerous initiatives are focused on reducing force management risk. These include: establishing a larger pool of rotational forces through modularity; rebalancing the active and reserve components; eliminating redundant capabilities; stabilizing the force; enhancing recruiting and retention; and increasing the personnel strength of the operational Army. In addition, congressional approval of increases in active component personnel strength is helping the Army man its transforming modular BCTs now undergoing activation or conversion.

Future Challenges Risk

The management of future challenges risk requires the Army to strike a balance between its current and future investments, keeping risk at acceptable levels while meeting its current commitments and preparing for future challenges. In the near-term, the Army plans to minimize future risks through the spin out of higher payoff technologies into the current force (as they become available).

To meet future challenges, the Army is taking steps to become a more effective member of the joint team, improve operational headquarters, and develop transformational capabilities.

Institutional Risk

Institutional risk relates to transforming institutional processes to generate resources for the operational Army. This includes improving management and business processes, implementing financial improvement initiatives, improving installations, and providing support to the warfighter. To reduce institutional risk, the Army will continue to refine resourcing processes to make it more agile and responsive to the immediate requirements of the combatant commanders and to help prepare the Army for future challenges.

The Army's investments in LandWarNet are improving the installations' ability to project and sustain forces. The result is a more rapidly deployable force that requires less logistics overhead structure and has a greater capacity to reach back to home stations for intelligence, medical, and other essential support.

The Army's investment accounts will be critical to its ability to maintain technological superiority and ensure the development and fielding of the future force. The Army will need assistance to maintain these investment accounts to strike the proper balance between supporting current operations and readiness, and investing in capabilities required to ensure future success. As the risk management framework continues to mature and grow, the Army will continue to utilize its tenants of planning, examining results, and making tradeoffs based on risk.

Management Integrity

Inherent throughout the Army is the belief that commanders are responsible for all their units do or fail to do. Two key components of this philosophy are the requirement that management establish sound management controls and that it act with integrity in implementing these controls at all levels of command. The Army functional proponents are charged with identifying and establishing sound management controls and providing oversight to ensure compliance with their management control directives.

Since the inception of the Army management control processes 22 years ago, Army commanders have reported 1,371 material weaknesses to the Secretary of the Army. Through the process of aggregating similar problems and discarding lesser issues, the Army leadership reported 231 material weaknesses to the DoD. Only six of these remain open. The current status of Army material weaknesses is:

Open material weaknesses as of September 30, 2004	**12**
Plus: New material weaknesses identified in FY 2005	**0**
Less: Material weaknesses corrected in FY 2005	**6**
Open material weaknesses as of September 30, 2005	**6**

Weaknesses Corrected During FY 2005

The Army corrected six management control weaknesses during FY 2005. A brief description of each corrected weakness follows.

Contract Administration of Service Contracts
Service contracts represent an ever-increasing percentage of the overall contract dollars the Army expends and now have surpassed the dollars awarded for major weapon systems programs. In FY 2003, the U.S. Army Audit Agency (USAAA) identified a significant weakness in the administration of service contracts relating to the lack of an effective quality assurance oversight process.

Although contracting officers generally appointed quality assurance personnel for contracts, they often were not trained adequately on their roles and responsibilities, or on the limitations of their authority. Furthermore, they often lacked an understanding of specific contract requirements. In addition, there was an overall lack of surveillance plans, resulting in a lack of systematic inspections and ineffective documentation of contract performance. Proper quality assurance procedures require surveillance plans that serve as roadmaps for monitoring contractor performance. This is a key element of establishing strong internal controls that ensure the Army receives value for its serve-contracting dollar. Due in part to the lack of documentation, procedures for validating and approving contractor invoices sometimes were not adequate.

Since the weakness was first identified, several major commands have instituted ongoing actions to improve contract administration. The first step for the Army was to develop and improve administration and oversight of service contract guidance, with special emphasis on the quality assurance process. During the fourth quarter of FY 2005, the USAAA reviewed the corrective actions and validated that the weakness could be closed. In FY 2006, the Army will open a new material weakness relating to contract oversight and administration.

Standard Procurement System (SPS) Interface to Computerized Accounts Payment System (CAPS)
The SPS was intended to be fielded as a paperless contract writing system. It was to use electronic data feeds to create electronic images of contracts. These images were to be viewable by personnel at Army paying offices, and the electronic data feeds were designed to populate CAPS data fields so as to effect payments.

Army contracting offices used the SPS to write contracts for vendors at Army posts, camps and stations, and the Defense Finance and Accounting Service (DFAS) used the CAPS to process payment information for most of these contracts. The Army experienced numerous problems getting these systems to work together effectively. Reliable electronic data feeds from contracting offices to CAPS paying offices were not established in a manner to support timely and accurate payments of contractors in accordance with prompt payment regulations (Prompt Payment, 5 C.F.R. §1315).

The use of contract images posted in electronic document access format for use by DFAS paying offices was not proven to be reliable, requiring the contracting offices to forward printed copies of the contracts to the paying office. Furthermore, the electronic data file of contract information created by the SPS interface program was only sporadically successful, requiring manual entry of vendor payment data upon receipt of the paper contract when the electronic data feed failed. This problem directly contributed to the Army incurring late payment interest penalties of about $470,000 in FY 2001. In many of the cases where the SPS interface failed, the paper contract was received well after goods and services were provided to and accepted by the government. Failure to correct this weakness would require Army contracting offices to continue forwarding paper contracts to paying offices, increasing the likelihood of erroneous contractor payments and unnecessary interest payments.

To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and the DFAS entered into a memorandum of agreement to address data migration and interface requirements for information from the SPS to the CAPS. During FY 2003, the deployment of a new version of the SPS was completed. This version included enhancements to correct the deficiencies noted above. Testing of the new version was completed in FY 2004, and the USAAA began its review and validation of the enhanced SPS. During the first quarter of FY 2005, the USAAA validated the functionality of the SPS, allowing the weakness to be closed.

In-Transit Visibility (ITV) Policies and Standards

In FY 2002, leaders within the Army and on the joint staff recognized that the ITV Program needed DoD policy guidance to identify standards, uniformity and consensus in objectives, equipment standards and functional requirements. The Army took the lead outside the continental United States (OCONUS) in deploying and successfully using automatic identification technology (AIT) to obtain in-transit visibility of materiel and personnel in both peacetime and contingency operations. There was, however, no joint doctrine that mandated AIT for ITV or hardware/software standards to ensure interoperability. Meanwhile, the U.S. Central Command (USCENTCOM) staff identified a warfighter requirement for information available only through use of AIT and specifically requested implementation of radio frequency identification (RFID) technology by all services operating within its area of responsibility.

To support the Army and joint service concept of operations, combatant commanders need visibility of the entire supply chain from the supplier to the foxhole. This requires not only tracking the container or pallet but also visibility of what is “in-the-box.” In-the-box visibility is key to the Army logistics transformation requirement to reduce the logistics footprint. It places a premium on the distribution of limited assets to the unit with the most mission-critical need. In-the-box visibility also facilitates the redistribution of parts to higher priority units from assets located both within the continental United States and OCONUS.

Historically, the Air Force and Navy, as the primary transporters of materiel and equipment in theater, have only been concerned with tracking materiel at the container or pallet level. This type of tracking can be done at a low technology level and without the infrastructure investment required of the newer technology; however, RFID technology enhances in-the-box visibility of container and pallet shipments moving throughout the DoD transportation system. After the successful use of RFID in support of operations in Somalia, Haiti, and most currently, Operation Joint Endeavor, the Commander, USCENTCOM, stated that the combatant commander, USCENTCOM, required that all air pallets, containers and commercial sustainment moving to and from the theater and intra-theater movements be tagged with RFID at their origin for asset and ITV tracking in the combined joint operations area.

The Army G-4 said that in order to correct this deficiency, the DoD should establish policy that identifies uniform standards, objectives, and functional requirements. During FY 2004, the OSD approved an ITV policy, which provided guidance to establish technology and standards, initiate demonstrations, solicit comments, review lessons learned, and implement strategy. The OSD published a RFID policy that identified uniform standards, objectives, and functional requirements. In FY 2005, the Army implemented the OSD policy and integrated RFID and ITV into its Standard Army Retail Supply System being fielded during FY 2005 through FY 2007. During the first quarter of FY 2005, the USAAA completed its validation of the policy implementation, and the weakness was closed.

Information Systems Security
There is widespread recognition that there will always be a cyber-threat directed at the Army unclassified automated information systems and telecommunications networks. To ensure adequate defense against cyber-threats, the Army will always have to be on guard to identify any systemic deficiencies in systems and network security design and implementation; ensure adequate incident response to a constantly evolving threat; exercise containment of identified threat activity and implement effective countermeasures; and establish a robust Information Systems Security (INFOSEC) education, training, awareness, and professional development program.

The decisiveness, effectiveness, and potential safety of the warfighter in attaining national security objectives will be at risk if the Army does not continually reevaluate potential risks. If an adequate defense in depth is not implemented, information processed and transmitted throughout the Army systems would be vulnerable to compromise and exploitation by hostile forces and could be at risk during a national crisis. As a result, Army INFOSEC policy and procedures for managing risk to Army information systems, networks and intelligent weapon systems must be managed and protected in accordance with continually evolving DoD and national practices.

To ensure an adequate cyber-defense, the Army leadership has outlined in the command and control (C2) protect program management plan the measures that the Army leadership will undertake to ensure the Army portion of the defense information infrastructure is adequately protected. The C2 protect program management plan is designed to manage and control the growth of C2 protection initiatives, is in consonance with the Army enterprise strategy, and supports defense information warfare efforts. It has been developed to address potential weaknesses and has been formally signed by the Office of the Deputy Chief of Staff (ODCS), G-3, the Chief Information Officer/G-6, and the ODCS, G-2.

The implementation of the C2 protect program management plan should improve the ability of the Army to detect attempted intrusions and penetrations through the use of automated detection software and improved training of Army systems and network administrators and security personnel. In addition, improvements in the Army incident reporting system should result in a significant increase in the number of detected and reported incidents and a corresponding decrease in the number of systems that are penetrated. Assessments of these incidents will show the effectiveness of trained administrators and improvements in the Army detection and reporting systems. During FY 2005, the USAAA completed its validation of the corrective actions, and the weakness was closed.

Management of Unexploded Ordinance (UXO)
This weakness resulted from systemic deficiencies in the management of UXO and munitions constituents (MC) throughout the DoD. The USAAA addressed this weakness in two separate reports. At the time of these reports, neither the DoD nor the Army had an effective, integrated and proactive UXO and MC management program that addressed the full life cycle perspective of ranges, land withdrawals, and munitions manufacture, or their use, demilitarization and disposal. In addition, there was no consensus among the DoD, the Army, and environmental regulators as to clean up standards or preferred clean up techniques. Without a program to focus and address these issues, the Army access to military ranges was considered to be at serious risk of being restricted by outside entities such as environmental regulatory agencies, as in the case of the Massachusetts Military Reservation.

The focus of Army leadership is on preserving the ability to train Soldiers, to accomplish necessary weapons systems and materiel testing, to reduce risks from UXO and MC, and to manage UXO and MC clean up expenditures. This is accomplished by developing innovative technologies and an effective, integrated, and proactive UXO and MC management program to address life cycle concerns. All investments necessary to develop, mature, and exploit UXO and MC technologies were to be approved and prioritized by the Army Environmental Technology Technical Council and executed in accordance with the Army policy on investment strategy. Program management initiatives followed policy guidance and funding guidelines as they were developed by the OSD. During FY 2005, the USAAA validated the corrective actions, and the weakness was closed.

Financial Reporting of Real Property

The Army real property database, Installation Facilities System (IFS), could not properly calculate depreciation nor provide a complete audit trail of transactions. The initial solution to interface IFS with the Defense Property Accountability System (DPAS) did not meet financial statement reporting requirements. Data mismatches between IFS and DPAS, and DPAS not accepting IFS negative numbers, resulted in dollar values being overridden and lost financial transactions audit trails.

Due to the problems encountered with the IFS and DPAS interface, the decision was made to discontinue the interface effort and to modify IFS, allowing the Army to compile financial reports at each site. The OSD approved the Army's request in May 2003. System qualification and software development testing were completed in FY 2005, allowing the weakness to be closed.

Open Material Weaknesses

In FY 2005, the Army reported six open material weaknesses. Two of these weaknesses, line-of-duty and incapacitation pay, and manpower requirements determination system, are under final review by the USAAA and are scheduled to close during the first quarter of FY 2006. Two additional material weaknesses, reserve component mobilization accountability, and financial reporting of general equipment, are scheduled to close in the fourth quarter of FY 2006. The remaining two uncorrected weaknesses, financial reporting of equipment in-transit, and logistics asset visibility and accountability, are scheduled to close in FY 2007 and FY 2008, respectively.

Soldiers from Company A, 3rd Battalion, 141st Infantry Regiment, Texas Army National Guard, practice counterinsurgency tactics near Bagram, Afghanistan. (by Spc. Harold Fields)

Advancing the President's Management Agenda

The PMA consists of five government-wide programs with goals designed to deliver results that matter to the American people. The Army's progress in each of these initiatives is discussed below.

Strategic Management of Human Capital

The Army has improved its PMA rating steadily and recently attained a green rating for all factors in the area of strategic management of human capital. Strategic management of human capital is about growing people to ensure that the Army will have not only the right person for the right job, but a cost effective, age-appropriate workforce with the skills necessary for the Army of 2020.

The Army developed a national security personnel system change management strategy that includes methods for assuring managers have the skills necessary for the desired performance. The senior executive service performance standards are linked to the Army goals and objectives. The Army is also seeking to identify critical skills and close skill gaps through directed hiring and training. One process extremely important to the Army is military to civilian conversion in order to free-up military personnel to fill positions in the operational Army. The Army has effectively reduced the cost of converting to a modular brigade-based force and increased its tooth to tail ratio through this program.

Competitive Sourcing

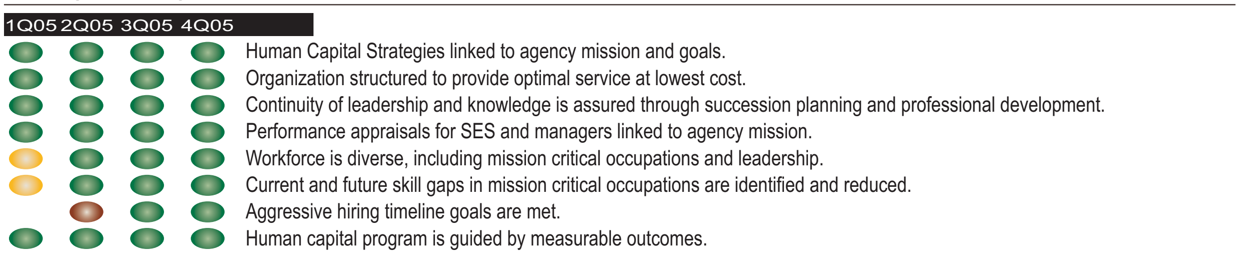
Many of the tasks performed by government employees can be contracted out to the commercial marketplace. Although the Army remains "red" under all areas of competitive sourcing, progress is being made. The Army continues to lead DoD in seeking savings by outsourcing non-core functions; successful outsourcing will also contribute to the efforts to man combat units fully while maintaining an effective institutional Army.

Improved Financial Management Performance

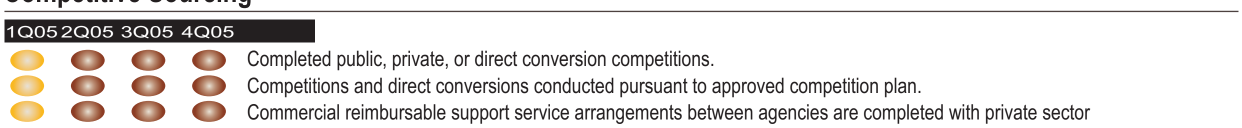
During FY 2005, the Army continued to build upon a number of initiatives that will enable it to provide more useful and reliable financial information.

The CFO Strategic Plan is an Army-wide management plan designed to synchronize efforts across all Army functional areas to integrate processes and systems,

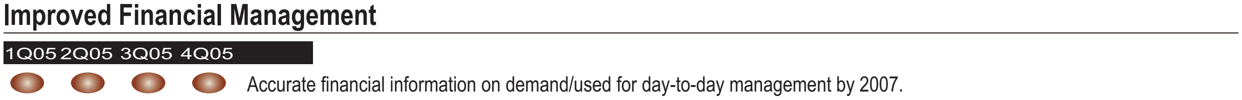
Strategic Management of Human Capital



Competitive Sourcing



Improved Financial Management



while improving upon the quality of management information. The plan involves 22 cross-functional Army organizational elements, as well as the DFAS, the OUSD (Comptroller), and the DoD Inspector General. Using a five-year planning horizon, the CFO Strategic Plan identifies the steps each organizational element must take to integrate fully all financial and non-financial processes and systems that impact Army resources. Achieving greater accountability requires that all assets and liabilities, revenues and expenses, and the full costs of programs and activities, be consistently, completely, and accurately recorded, monitored, and reported.

The Army will use the latest technology to develop flexible, streamlined procedures and processes that will provide the type of information that will enable sound decision-making. The financial management and functional communities are identifying unnecessary systems that may be eliminated and those essential systems that must be retained and brought into compliance with all statutory, regulatory, and audit requirements. The CFO Strategic Plan will assist in the coordination and execution of Army efforts in support of DoD's business management modernization program initiatives.

Expanded Electronic Government

The President's Management Agenda requires that information technology (IT) be applied across all areas of government to reduce costs and enable the provision of better service.

The Army has made significant investment in IT systems, migrating a vast array of information to the internet. By doing so it has both provided universal access to that information and has reduced printing and publication costs. The Army has been able to keep its IT investments within ten percent variance of planned cost, schedule, and performance goals. In the FY 2005 President's Budget, the Office of Management and Budget (OMB) rated satisfactory most of the Army's business case analyses (OMB Exhibit 300 reports).

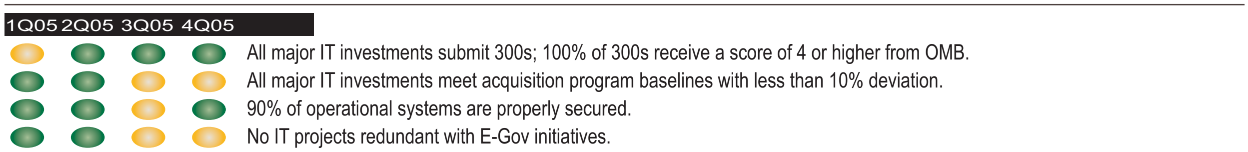
Budget and Performance Integration

Budget performance integration and full costing requires:

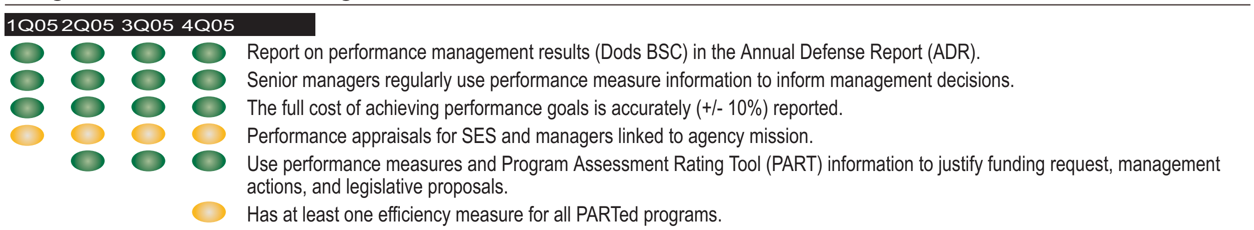
- Performance goals for all programs in the budget;
- A governance process to measure and review if those goals were achieved;
- Valid and reliable alignment of programs to strategic objectives;
- A cost accounting structure to organize data; and
- A financial management IT system to support cost accounting.

Using the five-part plan as its guide, the Army has accomplished the following.

E-Government

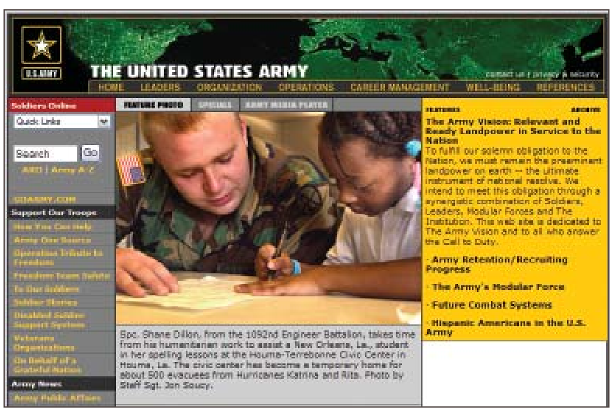


Budget and Performance Integration



The Army has performance goals and measures for all programs in the Performance Budget. The performance budget justification book provided stop light ratings for all programs based on the performance measures and parameters previously approved for each. Using the performance assessment form, the Army established performance measures for 100 percent of its programs with 81 percent of the programs rated effective and efficient. OMB scored the Army land forces operations program at 92 percent, or “effective,” and the Army FCS/modularity programs 70 percent, or “adequate.”

The Army use of the primary PPBC governance body has been an effective means of implementing the budget performance integration initiative. The Army requires program managers to set program performance goals for each fiscal year based on the appropriations provided. The Army measures its programs against the goals set for the fiscal year and reviews those out of variance at cost performance program reviews. The Secretary of the Army and the Army executive council review only the few programs that have been defined “critical.”



The Army is adjusting the alignment of its programs to its strategic objectives now. The Army will call upon subject matter experts to validate the alignment. The Army will conduct performance reviews in FY 2006. The Army currently is developing and identifying the few “vital” performance measures and will conduct quarterly performance reviews for the Secretary of the Army upon completion.

The Army is constructing and standardizing the cost structure throughout the Army to provide near real-time reliable and valid cost information. The Army has made progress in implementing activity based costing and in identifying and standardizing the data elements to be used in the enterprise system.

Finally, the Army is implementing cost structures for its General Fund Enterprise Business System. GFEBS is a key system in making budget performance integration useful to Army leadership. GFEBS will provide the Army with reliable financial data and provide the information needed to make better business decisions. The GFEBS application will fulfill the requirements of the Federal Financial Management Improvement Act of 1996 and will be certified by the USAAA. GFEBS will allow the Army to comply with the Chief Financial Officers Act of 1990 by improving performance, standardizing processes, reducing legacy stove-piped systems and providing all levels of leadership reliable, relevant, and timely financial information. The quality of this financial information will accelerate the Army’s ability to evaluate performance results and integrate them into budget decisions.

Learn More About America’s Army

http://www.army.mil

Photo Credits

General Fund Opening Photo

A Soldier from Company A, 1st Battalion, 24th Infantry Regiment, 25th Infantry Division, maintains a sharp lookout for enemy forces in Mosul, Iraq. (by PFC Jory C. Randall)

Principal Financial Statements, Notes, and Supplementary Information

LIMITATIONS

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the department is unable to implement all elements of the standards due to financial management systems limitations. The department continues to implement system improvements to address these limitations. There are other instances when the department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

LIMITATIONS CONCERNING NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT

The Federal Accounting Standards Advisory Board revised Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly national defense property, plant and equipment/ND PP&E) for fiscal years 2003 and beyond, and encouraged early implementation.

Department of Defense - Department of the Army

CONSOLIDATED BALANCE SHEET

As of September 30, 2005 and 2004 ($ in Thousands)

	2005 Consolidated	2004 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	$ 86,799,034	$ 89,297,373
Non-Entity Seized Iraqi Cash	61,370	113,430
Non-Entity-Other	232,913	137,806
Investments (Note 4)	3,495	1,496
Accounts Receivable (Note 5)	276,634	461,867
Other Assets (Note 6)	824,303	556,380
Total Intragovernmental Assets	$ 88,197,749	$ 90,568,352
Cash and Other Monetary Assets (Note 7)	$ 1,482,046	$ 1,525,090
Accounts Receivable (Note 5)	584,005	492,394
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	37,703,353	37,647,721
General Property, Plant and Equipment (Note 10)	120,401,746	113,111,572
Investments (Note 4)	0	0
Other Assets (Note 6)	3,844,524	3,351,504
TOTAL ASSETS	$ 252,213,423	$ 246,696,633
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 1,918,309	$ 1,706,731
Debt (Note 13)	0	0
Other Liabilities (Note 15 & Note 16)	2,372,261	2,402,903
Total Intragovernmental Liabilities	$ 4,290,570	$ 4,109,634
Accounts Payable (Note 12)	$ 10,137,011	$ 9,460,194
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,663,650	1,632,843
Environmental Liabilities (Note 14)	39,760,514	40,366,172
Loan Guarantee Liability (Note 8)	12,394	12,293
Other Liabilities (Note 15 and Note 16)	6,401,916	8,669,192
TOTAL LIABILITIES	$ 62,266,055	$ 64,250,328
NET POSITION		
Unexpended Appropriations	$ 74,704,745	$ 73,238,304
Cumulative Results of Operations	115,242,623	109,208,001
TOTAL NET POSITION	$ 189,947,368	$ 182,446,305
TOTAL LIABILITIES AND NET POSITION	$ 252,213,423	$ 246,696,633

The accompanying notes are an integral part of these financial statements.

Department of Defense - Department of the Army

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2005 and 2004 ($ in Thousands)

	2005 Consolidated	2004 Consolidated
Program Costs		
Intragovernmental Gross Costs	$ 39,987,320	$ 35,460,140
(Less: Intragovernmental Earned Revenue)	(8,491,160)	(7,388,378)
Intragovernmental Net Costs	$ 31,496,160	$ 28,071,762
Gross Costs With the Public	$ 116,179,312	$ 108,861,815
(Less: Earned Revenue From the Public)	(1,249,287)	(1,152,055)
Net Costs With the Public	$ 114,930,025	$ 107,709,760
Total Net Cost	$ 146,426,185	$ 135,781,522
Cost Not Assigned to Programs	0	0
(Less:Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	$ 146,426,185	$ 135,781,522

The accompanying notes are an integral part of these financial statements.

Department of Defense - Department of the Army

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005 and 2004 ($ in Thousands)

		2005 Consolidated		2004 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$	109,208,001	$	100,631,646
Prior Period Adjustments (+/-)				
Changes in Accounting Principles (+/-)		0		0
Correction of Errors (+/-)		0		0
Beginning Balances, as adjusted	$	109,208,001	$	100,631,646
Budgetary Financing Sources:				
Appropriations received		0		0
Appropriations transferred-in/out (+/-)		0		0
Other adjustments (rescissions, etc) (+/-)		0		0
Appropriations used		150,048,733		127,335,115
Nonexchange revenue		9,331		5,143
Donations and forfeitures of cash and cash equivalents		5,609		4,663
Transfers-in/out without reimbursement (+/-)		3,721,535		13,189,641
Other budgetary financing sources (+/-)		2,141		2,540,445
Other Financing Sources:				
Donations and forfeitures of property		0		0
Transfers-in/out without reimbursement (+/-)		528,071		400,794
Imputed financing from costs absorbed by others		1,092,805		882,077
Other (+/-)		(2,947,418)		0
Total Financing Sources	$	152,460,807	$	144,357,878
Net Cost of Operations (+/-)		146,426,185		135,781,522
Net Change	$	6,034,622	$	8,576,356
Ending Balance	$	115,242,623	$	109,208,002
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$	73,238,304	$	47,674,714
Prior period adjustments (+/-)				
Changes in Accounting Principles (+/-)		0		0
Correction of Errors (+/-)		0		0
Beginning Balances, as adjusted	$	73,238,304	$	47,674,714
Budgetary Financing Sources:				
Appropriations received		149,831,938		149,547,719
Appropriations transferred-in/out (+/-)		2,560,759		4,745,349
Other adjustments (rescissions, etc) (+/-)		(877,523)		(1,394,364)
Appropriations used		(150,048,733)		(127,335,114)
Nonexchange revenue		0		0
Donations and forfeitures of cash and cash equivalents		0		0
Transfers-in/out without reimbursement (+/-)		0		0
Other budgetary financing sources (+/-)		0		0
Other Financing Sources:				
Donations and forfeitures of property		0		0
Transfers-in/out without reimbursement (+/-)		0		0
Imputed financing from costs absorbed by others		0		0
Other (+/-)		0		0
Total Financing Sources	$	1,466,441	$	25,563,590
Net Cost of Operations (+/-)		0		0
Net Change		1,466,441		25,563,590
Ending Balance	$	74,704,745	$	73,238,304

The accompanying notes are an integral part of these financial statements.

Department of Defense - Department of the Army

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2005 Combined	**2004 Combined**	**2005 Combined**	**2004 Combined**
BUDGETARY RESOURCES				
Budget Authority:				
Appropriations received	$ 149,846,916	$ 149,559,892	$ 0	$ 0
Borrowing authority	0	0	0	0
Contract authority	0	0	0	0
Net transfers (+/-)	1,046,572	2,517,085	0	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	22,880,757	8,212,989	1,424	1,272
Net transfers, actual (+/-)	2,369,187	4,698,264	0	0
Anticipated Transfers Balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	20,948,238	18,739,994	101	152
Receivable from Federal sources	(415,099)	412,742	0	0
Change in unfilled customer orders	0	0	0	0
Advance received	77,733	306,576	0	0
Without advance from Federal sources	2,159,939	1,896,851	0	0
Anticipated for the rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Transfers for trust funds	0	0	0	0
Subtotal	$ 22,770,811	$ 21,356,163	$ 101	$ 152
Recoveries of prior year obligations	17,033,447	13,996,679	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(877,523)	(1,394,364)	0	0
Total Budgetary Resources	$ 215,070,167	$ 198,946,708	$ 1,525	$ 1,424
STATUS OF BUDGETARY RESOURCES				
Obligations incurred:				
Direct	$ 175,086,215	$ 152,590,936	$ 0	$ 0
Reimbursable	24,506,660	23,475,016	0	0
Subtotal	$ 199,592,875	$ 176,065,952	$ 0	$ 0
Unobligated balance:				
Apportioned	13,665,452	21,458,641	1,525	1,424
Exempt from apportionment	11,980	13,411	0	0
Other available	2	0	0	0
Unobligated Balances Not Available	1,799,858	1,408,704	0	0
Total, Status of Budgetary Resources	$ 215,070,167	$ 198,946,708	$ 1,525	$ 1,424
Relationship of Obligations to Outlays:				
Obligated Balance, Net - beginning of period	$ 57,022,399	$ 46,482,855	$ 0	$ 0
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(1,478,349)	(1,893,446)	0	0
Unfilled customer order from Federal sources	(14,873,109)	(12,713,171)	0	0
Undelivered orders	66,772,263	56,509,574	0	0
Accounts payable	13,948,617	15,119,442	0	0
Outlays:				
Disbursements	173,467,566	149,220,137	0	0
Collections	(21,025,971)	(19,046,568)	(101)	(152)
Subtotal	$ 152,441,595	$ 130,173,569	$ (101)	$ (152)
Less: Offsetting receipts	(195,234)	(63,289)	0	0
Net Outlays	$ 152,246,361	$ 130,110,280	$ (101)	$ (152)

The accompanying notes are an integral part of these financial statements.

Department of Defense - Department of the Army

CONSOLIDATED STATEMENT OF FINANCING

As of September 30, 2005 and 2004 ($ in Thousands)

		2005 Consolidated		2004 Consolidated
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations incurred	$	199,592,875	$	176,065,951
Less: Spending authority from offsetting collections and recoveries (-)		(39,804,359)		(35,352,991)
Obligations net of offsetting collections and recoveries	$	159,788,516	$	140,712,960
Less: Offsetting receipts (-)		(195,234)		(63,289)
Net obligations	$	159,593,282	$	140,649,671
Other Resources				
Donations and forfeitures of property		0		0
Transfers in/out without reimbursement (+/-)		528,071		400,794
Imputed financing from costs absorbed by others		1,092,805		882,077
Other (+/-)		(2,947,418)		0
Net other resources used to finance activities	$	(1,326,542)	$	1,282,871
Total resources used to finance activities	$	158,266,740	$	141,932,542
Resources Used to Finance Items not Part of the Net Cost of Operations				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered Orders (-)	$	(10,942,905)	$	(12,185,137)
Unfilled Customer Orders		2,237,672		2,203,425
Resources that fund expenses recognized in prior periods		(1,282,337)		(870,785)
Budgetary offsetting collections and receipts that do not affect net cost of operations		195,334		63,441
Resources that finance the acquisition of assets		(26,752,491)		(9,901,005)
Other resources or adjustments to net obligated resources that do not affect net cost of operations				
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)		0		0
Other (+/-)		2,419,346		(400,794)
Total resources used to finance items not part of the net cost of operations	$	(34,125,381)	$	(21,090,855)
Total resources used to finance the net cost of operations	$	124,141,359	$	120,841,687
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
Increase in annual leave liability	$	91,655	$	95,284
Increase in environmental and disposal liability		0		3,103,711
Upward/Downward reestimates of credit subsidy expense (+/-)		0		10,869
Increase in exchange revenue receivable from the the public (-)		0		0
Other (+/-)		54,908		63,634
Total components of Net Cost of Operations that will require or generate resources in future periods	$	146,563	$	3,273,498
Components not Requiring or Generating Resources:				
Depreciation and amortization		16,965,074		9,815,563
Revaluation of assets or liabilities (+/-)		1,074		515,037
Other (+/-)				
Trust Fund Exchange Revenue		(82)		(36)
Cost of Goods Sold		0		0
Operating Material & Supplies Used		0		0
Other		5,172,197		1,335,773
Total components of Net Cost of Operations that will not require or generate resources	$	22,138,263	$	11,666,337
Total components of net cost of operations that will not require or generate resources in the current period	$	22,284,826	$	14,939,835
Net Cost of Operations	$	146,426,185	$	135,781,522

The accompanying notes are an integral part of these financial statements.

Department of Defense - Department of the Army

COMBINED STATEMENT OF CUSTODIAL ACTIVITY

As of September 30, 2005 and 2004 ($ in Thousands)

		2005 Combined		2004 Combined
SOURCE OF COLLECTIONS				
Deposits by Foreign Governments	$	136,000	$	0
Seized Iraqi Cash		1		118,349
Other Collections		0		0
Total Cash Collections	$	136,001	$	118,349
Accrual Adjustments (+/-)		0		0
Total Custodial Collections	$	136,001	$	118,349
DISPOSITION OF COLLECTIONS				
Disbursed on Behalf of Foreign Governments and International Organizations	$	82,613	$	0
Seized Assets Disbursed on behalf of Iraqi People		52,061		283,058
Increase (Decrease) in Amounts to be Transferred		53,387		0
Collections Used for Refunds and Other Payments		0		0
Retained by The Reporting Entity		0		0
Seized Assets Retained for Support of the Iraqi People		(52,060)		(164,709)
Total Disposition of Collections	$	136,001	$	118,349
NET CUSTODIAL COLLECTION ACTIVITY	$	0	$	0

The accompanying notes are an integral part of these financial statements.

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of 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 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 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 financial and operational management practices to the Federal government through statutory provisions; provide for improvement of accounting, systems, financial management, and internal controls; and provide for the production of complete, reliable, timely, and consistent financial information. GMRA extended the CFO Act to all activities of Executive Branch agencies. FFMIA expanded reporting requirements under the CFO Act. The reporting entities within 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 appropriations and funds are divided into the general, working capital (revolving funds), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Army missions.

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 financial management systems were unable to meet all of the requirements for full accrual accounting. Many of the Army 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 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 systems and processes are updated to collect and report financial information as required by Federal GAAP, the Army 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 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, Disclosures Related to the Statement of Net Cost for further information.

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 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 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 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 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 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 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 Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (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

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 intends 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

The SFFAS No. 23 establishes generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, and 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 Army uses data from the Bureau of Economic Analysis to calculate a value for military equipment.

Contractor Provided

When it is in the best interest of the government, the Army provides government property to contractors that is necessary to complete their 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 exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the Army 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 reports only the portion of government property in the possession of contractors that is maintained in the Army 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 their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

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

1.P. Advances and Prepayments

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

1.Q. Leases

Generally, lease payments are for the rental of operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), 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 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 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 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 have been accrued and not used as of the balance sheet date are reported as a liability. The liability reported at the end of the fiscal year reflects the current pay rates.

1.U. Net Position

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

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

1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by DoD. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any 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 FY 2005. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between FY 2004 and 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. In-transit payments are those payments that have been made to other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The 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 $1.7 billion of DFI assets, including $86.0 million 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 4th Quarter, FY 2005, the Army has reconciled the $86.0 million transferred from IIG. The Army has recorded a total of $136.0 million in DFI assets, which includes the $86.0 million reconciled and a $50.0 million transfer in 1st Quarter, FY 2005. See Note 22 for additional discussion on DFI.

Note 2. Nonentity Assets

As of September 30	2005	2004
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 294,283	$ 251,236
B. Investments	0	0
C. Accounts Receivable	0	0
D. Other Assets	0	0
E. Total Intragovernmental Assets	$ 294,283	$ 251,236
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 1,482,046	$ 1,525,090
B. Accounts Receivable	53,773	187,140
C. Loans Receivable	0	0
D. Inventory & Related Property	0	0
E. General PP&E	0	0
F. Investments	0	0
G. Other Assets	0	0
H. Total Nonfederal Assets	$ 1,535,819	$ 1,712,230
3. Total Nonentity Assets	$ 1,830,102	$ 1,963,466
4. Total Entity Assets	$ 250,383,321	$ 244,733,167
5. Total Assets	$ 252,213,423	$ 246,696,633

Relevant Information for Comprehension

Nonentity Assets of $1.8 billion are assets held by the Army, but are not available to fund mission operations.

Nonentity Intragovernmental Fund Balance with Treasury of $7.3 billion is made up of $6.9 billion in material child transfers from the Executive Office of the President for the Iraqi Relief and Reconstruction Fund, $179.5 million in deposit funds, $61.4 million in Iraqi custodial funds that coalition forces seized during Operation Iraqi Freedom to be used in support of the Iraqi people, and $53.4 million in custodial funds for the Developmental Fund for Iraq. Further explanation on the Iraqi custodial funds is disclosed in Note 22.

Nonentity Non-Federal Cash and Other Monetary Assets of $1.5 billion represent both cash and foreign currency. Further disclosures in Note 7.

Nonentity Non-Federal Accounts Receivable of $53.8 million represents net 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 $250.4 billion 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 $43.0 million or 17 percent primarily due to increases in Withheld Income Taxes of $26.0 million caused by timing differences between collection of taxes from personnel and disbursement to the respective government entitie and in Army Member Savings Program of $19.6 million caused by an increase in deployed soldiers drawing imminent danger pay who are authorized to deposit funds and later withdraw the funds with interest. In addition, the Iraqi Seized Assets decreased $52.1 million due to the continued depletion of the funds as the assets are disbursed on behalf of the Iraqi people and increased $53.4 million due the Development Fund for Iraq first being reported in FY 2005. The remaining increase is due to various other deposit funds.

Nonfederal Accounts Receivable decreased $133.4 million or 71 percent due to the Department of Defense's policy to write-off uncollectable cancelled accounts receivable in FY 2005.

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

Note 3. Fund Balance with Treasury

As of September 30	2005	2004
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 86,709,695	$ 79,827,618
B. Revolving Funds	47,069	36,457
C. Trust Funds	798	2,862
D. Special Funds	41,472	0
E. Other Fund Types	294,283	9,681,672
F. Total Fund Balances	$ 87,093,317	$ 89,548,609
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 87,794,995	$ 89,548,609
B. Fund Balance per Army	87,093,317	89,548,609
3. Reconciling Amount	$ 701,678	$ 0

The Fund Balance represents the amount of available funding to be utilized for executing the Army mission. The Fund Balance is reconciled to the Treasury Trial Balance. During September 2005, Army made a net adjustment of

$40.3 million for unsupported undistributed disbursements and collections to bring the Fund Balance reported by Army into agreement with Treasury. Due to system deficiencies a larger adjustment of $544.1 million was recorded but the actual effect on Army Fund Balance was $40.3 million.

Treasury Trial Balance reports an additional $701.7 million in Fund Balance with Treasury than reported by the Army. This includes $555.1 million in canceling year authority, $32.1 million in child transfers with the Executive Office of The President, and $166.8 million in receipt accounts reported on the Treasury Trial Balance but not included in the Army Fund Balance. In addition, $52.3 million in parent transfers with the Department of Transportation and Department of Agriculture were reported in the Army Fund Balance but not in the Treasury Trial Balance.

When Treasury appropriates funds to an entity and the entity allows another federal entity to execute an apportioned amount of those funds, the entity that receives the original appropriation is deemed the parent and the entity that is allowed to execute those funds is the child. In these type of transactions, the parent entity and not the child reports the activity in its Fund Balance unless the balance is material to the child.

Fluctuations and/or Abnormalities

Appropriated Funds increased $6.9 billion or 9 percent and Other Fund Types decreased $9.4 billion or 97 percent due to an Office of the Secretary of Defense requirement to report the Iraqi Relief and Reconstruction Fund material child transfer from the Executive Office of the President as Appropriated Funds. In FY 2004, the fund reported $9.4 billion and in FY 2005 reported $7.0 billion.

Revolving Funds increased $10.6 million or 29 percent primarily due to increase in Army Conventional Ammunition to finance the procurement of ammunition components and assembly into conventional ammunition.

Trust funds decreased $2.0 million or 72 percent. The major cause was a bond redemption of $1.9 million on September 30, 2004 that was reinvested at the beginning of FY 2005. This artificially increased the fund balance in FY 2004.

Special funds increased $41.5 million or 100 percent due to a DoD policy to report special funds seperately. In FY 2004 the balance was reflected in Other Fund Types.

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 September 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 August 2005, the Army 2100 Comparison of Checks Issued Report received from Treasury includes the following (in thousands):

DFAS	0-60 DAYS	61-180 DAYS	> 180 DAYS	TOTAL
Indianapolis	$167,693	($55,879)	($44)	$111,771
Columbus (Army DSSNs)*	$3,268	$0	$0	$3,268
Columbus (Transp Pay)	$991	$0	$0	$991
Columbus (Def Agencies)	$0	$0	$0	$0
TOTAL (2100 ARMY)	**$171,952**	**($55,879)**	**($44)**	**$116,030**

**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.

The differences in the 0-60 days and the 61-180 days are expected to clear by October 2005.

Deposit Differences

The deposit differences are reconcilable differences reported by the Treasury or the Army. The Army has $7.1 million in deposit differences greater than 180 days old as of September 2005. The primary cause for this increase is non-timely processing of documents by U.S. Army Forces Central Command disbursing station in Kuwait.

Vested Iraqi Cash

The Army has collected $1.7 billion 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 $1.7 billion in support of the Iraqi people as follows:

(Amounts in thousands)	Amount
Collected	$1,724,131
Disbursed	
Iraqi Salaries	$1,184,791
Repair/Reconstruction/Humanitarian Assistance	147,826
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	356,813
Total Disbursed	$1,689,430
Remaining Funds	$34,701

Other Fund Types

The $294.3 million in Other Fund Types consists of $179.5 million in deposit funds, $61.4 million in Seized Iraqi Cash, and $53.4 million in Development Fund for Iraq. Further explanation on the Seized Iraqi Cash and Development Fund for Iraq is disclosed in Note 22.

Canceling Appropriated Funds

As of September 2005, Army withdrew $555.1 million in canceling appropriated funds in accordance with Treasury's policy.

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 September 30		2005		2004
(Amounts in thousands)				
1. Unobligated Balance				
A. Available	$	13,678,958	$	21,473,477
B. Unavailable		1,799,859		1,408,704
2. Obligated Balance not yet Disbursed	$	80,720,880	$	71,629,016
3. Non-Budgetary FBWT	$	7,250,455	$	251,236
4. Non-FBWT Budgetary Accounts	$	(16,354,933)	$	(14,608,107)
5. Total	$	87,095,219	$	80,154,326

Definitions

Non-Budgetary FBWT includes entity and nonentity FBWT accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

Non-FBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority, spending authority, and investment accounts.

Fluctuations and/or Abnormalities

Unobligated Balance – Available decreased $7.8 billion and Obligated Balance not yet Disbursed increased $9.1 billion primarily due to obligating FY 2005 funds for the Global War on Terror and Tsunami Relief and a FY 2004 multi-year Operations and Maintenance appropriation to train and equip the Afghan National Army.

Unobligated Balance - Unavailable increased $391.1 million primarily due to an increase in unapportioned authority and allotments of expired authority. Unapportioned authority increased $150.0 million for the procurement of ammunition. Allotments of expired authority increased $241.3 million primarily in the Operations and Maintenance appropriations.

Non-Budgetary FBWT represents $7.0 billion in Iraqi Relief and Reconstruction Fund which is a material child transfer from the Executive Office of the President, $179 million in deposit funds, $61.4 million in Seized Iraqi Cash, $53.4 million in Development Fund for Iraq, and ($29.6) million in suspense accounts. The $7.0 billion increase is due to a DoD policy to include material child transfers as Non-Budgetary FBWT. In FY 2004, material child transfers were not reported in the Status of Fund Balance with Treasury.

Non-FBWT Budgetary Accounts increase of $1.7 billion reflects increases in reimbursable authority in support of logistical activities and land force readiness support for Army Procurement and Operations and Maintenance.

Disclosures Related to Suspense/Budget Clearing Accounts

As of September 30	2003	2004	2005	(Decrease)/ Increase from FY2004 - 2005
(Amounts in thousands)				
Account				
F3875	$ 0	$ 0	$ (27,176)	$ (27,176)
F3880	0	0	7,973	7,973
F3882	(908)	(820)	25,084	25,904
F3885	0	0	(36,501)	(36,501)
F3886	200	187	117	(70)
Total	$ (708)	$ (633)	$ (30,503)	$ (29,870)

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.

A substantial amount of increases/decreases in the suspense accounts from prior fiscal years, reflects a change in year end recording. In the past, at the end of each fiscal year most suspense/budget clearing accounts were reduced to zero (as required by the Department of Treasury) by transferring the balances to proper appropriation accounts. For FY 2005 the Office of Management and Budget requested the departments to not reduce the budget clearing accounts to zero at year end.

The Army transferred the following accounts to their Operation and Maintenance Account (21 2020) for FY 2004 and FY 2003 (in thousands):

	Accounts	FY 2004	FY 2003
21 F3875	Budget Clearing Accounts	$37,389	$82,292
21 F3880	Check Cancellations	33,815	2,913
21 F3885	Intergovernmental Payment and Collection	(18,896)	370,885

In FY 2004, Army implemented Public Law 107-314, to write-off $181 million net and $34 billion absolute from the unsupported suspense balances.

Negative amounts shown above do not indicate abnormal balances, but a preponderance of disbursements over collections.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of September 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
(Amounts in thousands)				
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDS)	$ 259,857	$ 69,858	$ 120,703	$ 50,845
B. Negative Unliquidated Obligations (NULO)	26,251	24,424	20,927	(3,497)
2. Total In-transit Disbursements, Net	$ 1,086,574	$ 1,652,211	$ 1,143,441	$ (508,770)

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 absolute value UMDs, NULOs, and $21.1 million 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.

In FY 2004, the $69.9 million in UMDs reflected the net value rather than the absolute value. The absolute value was $128.9 million.

Note 4. Investments and Related Interest

As of September 30	2005 Par Value/Cost	2005 Amortization Method	2005 Unamortized (Premium/ Discount)	2005 Investments, Net	2005 Market Value Disclosure	2004 Investments, Net
(Amounts in thousands)						
1. Intragovernmental Securities						
A. Non-Marketable, Market-Based	$ 3,487	Effective interest	$ (10)	$ 3,477	$ 3,471	$ 1,491
B. Accrued Interest	18			18	18	5
C. Total Intragovernmental Securities	$ 3,505		$ (10)	$ 3,495	$ 3,489	$ 1,496
2. Other Investments	$ 0		0	$ 0	NA	$ 0

Fluctuations and/or Abnormalities

The Department of the Army Investments increased $2.0 million or 134 percent. The major cause was a bond redemption of $1.9 million on September 30, 2004 and was reinvested at the beginning of FY 2005.

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.

Note 5. Accounts Receivable

As of September 30	2005 Gross Amount Due	2005 Allowance For Estimated Uncollectibles	2005 Accounts Receivable, Net	2004 Accounts Receivable, Net
(Amounts in thousands)				
1. Intragovernmental Receivables	$ 276,634	N/A	$ 276,634	$ 461,867
2. Nonfederal Receivables (From the Public)	$ 709,733	$ (125,728)	$ 584,005	$ 492,394
3. Total Accounts Receivable	$ 986,367	$ (125,728)	$ 860,639	$ 954,261

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 re-estimated annually in compliance with standards.

Fluctuations and/or Abnormalities

Intra-governmental Receivables decreased $185.2 million or 40 percent from FY 2004 to FY 2005. The decrease is primarily related to increased efforts to monitor receivables and ensure proper recording of collections. Efforts have been made to move all reimbursable activity within the government to the Intragovernmental Payment and Collection process thus decreasing the overall receivable balance. The decrease was seen in receivable balances from the Department of Air Force for $97.2 million, Other Defense Agencies for $37 million, and Health and Human Services for $15.3 million. The remaining $35.7 million was seen in various other agencies.

Net Non-Federal Receivables (from the Public) increased $91.6 million or 19 percent from FY 2004 to FY 2005. Increases were seen in areas impacted by the war as In-Service debts increased $9.5 million and debts from Foreign Governments increased $124.2 million. The majority of the Foreign Governments increase primarily pertains to one country under Multi-National Division Agreements that are not being paid by the foreign government, but by the Office of the Secretary of Defense (Comptroller). Payment is dependant on the receipt of the Office of Secretary of Defense budget supplement and is expected during FY 2006. There is continuous effort to monitor receivables and ensure proper recording of collections resulting in the reduction of Non-Federal Receivables.

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)

Type of Debt	Amount
Contractor Debt	$94,825
Individual (Out-of-Service)	183,657
Military Pay (In-Service)	100,106
Civilian Pay (In-Service)	34,048
Sales of Goods & Services	51,463
Interest	34,675
Foreign Military Sales	30,347
Foreign Governments	200,610
Non-Appropriated Funds Instrumentalities	13,652
Vendor Debt	2,342
Other	27,047
Subtotal	$772,772
Undistributed Collections Public	(63,039)
Gross Non-Federal Accounts Receivable (from the Public)	$709,733

Relevant Information for Comprehension

Allocation of Undistributed Collections

The Army reported $10.5 million 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 $272.9 million of Non-Federal Accounts Receivable (from the Public) and $3.0 million 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.

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

Accounts Receivable Groups
(thousands)

Category	Intragovernmental	Nonfederal
Nondelinquent		
Current	$1,168,045	$386,915
Noncurrent		
Delinquent		
1 to 30 days	29,384	4,772
31 to 60 days	570	10,910
61 to 90 days	5,137	28,836
91 to 180 days	9,303	68,398
181 days to 1 year	2,758	103,908
Greater than 1 year and less then or equal to 2 years	207	54,541
Greater than 2 years and less than or equal to 6 years		39,808
Greater than 6 years and less than 10 years		67,021
Greater than 10 years		7,664

The aged accounts receivable schedule above does not include undistributed collections or eliminate any receivables with the Army. The primary difference is due to eliminations of $991 million.

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 the Army active military personnel appropriation.

(Amounts in thousands)

FY 2005 Non-Federal Refunds Receivable	FY 2005 Non-Federal Accounts Receivable (Net)	Percent of Net Amount
$165,725	$584,005	28%

Note Reference

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

Note 6. Other Assets

As of September 30	2005	2004
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 824,303	$ 556,380
B. Total Intragovernmental Other Assets	$ 824,303	$ 556,380
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 3,470,563	$ 2,789,090
B. Other Assets (With the Public)	373,961	562,414
C. Total Nonfederal Other Assets	$ 3,844,524	$ 3,351,504
3. Total Other Assets	$ 4,668,827	$ 3,907,884

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 $267.9 million or 48 percent from FY 2004. Improved business processes of using Treasury's Intragovernmental Reconciliation Analysis System have allowed Army to capture advances to others with agencies outside of DoD. Increased in advances to the Department of Interior for $199.2 million, Department Homeland Security for $53.8 million, and National Aeronautics and Space Administration for $14.8 million make up the majority of the overall increase. The increase is due to Army using estimates in FY 2004 and actuals in FY 2005.

Outstanding Contract Financing Payments increased $681.5 million or 24 percent from FY 2004. The majority of the increase occurred in the appropriations for Missile Procurement, Army of $217.4 million, Procurement of Weapons and Tracked Combat Vehicles, Army of $150.8 million, Other Procurement, Army of $229.2 million and Operation and Maintenance, Army $51.1 million.

The Other Assets (With the Public) which consist of Military Pay and Travel Advances decreased $188.5 million or 34 percent because of increased collection efforts.

Intragovernmental Eliminations

The buyer-side Advances and Prepayments balances were adjusted upward $909.6 million to agree with seller-side unearned revenue on the books for other DoD reporting entities. In addition, $85.4 million of intra-Army General Fund transactions were eliminated leaving a balance of $824.3 million.

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.

Note 7. Cash and Other Monetary Assets

As of September 30	2005	2004
(Amounts in thousands)		
1. Cash	$ 1,010,331	$ 1,168,692
2. Foreign Currency (non-purchased)	471,715	356,398
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,482,046	$ 1,525,090

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 and is not used by Army.

Fluctuations and/or Abnormalities

Cash and foreign currency decreased $43.0 million or 3 percent, primarily due to continued support of the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom. Overall foreign currency increased approximately $115.3 million or 32 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.

All foreign currency shown above is purchased foreign currency residing in Local Depository Accounts overseas. Due to limitations of the current format of line 2, Foreign Currency (non-purchased) is erroneously shown as non-purchased.

Note Reference

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

Note 8. Direct Loan and/or Loan Guarantee Programs

As of September 30

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

Military Housing Privatization Initiative
Armament Retooling & Manufacturing Support Initiative

Armament Retooling and Manufacturing Support Initiative

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 United States Code (USC) 4551-4555, is designed to encourage commercial use of 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 (AILP).

Direct Loans Obligated After FY 1991
Not applicable.

Total Amount of Direct Loans Disbursed
Not applicable.

Subsidy Expense for Post-1991 Direct Loans
Not applicable.

Subsidy Rate for Direct Loans
Not Applicable.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans
Not applicable.

Defaulted Guaranteed Loans from Post-1991 Guarantees
Not applicable.

Guaranteed Loans Outstanding

As of September 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(Amounts in thousands)		
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	$ 0	$ 0
2. Armament Retooling & Manufacturing Support Initiative	$ 26,996	$ 24,196
3. Total	$ 26,996	$ 24,196
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0	$ 0
2. Armament Retooling & Manufacturing Support Initiative	$ 740	$ 629
3. Total	$ 740	$ 629
2004		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0	$ 0
2. Armament Retooling & Manufacturing Support Initiative	$ 0	$ 0
3. Total	$ 0	$ 0

The increase in the face value of the guaranteed loans of $740 thousand and the amount of principal guaranteed of $629 thousand are due to an FY 2005 loan closing and disbursement of an FY 2004 loan obligation.

Liability for Post-1991 Loan Guarantees, Present Value

As of September 30	2005	2004
(Amounts in thousands)		
Loan Guarantee Program		
1. Military Housing Privatization Initiative	$ 0	$ 0
2. Armament Retooling & Manufacturing Support Initiative	12,394	12,293
3. Total	$ 12,394	$ 12,293

Subsidy Expense for Post-1991 Loan Guarantees

As of September 30

(Amounts in thousands)

2005	Interest Differential	Defaults	Fees	Other	Total
1. **New Loan Guarantees Disbursed**:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0
2004	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
2. **New Loan Guarantees Disbursed**:					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	174	(56)	0	118
Total	$ 0	$ 174	$ (56)	$ 0	$ 118
2005	**Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
3. **Modifications and Reestimates:**					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0.00	$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0.00	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0
2004	**Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
4. **Modifications and Reestimates:**					
Military Housing Privatization Initiative	$ 0	$ 0	$ 0	$ 0.00	$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	7,451	0.00	7,451
Total	$ 0	$ 0	$ 7,451	$ 0	$ 7,451

	2005	2004
5. **Total Loan Guarantee:**		
Military Housing Privatization Initiative	$ 0	$ 0
Armament Retooling & Manufacturing Support Initiative	0	7,569
Total	$ 0	$ 7,569

There is no subsidy expense in FY 2005.

Subsidy Rate for Loan Guarantees

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantees:					
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 September 30	2005	2004
(Amounts in thousands)		
1. Beginning Balance of the Loan Guarantee Liability	$ 12,293	$ 1,273
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	$ 0	$ 0
B. Default Costs (Net of Recoveries)	0	174
C. Fees and Other Collections	0	(56)
D. Other Subsidy Costs	0	0
E. Total of the above Subsidy Expense Components	$ 0	$ 118
3. Adjustments		
A. Loan Guarantee Modifications	$ 0	$ 0
B. Fees Received	60	0
C. Interest Supplements Paid	0	0
D. Foreclosed Property and Loans Acquired	0	0
E. Claim Payments to Lenders	0	0
F. Interest Accumulation on the Liability Balance	41	3,451
G. Other	0	0
H. Total of the above Adjustments	$ 101	$ 3,451
4. Ending Balance of the Loan Guarantee Liability before Re-estimates	$ 12,394	$ 4,842
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	$ 0	$ 0
B. Technical/default Re-estimate	0	7,451
C. Total of the above Re-estimate Components	$ 0	$ 7,451
6. Ending Balance of the Loan Guarantee Liability	$ 12,394	$ 12,293

One loan obligated with total subsidy expense of $118 thousand was processed in FY 2004. This subsidy expense primarily consists of default costs and fees and other collection.

The $60 thousand guaranteed fee for the loan received in FY 2004 was not received until FY 2005.

Interest accumulation on the liability balance decreased $3.4 million primarily due to reestimated loan amortization amount from Treasury reported in FY 2004. The reestimated loan amortization amount reported to recognize an increase in the guarantee loan liability due to an estimated loss claim. In FY 2005, only $41 thousand interest income was reported.

The reestimate decreased $7.5 million between FY 2004 and FY 2005, primarily due to a reestimate for a liability for an impending loss claim in FY 2004. A reestimate was not required in FY 2005.

Administrative Expense

Not applicable.

Note 9. Inventory and Related Property

As of September 30	2005	2004
(Amounts in thousands)		
1. Inventory, Net	$ 109,586	$ 204,707
2. Operating Materials & Supplies, Net	37,593,767	37,443,014
3. Stockpile Materials, Net	0	0
4. Total	$ 37,703,353	$ 37,647,721

Inventory, Net

As of September 30	2005			2004	
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valuation Method
(Amounts in thousands)					
1. Inventory Categories					
A. Available and Purchased for Resale	$ 23,163	$ (3,106)	20,057	$ 12,768	LAC
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	2,416	(2,416)	0	0	NRV
D. Raw Materials	0	0	0	0	
E. Work in Process	89,529	0	89,529	191,939	SP
F. Total	$ 115,108	$ (5,522)	109,586	$ 204,707	

Legend for Valuation Methods:

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

Restrictions of Inventory Use, Sale, or Disposition

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

a) Distributions without reimbursements made when authorized by DoD directives;

b) War Reserve Materiel includes fuels and subsistence items that are considered restricted; and

c) Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of The President.

Other Information

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. Government 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.

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 $95.1 million or 46 percent, in FY 2005. CAWCF Available and Purchased for Resale Inventory, Net showed a increase of $7.3 million or 57 percent and Work in Process showed a decrease of $102.4 million or 53 percent. The increase in Available and Purchased for Resale is attributable to filling the orders received while the decrease in Work in Process indicates no new orders and eventual 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.

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 September 30	2005 OM&S Gross Value	2005 Revaluation Allowance	2005 OM&S, Net	2004 OM&S, Net	Valuation Method
(Amounts in thousands)					
1. OM&S Categories					
A. Held for Use	$ 37,593,767	$ 0	$ 37,593,767	$ 37,443,014	LAC
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	1,336,536	(1,336,536)	0	0	SP
D. Total	$ 38,930,303	$ (1,336,536)	$ 37,593,767	$ 37,443,014	

Legend for Valuation Methods:

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

Relevant Information for Comprehension

Restrictions on Operating Materials and Supplies (OM&S)
The total tonnage of munitions stock, to include chemical stocks awaiting destruction for FY 2005 and out years, is 446,631 tons.

The Army reported $4.9 billion of OM&S Held for Future Use. This amount represents ammunition held under a host nation treaty agreement and is not intended for use by U.S. Forces. The ammunition is intended for use in defense of the host nation by the host nation.

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.

Stockpile Materials, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2005 Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	2004 Prior FY Net Book Value
(Amounts in thousands)						
1. Major Asset Classes						
A. Land	N/A	N/A	$ 473,405	N/A	$ 473,405	$ 464,254
B. Buildings, Structures, and Facilities	S/L	20 Or 40	42,991,192	$ (27,570,505)	15,420,687	15,596,637
C. Leasehold Improvements	S/L	lease term	13,860	(11,242)	2,618	2,144
D. Software	S/L	2-5 Or 10	528,762	(180,346)	348,416	292,064
E. General Equipment	S/L	5 or 10	3,119,395	(2,042,868)	1,076,527	926,606
F. Military Equipment	S/L	Various	403,430,000	(306,710,000)	96,720,000	90,280,000
G. Assets Under Capital Lease	S/L	lease term	166,617	(138,615)	28,002	35,997
H. Construction-in-Progress	N/A	N/A	6,246,266	N/A	6,246,266	5,495,062
I. Other			117,729	(31,904)	85,825	18,808
2. Total General PP&E			$ 457,087,226	$ (336,685,480)	$ 120,401,746	$ 113,111,572

[1] *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 $474.0 thousand or 22 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 $56.4 million or 19 percent. This increase is attributed to a continuing initiative to establish the baseline to report internal use software. Internal Use Software identified and reported in FY 2005 includes 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 in development.

The Army reported an increase in Equipment NBV of $149.9 million or 16 percent. This increase is attributed to an Army initiative to establish capital asset visibility of Government Furnished Equipment at Government Owned Contractor Operated Army installations.

Assets Under Capital Lease decreased by $8.0 million or 22 percent due to straight-line amortization of leased assets.

Construction in Progress (CIP) increased $751.0 million or 14 percent. Major components of the increase include: $304.0 million net in U.S. Army Corps of Engineers projects which include the construction and repair of barracks, training facilities, utilities, and vehicle maintenance facilities; $447.0 million net of current transfers, completions, and transfers out for the Defense Emergency Response Fund and Office of the Secretary of Defense projects.

Other of $85.8 million represents projected value of forest product sales (timber reserve) and property recorded using the Defense Finance and Accounting Service Corporate Database (DCD) Interface Initiative. Fourth Quarter, FY 2005 marks the first time Army property system data is reported using the DCD Interface. The $67.0 million or 356 percent increase is attributable to personal property being misclassified as other timber. This data will be researched and revised during 1st Quarter, FY 2006.

Relevant Information for Comprehension

Military Equipment

In FY 2005, the Army reported military equipment with an acquisition value of $403.4 billion and accumulated depreciation of $306.7 billion for a NBV of $96.7 billion.

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 practical 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.

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 September 30	2005	2004
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 166,071	$ 166,071
B. Equipment	546	0
C. Other	0	0
D. Accumulated Amortization	(138,615)	(130,074)
E. Total Capital Leases	$ 28,002	$ 35,997

Fluctuations and/or Abnormalities

Assets Under Capital Lease decreased by $8 million or 22 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 $14 million for current and $33 million for non-current. The future executory and imputed interest costs, as shown in a combined form in Note 15 Capital Lease Liability section, are $11 million and $9 million, respectively. Future executory costs are estimates based on historical data. The imputed interest that was necessary to reduce the net minimum lease payments to the present value was calculated at the incremental borrowing rate at the inception of the leases.

Note Reference

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

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2005	2004
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	473,993	593,847
D. Total Intragovernmental Liabilities	$ 473,993	$ 593,847
2. Nonfederal Liabilities		
A. Accounts Payable	$ 90,204	$ 73,766
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,663,650	1,632,843
C. Environmental Liabilities	38,399,062	37,494,670
D. Loan Guarantee Liability	0	0
E. Other Liabilities	4,357,513	4,871,124
F. Total Nonfederal Liabilities	$ 44,510,429	$ 44,072,403
3. Total Liabilities Not Covered by Budgetary Resources	$ 44,984,422	$ 44,666,250
4. Total Liabilities Covered by Budgetary Resources	$ 17,281,633	$ 19,584,078
5. Total Liabilities	$ 62,266,055	$ 64,250,328

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 liabilities.

(Amounts in thousands)	FY 2005	FY 2004
Federal Employees' Compensation Act (FECA)	$274,311	$281,613
Unemployment Benefits	145,898	133,628
Cancelled Accounts Receivable	53,784	95,693
Judgment Fund	0	81,923
Judgment Fund – Notification and Federal Employee Antidiscrimination and Retaliation Act	0	990
Total Intragovernmental- Other	$473,993	$593,847

FECA decreased $7.3 million or 3 percent from FY 2004 and Unemployment Benefits increased $12.2 million or 9 percent from FY 2004.

Cancelled Accounts Receivable decreased $41.9 million or 44 percent. The Office of the Secretary of Defense (OSD) requested that the departments begin to write off uncollectible cancelled accounts receivable starting in FY 2005.

Per FY 2005 OSD financial statement guidance, all Judgment Fund liability is now reported as part of funded Accounts Payable and reflected on Note 12, Accounts Payable.

Nonfederal Liabilities

The majority of Accounts Payable's 22 percent increase of $16.4 million is attributable to Military Personnel, Army for overestimated personnel and Permanent Change of Station travel costs that will be reversed in FY 2006.

Other Employment-Related Actuarial Liabilities (FECA) increased $30.8 million or 2 percent and Environmental Liabilities increased $904.3 million or 2 percent from FY 2004.

The schedule below identifies the Army Other Nonfederal liabilities.

(Amounts in thousands)	FY 2005	FY 2004
Annual Leave	$2,728,208	$2,656,508
Nonenvironmental – Disposal	1,318,443	1,325,886
Contingent Liabilities	175,541	742,237
Iraqi Seized Cash	61,370	113,430
Development Fund for Iraq	53,387	0
Capital Leases	20,565	33,063
Total Non-Federal - Other	$4,357,514	$4,871,124

Annual Leave increased $71.7 million or 3 percent and Nonenvironmental – Disposal had a decrease of $7.4 million or 1 percent from FY 2004.

Contingent Liabilities' decrease of $566.7 million or 76 percent is attributable primarily to a change in the reporting of Chemical Demilitarization. Based on analysis performed by Army, it was determined that these liabilities were more properly reported as environmental liabilities on Note 14.

Iraqi Seized Cash continues to be disbursed to the Iraqi people accounting for a decrease of $52.1 million or 46 percent.

The Development Fund for Iraq was not reported until 1st Quarter, FY 2005. For additional information, refer to Note 1Z.

Capital Leases decreased by $12.5 million or 38 percent as a result of annual amortization.

Note Reference

For additional line item discussion, see:

Note 1Z, Significant Accounting Policies, Development Fund for Iraq
Note 8, Direct Loan and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Debt
Note 14, Environmental Liabilities and Disposal Liabilities
Note 15, Other Liabilities
Note 16, Commitments and Contingencies
Note 17, Military Retirement Benefits and Other Employment Related, Actuarial Liabilities
Note 22, Disclosures Related to the Statement of Custodial Activity

Note 12. Accounts Payable

As of September 30	2005 Accounts Payable	2005 Interest, Penalties, and Administrative Fees	2005 Total	2004 Total
(Amounts in thousands)				
1. Intragovernmental Payables	$ 1,918,309	$ N/A	$ 1,918,309	$ 1,706,731
2. Non-Federal Payables (to the Public)	10,136,895	116	10,137,011	9,460,194
3. Total	$ 12,055,204	$ 116	$ 12,055,320	$ 11,166,925

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 $211.6 million or 12 percent primarily due to a $98.0 million increase for the Defense Finance and Accounting Services Working Capital Fund caused from unbilled receivables where a funding document was received after the billing cycle and a $96.7 million increase due to a report mapping change. In 1st Quarter, FY 2005, the Treasury directed that Judgment Fund liabilities be reported as Accounts Payable rather than Other Liabilities which moved the reporting from Note 15, Other Liabilities to Note 12, Accounts Payable.

Relevant Information for Comprehension

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements recorded at the detail level in the activity's accounting records versus those reported by the U.S. Treasury.

Supported undistributed disbursements are allocated to Non-Federal Accounts Payable. As a result, Accounts Payable was adjusted downward in the amount of $1.3 billion. Unsupported undistributed disbursements are recorded as Disbursements in Transit and are reflected on the note.

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 $380.4 million 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, $980.4 million of intra-Army General Fund transactions were eliminated leaving a balance of $1.9 billion.

Note Reference

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

Note 13. Debt

Not applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
(Amounts in thousands)				
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	$ 385,343	$ 2,826,639	$ 3,211,982	$ 3,520,341
2. Active Installations--ER for Closed Ranges	13,248	5,169,486	5,182,734	5,781,055
3. Formerly Used Defense Sites (FUDS) -- ER	110,711	4,116,739	4,227,450	4,321,276
4. FUDS--ER for Transferred Ranges	69,208	14,514,844	14,584,052	14,084,281
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	17,299	362,305	379,604	259,034
2. Active Installations--Environmental Closure Requirements	2,759	94,088	96,847	51,215
3. Active Installations--Environ.Response at Active Ranges	6,491	297,596	304,087	267,632
4. Other	0	0	0	0
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	59,962	463,481	523,443	597,347
2. BRAC Installations--ER for Transferring Ranges	20,549	613,544	634,093	480,122
3. BRAC Installations--Environmental Corrective Action	5,909	48,237	54,146	24,965
4. Other	112,026	0	112,026	209,437
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0	0	0	0
2. Nuclear Powered Submarines	0	0	0	0
3. Other Nuclear Powered Ships	0	0	0	0
4. Other National Defense Weapons Systems	0	0	0	0
5. Chemical Weapons Disposal Program	557,949	9,892,101	10,450,050	10,769,467
6. Other	0	0	0	0
2. Total Environmental Liabilities:	$ 1,361,454	$ 38,399,060	$ 39,760,514	$ 40,366,172

Relevant Information for Comprehension

Environmental Liabilities

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

The estimated Army total environmental restoration cost for the current operating period is based on the amounts that will be expended within 12 months and amounts that will be expended more than 12 months from the Balance Sheet date. The amount that will be expended within 12 months from the Balance Sheet date is calculated based on the disbursement goals for the current appropriation and unliquidated obligations. The amount that will be expended more than 12 months from the Balance Sheet date is calculated based on the remaining disbursement goal amounts of the current appropriation and unliquidated obligations and the site-level estimate of the cost to complete all activities at a site within the Army DERP inventory. In accordance with DERP Management Guidance, the site-level estimates are point estimates (by site and by remediation phase) calculated using a validated cost-estimating model or an engineered cost and entered into a database. The estimates are reviewed annually and updated to incorporate changed assumptions and additional site-level information. At a minimum, estimates are updated annually to report the costs in constant dollars. The Army is presently researching methods to capture capital costs in remediating legacy waste. The Army expects to establish a methodology for accumulating capital expenditures related to environmental remediation in FY 2006.

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

There are no changes in the total estimated environmental restoration liability due to changes in laws and technology.

Environmental restoration liabilities are reported in constant dollars. There are no changes to the total environmental restoration liability cost due to inflation or deflation.

Army Other Accrued Environmental Costs (Non-DERP funds): The Army is required to cleanup contamination resulting from waste disposal practices, leaks, spills and other activity after 1986 from hazardous substances and wastes and after FY 2003 from UXO, discarded military munitions, and munitions constituents migrating from an operational range under the Army Compliance Cleanup Program. The Resource Conservation and Recovery Act (RCRA), as well as host nation requirements for overseas installations, require 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. The Army is also required to close facilities with permits in accordance with environmental laws when operation of that facility ceases. The Army Compliance Cleanup Program addresses environmental requirements reported under RCRA Subtitle C, RCRA Subtitle D, and RCRA Subtitle I to characterize, investigate and cleanup active Army installations within the United States; and, for overseas installations, requirements in accordance with DoD policy as prescribed in DoDI 4715.8 (Environmental Remediation for DoD Activities Overseas). Environmental liabilities for the Department of the Army "Other Accrued Environmental Costs" are prepared in accordance with the draft Guidance for Recognizing, Measuring and Reporting Environmental Liabilities Not Eligible for Defense Environmental Restoration Program Funding (July 2005) and the DoD FMR 7000.14.

The liability estimates used for environmental corrective action and environmental response at active ranges for the current operating period is based on the amounts that will be expended within 12 months and will be expended more than 12 months from the Balance Sheet date. The amount that will be expended within 12 months from the Balance Sheet date is calculated based on the disbursement goals for the current appropriation. The Army is currently developing a reporting system to track total prior year unliquidated obligations for "Other Accrued Environmental Costs" and anticipates having this system in place during FY 2006. The amount that will be expended more than 12 months from the Balance Sheet date is calculated based on the remaining amounts of the current appropriation and site-level estimates of the cost to complete all activities at a site within the Army Compliance Cleanup Program inventory. The site-level estimates are point estimates (by site and by remediation phase) calculated using a validated cost-estimating model or an engineered cost and entered into a database. The estimates are reviewed annually and updated to incorporate changed assumptions and additional site-level information. At a minimum, estimates are updated annually to report the costs in constant dollars.

The liability estimates used for environmental closure requirements are under development. Closure requirements are prepared and submitted by Army installations on an as-needed basis and reported on the Army Financial Statements under Active Installations – Environmental Closure Requirements. These estimates are point estimates to close the facility in accordance with a closure plan and are entered into a database. The assigned current liability cost includes an estimation of expenditure based on the disbursement goals for the current year appropriation only. The Army is currently developing a reporting system to track total prior year unliquidated obligations for "Other Accrued Environmental Costs" and anticipates having this system in place during FY 2006.

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

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

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

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

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

The estimated BRAC total environmental costs for the current operating period is based on the amount recorded as the current liability and the amount recorded as the non-current liability for the Balance Sheet date. The current liability is the amount that will be expended or obligated within 12 months from the Balance Sheet date. The non-current liability is the estimated amount to complete all activities at a site within the Army BRAC environmental inventory. The estimates are site-level point estimates (by site and by remediation phase) calculated using a validated cost-estimating model or an engineered cost and entered into a database. The estimates are reviewed annually and updated to incorporate changed assumptions and additional site-level information. At a minimum, estimates are updated annually to report the costs in constant dollars. The Army is presently researching methods to capture capital costs in remediating legacy waste. The Army expects to establish a methodology for accumulating capital expenditures related to environmental remediation in FY 2006.

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

There are no changes in the total estimated BRAC environmental liability due to changes in laws and technology. BRAC environmental liabilities are reported in constant dollars. There are no changes to the total BRAC environmental liability cost due to inflation or deflation.

Environmental Disposal Liabilities
Methodology Used to Estimate Environmental Liabilities
The Army uses estimates of expenditure of current appropriations, unliquidated obligations and annual estimates

of cost-to-complete as the basis for the total environmental liability calculation for Army DERP, Other Accrued Environmental Costs and BRAC environmental.

Accrued Environmental Restoration (DERP Funded) Costs:

The Army identified $3.2 billion to characterize, investigate and cleanup 737 DERP eligible sites at active Army installations. The 737 sites include 302 sites undergoing investigation, 97 sites undergoing remediation and remedial action operations and long-term monitoring at 338 sites. The total liability at these sites may change materially in either direction as restoration activities are completed. The current liability number is based on disbursement goals for the FY 2006 allocation and unliquidated obligations (ULOs). The ULO data are pulled from reports provided by Defense Finance and Accounting Service (DFAS). Quarterly updates to the current liability numbers are based on changes to the ULOs reported in DFAS monthly reports. Non-current liabilities are based on the disbursement goals for FY 2006 allocation and ULOs and site-level cost-to-complete estimates from FY 2007 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, re-estimation based on different assumptions or lessons learned. For Active Installations, the cost-to-complete estimate for the DERP is collected in the Army Environmental Database – Restoration (AEDB-R) for all eligible sites.

The Army identified $4.2 billion to characterize, investigate and cleanup 1,660 DERP eligible sites at FUDS properties. The 1,660 sites include 219 sites undergoing investigation, 426 sites undergoing remediation and remedial action operations and long-term monitoring at 75 sites. The total liability at these sites may change materially in either direction as restoration activities are completed. The current liability number is based on disbursement goals for the FY 2006 allocation and ULOs. The ULO data are obtained from the Corps of Engineers Financial Management System (CEFMS), which feeds the DFAS monthly reports. Quarterly updates to the current liability numbers are based on changes to the unliquidated obligations recorded in CEFMS. Non-current liabilities are based on the disbursement goals for the FY 2007 allocation and ULOs and site-level cost-to-complete estimates from FY 2007 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, re-estimation based on different assumptions or lessons learned. For FUDS properties, the cost-to-complete estimate for the DERP is collected in the FUDS Management Information System (FUDMIS).

Active Installations – Environmental Restoration (ER) for Closed Ranges

An inventory of closed ranges on active Army installations has been completed and the Army identified $5.2 billion to characterize, investigate and cleanup 194 sites at closed ranges. 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. The 194 sites include 192 sites undergoing investigation, one site undergoing remediation and remedial action operations and long-term maintenance at 1site. The current and non-current liability numbers for environmental restoration at closed ranges is based on the same methodology used for environmental restoration at active Army installations. The total liability at these sites may change materially in either direction as restoration activities are completed.

FUDS – Environmental Restoration for Transferred Ranges

An inventory of transferred ranges on FUDS properties has been completed and the Army identified $14.6 billion to characterize, investigate and cleanup 1,186 sites at transferred ranges. Transferred ranges 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. Status of the 1,186 sites on transferred ranges is 37 are currently in the investigation phase, 62 are in remedial action phase and 20 are in remedial action operations/long term maintenance. The current and non-current liability numbers for environmental restoration at transferred ranges is based on the same methodology used for environmental restoration at FUDS properties. The total liability at these sites may change materially in either direction as restoration activities are completed.

Other Accrued Environmental Costs (Non-DERP Funds)

Active Installations – Environmental Corrective Action

The Army identified $379.6 million to conduct environmental corrective action at 781 sites at active Army installations under the Army Compliance Cleanup Program. The 781 sites include 344 sites undergoing investigation, 246 sites undergoing remediation and remedial action operations and long-term management at 191 sites. . The total liability at these sites may change materially in either direction as corrective action activities are completed. The current liability number is based on the disbursement goal for costs required for FY 2006 (22 percent). Currently ULO data is not available for environmental corrective action under the Army Compliance Cleanup Program. The Army anticipates that ULO data will be available from the DFAS beginning in FY 2006. Quarterly updates to the current liability numbers will be based on changes to the ULOs reported in DFAS monthly reports. The non-current liability reflects 78 percent of the total estimated environmental corrective action costs for FY 2006 and site-level cost-to-complete estimates from FY 2007 through program completion. Site-level cost-to-complete estimates are developed by the installation using the standard cost estimating program, the Remedial Action Cost Engineering and Requirements (RACER). Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, or re-estimation based on different assumptions and lessons learned. For Active Installations, the cost-to-complete estimate for the corrective actions under the Compliance Cleanup Program is collected in the Army Environmental Database – Compliance Cleanup (AEDB-CC) for all eligible sites. Installations previously reported corrective action requirements in the Environmental Program Requirements (EPR) database.

Active Installations – Environmental Closure Requirements

The Army identified $96.8 million to conduct environmental closure requirements at 47 sites at active Army installations reflecting total validated December 2004 active closure plans requirements for RCRA-C and RCRA-D. Army environmental closure requirements and the liability estimates used for environmental closure requirements are under development. Closure requirements are prepared and submitted by Army installations on an as-needed basis and reported on the Army's Financial Statement under Active Installations – Environmental Closure Requirements. These estimates are point estimates to close the facility in accordance with a closure plan and are entered into the EPR database. The current liability estimate is 22 percent of the total costs recorded in the EPR for FY 2006. The non-current liability total is 78 percent of FY 2006 total estimated costs plus the total costs in the EPR database for

FY 2007 through FY 2013. The Army is currently developing a reporting system to track total prior year unliquidated obligations for "Other Accrued Environmental Costs" and anticipates having this system in place during FY 2006.

Active installations – Environmental Response at Active Ranges

The Army identified $304.1 million to conduct environmental response at one active range under the Army Compliance Cleanup Program. The total liability at this site may change materially in either direction as response activities are completed. Active ranges include military ranges that are currently in service and are being regularly used, that are still considered by the Army to be a potential range area, and that have not been put to a new use that is incompatible with range activities. Environmental response at an active range in conducted only when there is an environmental law requiring such action. An environmental response at an active range includes investigation, characterization and cleanup of soil, sediment, surface water and groundwater and unexploded ordnance. The current liability number is based on the disbursement goal for costs required for FY 2006 (22 percent). Currently ULO data is not available for environmental response at active ranges under the Army Compliance Cleanup Program. The Army anticipates that ULO data will be available from the DFAS beginning in FY 2006. Quarterly updates to the current liability numbers will be based on changes to the ULOs reported in DFAS monthly reports. The non-current liability reflects 78 percent of the total estimated environmental response at active ranges for FY 2006 and site-level cost-to-complete estimates from FY 2007 through program completion. Site-level cost-to-complete estimates are developed by the installation using the standard cost estimating program, the Remedial Action Cost Engineering and Requirements (RACER). Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization with sampling, or re-estimation based on different assumptions and lessons learned. For Active Installations, the cost-to-complete estimate for environmental response at active ranges under the Compliance Cleanup Program is collected in the Army Environmental Database – Compliance Cleanup (AEDB-CC) for all eligible sites.

Base Realignment and Closure (BRAC):

The Army identified $523.4 million for environmental restoration at 128 sites, $634.1 million for environmental restoration at transferring ranges for 35 sites and $54.1 million for corrective action at 23 sites. The total liability at these sites may change materially in either direction as restoration and corrective action activities are completed. Transferring ranges are proposed for transfer or will be returned from DoD to another entity, including other federal entities. The inventory of transferring ranges at BRAC installations is complete. Environmental costs at BRAC installations are funded using the base closure account. The current liability amount for BRAC environmental costs is the FY 2006 allocation. The ULO data for environmental restoration, environmental restoration at transferring ranges and environmental corrective action are pulled from reports provided by DFAS but are not identified individually. BRAC ULOs are provided as BRAC-Other. Quarterly updates to the current liability numbers are based on changes to the ULOs reported in DFAS monthly reports. Non-current liabilities are based on site-level cost-to-complete estimates from FY 2007 through program completion. Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, re-estimation based on different assumptions or lessons learned. For BRAC installations, the environmental cost-to-complete estimates are collected in the Army Environmental Database – Restoration (AEDB-R) for all BRAC environmental sites.

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.

Non-Stockpile Chemical Materiel Demilitarization:

All requirements relating to the destruction of non-stockpile materiel covered under the Chemical Weapons Convention (CWC) have been identified through the Chemical Agents and Munitions Destruction, Army Appropriation and Military Construction. However, a 1993 review identified an unfunded, possible contingent liability of approximately $9.2 billion for the potential remediation of small and large burial sites (CWC only requires destruction of munitions after they are uncovered). This possible contingent liability was previously disclosed on Note 16, Commitments and Contingencies.

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

The 4th Quarter, FY 2005 total Active Installations – ER liability for Closed Ranges of $5.2 billion decreased 10 percent from $5.8 billion reported in 4th Quarter, FY 2004. The major factors contributing to the decrease are the reduction of 44 sites from the inventory, reduced site acreage, and changes to remediation technologies applied to sites.

The 4th Quarter, FY 2005 total Active Installations – Environmental Corrective Action liability of $379.6 million increased 47 percent from $259.0 million reported in the 4th Quarter FY 2004 and the FY 2005 total Active Installations – Environmental Response at Active Ranges liability of $304.1 million increased 14 percent from $267.6 million reported in the 4th Quarter FY 2004. The major contributing factor to both increases is a change in reporting requirements. The Army implemented a new Compliance Cleanup (CC) reporting database that specifically targets corrective actions at an installation. Installations previously reported these requirements in the Environmental Program Requirements (EPR) database along with all other installation environmental program requirements. The installation must use site-level detail and a standard estimating tool, the Remedial Action Cost Engineering and Requirements (RACER). The 4th Quarter, FY 2005 total Active Installations – Environmental Closure liability of $96.8 million increased 89 percent from $51.2 million reported in the 4th Quarter FY 2004. The major factor contributing to the increase is the addition of an Army Major Command's environmental closure requirements not previously reported in the EPR.

The 4th Quarter, FY 2005 total BRAC Installations – Environmental Restoration (ER) liability of $523.4 million decreased 12 percent from $597.3 million in 4th Quarter, FY 2004 due to improved cost estimating methodology at the installation-level and decrease level of effort requirements. The 4th Quarter, FY 2005 total BRAC Installations – ER for transferring range liability of $634.1 million increased 32 percent from $480.1 million in 4th Quarter, FY 2004 due to new regulatory requirements. The 4th Quarter, FY 2005 total BRAC Installations – Environmental Corrective Action liability of $54.1 million is a 117 percent increase from the $25.0 million liability reported in 4th Quarter, FY 2004. The major factor contributing to the increase is also new regulatory requirements. One installation's corrective action requirements increased 266 percent. The 4th Quarter, FY 2005 Other category which represents total BRAC unliquidated obligations of $112.0 million is a 47 percent decrease from the $209.4 million reported in 4th Quarter, FY 2004 due to the liquidation of current liability obligations and a changed methodology for calculated current liability based on disbursement goals.

Other Information

Others Category Disclosure Comparative Table
(amounts in thousands):

Types	FY 2005	FY 2004
BRAC – Other		
Prior Year BRAC ULOs That Cannot Be Identified To A Specific Program	$ 112,026	$ 209,437
Total	**$112,026**	**$ 209,437**

Note 15. Other Liabilities

As of September 30	2005 Current Liability	2005 Noncurrent Liability	2005 Total	2004 Total
(Amounts in thousands)				
1. Intragovernmental				
A. Advances from Others	$ 138,074	$ 0	$ 138,074	$ 95,733
B. Deposit Funds and Suspense Account Liabilities	213,950	0	213,950	137,806
C. Disbursing Officer Cash	1,482,046	0	1,482,046	1,525,090
D. Judgment Fund Liabilities	0	0	0	82,913
E. FECA Reimbursement to the Department of Labor	120,385	153,926	274,311	281,613
F. Other Liabilities	260,472	3,408	263,880	279,748
G. Total Intragovernmental Other Liabilities	$ 2,214,927	$ 157,334	$ 2,372,261	$ 2,402,903
(Amounts in thousands)				
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 578,786	$ 0	$ 578,786	$ 2,083,447
B. Advances from Others	866,239	0	866,239	750,119
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0	0
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	1,318,443	1,318,443	1,325,886
(4) Other	0	0	0	0
G. Accrued Unfunded Annual Leave	2,728,211	0	2,728,211	2,656,508
H. Capital Lease Liability	13,978	33,053	47,031	59,397
I. Other Liabilities	687,666	175,540	863,206	1,793,835
J. Total Nonfederal Other Liabilities	$ 4,874,880	$ 1,527,036	$ 6,401,916	$ 8,669,192
3. Total Other Liabilities	$ 7,089,807	$ 1,684,370	$ 8,774,177	$ 11,072,095

Fluctuations and/or Abnormalities

Intragovernmental Liabilities

Advances from Others increased $42.3 million or 44 percent. The majority of the increase is attributable to advances from the Office of National Drug Control Policy, the Executive Office of The President, and Department of Homeland Security for new initiatives related to classified missions associated with national and military security.

The balance reported for the Deposit Funds and Suspense Account liabilities increased by $76.1 million or 55 percent. The majority of the increase is attributable to the Army uniform services thrift saving program of $63.5 million and Member Saving Deposit Program of $19.6 million caused by an increase in deployed soldiers drawing imminent danger pay who are authorized to deposit funds and later withdraw the funds with interest.

Treasury issued guidance in FY 2005 to report Judgment Fund Liabilities for Contract Disputes Act and the Notification and Federal Employee Antidiscrimination and Retaliation Act as Accounts Payable. Judgment Fund Liabilities were reported as part of Other Liabilities in FY 2004.

The schedule below identifies the Intragovernmental Other Liabilities.

(Amounts in thousands)	FY 2005	FY 2004	Change
Unemployment	$149,307	$133,627	$15,680
Accounts Receivable Cancelled	53,784	95,693	(41,909)
Employee Benefits			
Retirement (CSRS/FERS)	33,456	26,693	6,763
Health	24,677	20,397	4,280
Life Insurance	574	475	99
Education Benefits Trust Fund	2,082	2,863	(781)
Total Intragovernmental - Other Liabilities	$263,880	$279,748	$15,872

Cancelled Accounts Receivable decreased $42 million or 44 percent. This decrease is due to the Office of the Secretary of Defense request that the departments begin to write-off uncollectable cancelled accounts receivables in FY 2005.

Employee Benefits increased $11.1 million primarily due to Civilian Service Retirement System/Federal Employees Retirement System of $6.8 million, and Health Benefits of $4.3 million. The increase of the Employee Benefits is attributable to payroll information not received timely in FY 2005 to process payment.

Education Benefits Trust Fund decreased $781 thousand or 27 percent due to increased estimated present value benefit (PVB) for FY 2005. The PVB increased due to a new educational benefit for mobilized reservists. As a result, the liability decreased in FY 2005.

Non-Federal Liabilities

Accrued Funded Payroll and Benefit decreased $1.5 billion or 72 percent primarily due to a timing difference of the military payroll disbursement. In FY 2004, the liability reflected one half month of military payroll accrual. In FY 2005, the military payroll was disbursed on the last day of the fiscal year, therefore, only minor amounts were accrued.

Advances from Others increased $116.1 million or 15 percent, primarily due to the USACE Gulf Region 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.

Capital Lease Liability decreased $12.4 million or 21 percent as a result of annual amortization.

The schedule below identifies the Non-Federal Other Liabilities.

(Amounts in thousands)	FY 2005	FY 2004	Change
Employer Contributions and Payroll Taxes	$334,954	$315,926	$19,028
Contingent Funded/Non-Funded	187,017	1,011,845	(824,827)
Contract Holdbacks	226,478	343,010	(116,531)
Iraqi Seized Cash	61,370	113,430	(52,060)
Development Fund for Iraq	53,387	0	53,387
Other	0	9,624	9,624
Total Non-Federal - Other Liabilities	$863,206	$1,793,835	($930,629)

Contingent Liabilities decreased $824.8 million or 82 percent primarily due to a change in reporting of Chemical Demilitarization. Army performed analysis and determined that these liabilities were more properly reported as environmental liabilities in Note 14.

Contract Holdbacks decreased $116.5 million or 34 percent due to a change in computation of Contract Holdbacks for Mechanization of Contract Administration Systems.

Iraqi Seized Cash continues to be disbursed to the Iraqi people accounting for the $52.1 million or 46 percent decrease.

The Development Fund for Iraq was not reported until 1st Quarter, FY 2005.

Note Reference

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

Capital Lease Liability

	2005				2004
	Asset Category				
As of September 30	Land and Buildings	Equipment	Other	Total	Total
(Amounts in thousands)					
1. Future Payments Due					
A. 2006	$ 20,785	$ 144	$ 0	$ 20,929	$ 20,785
B. 2007	18,009	150	0	18,159	20,785
C. 2008	8,529	156	0	8,685	18,009
D. 2009	5,376	93	0	5,469	8,529
E. 2010	5,376	0	0	5,376	5,376
F. After 5 Years	8,682	0	0	8,682	14,058
G. Total Future Lease Payments Due	$ 66,757	$ 543	$ 0	$ 67,300	$ 87,542
H. Less: Imputed Interest Executory Costs	20,124	143	0	20,267	28,144
I. Net Capital Lease Liability	$ 46,633	$ 400	$ 0	$ 47,033	$ 59,398
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 26,467	$ 26,334
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 20,565	$ 33,063

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, $26.5 million, 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 $20.6 million to be shown as Not Covered by Budgetary Resources.

Note 16. Commitments and Contingencies

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 September 30, 2005, the Army General Fund has approximately $255.0 million 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
Litigation Division	95,821
Administrative Tort Claims (Army Fund)	45,000
European Environmental Claims (Army Fund)	40,000
Low-Level Radioactive Waste Disposal	26,955
Army Contract Appeals Division	25,000
Army Environmental Law Division	21,151
Network Enterprise Technology Command	908
Army Personnel Claims	124
Total	$254,959

Note Reference

See Note Disclosure 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

As of September 30	2005 Actuarial Present Value of Projected Plan Benefits	2005 Assume Interest Rate (%)	2005 (Less: Assets Available to Pay Benefits)	2005 Unfunded Actuarial Liability	2004 Unfunded Actuarial Liability
(Amounts in thousands)					
1. Pension and Health Benefits					
A. Military Retirement Pensions	$ 0		$ 0	$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0	0
C. Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Benefits	$ 0		$ 0	$ 0	$ 0
2. Other					
A. FECA	$ 1,663,650	4.53%	$ 0	$ 1,663,650	$ 1,632,843
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. [Enter Program Name}	0		0	0	0
E. Total Other	$ 1,663,650		$ 0	$ 1,663,650	$ 1,632,843
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$ 1,663,650		$ 0	$ 1,663,650	$ 1,632,843

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 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.

Note 18. 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 increased $4.5 billion or 13 percent primarily due to a $1.3 billion increase in health care normal cost contribution rates provided by the Board of Actuaries for DoD eligible retirees and a $936.8 million increase in the Defense Logistics Agency due to the use of the new Business Systems Modernization system, which provides better trading partner data than previously reported information by the legacy systems. The remaining increases are due to various other agencies such as the Department of Air Force, Department of Transportation, and Department of Interior.

Gross Costs with the Public increased $7.3 billion primarily in support of land force readiness including resources for all law enforcement supporting Army mission requirements providing protection for all personnel, facilities, and critical assets. The increase also includes a $3.8 billion increase in Iraqi Relief and Reconstruction Fund related to Security and Law Enforcements for additional police training and border enforcement for Iraqi citizen's protection.

Program Revenues

Intragovernmental Earned Revenue increased $1.1 billion or 15 percent. The increase reflects the increases in reimbursable authority in support of logistical activities and land force readiness support for Army Procurement and Operations and Maintenance.

Revenue with the Public increased $97.2 million primarily due to reimbursable activity in support of logistics for all law enforcement supporting Army mission requirements and for activity related to Army ability to meet global commitments in support of our National Military Strategy and to pursue cooperative activities with other nations.

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

As of September 30	2005 Cumulative Results of Operations	2005 Unexpended Appropriations	2004 Cumulative Results of Operations	2004 Unexpended Appropriations
(Amounts in thousands)				
1. Prior Period Adjustments Increases (Decreases) to Net Position				
A. Changes in Accounting Standards	$ 0	$ 0	$ 0	$ 0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	0	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	$ 0	$ 0	$ 0	$ 0
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 316,873	$ 0	$ 330,114	$ 0
B. Civilian Health	525,159	0	472,428	0
C. Civilian Life Insurance	1,655	0	1,557	0
D. Judgment Fund	249,118	0	77,978	0
E. Intra-Entity	0	0	0	0
F. Total Imputed Financing	$ 1,092,805	$ 0	$ 882,077	$ 0

Fluctuations and/or Abnormalities

Imputed Financing

The $52.7 million or 11 percent increase in Civilian Health is attributable to an increase in the average enrollment and a higher cost factor by the Office of Personnel and Management (OPM). For FY 2005, the cost factor is $4,903 per enrolled employee. (See the OPM Benefit Administration Letter, Number 05-303 and dated September 8, 2005).

The increase in Judgment Fund of $171.1 million or 219 percent is attributable to payments as follows:

(Amounts in Thousands)	Number of Claims	FY 2005	FY 2004	Difference
Court of Claims	4	$51.5	$4.3	$47.2
Torts	878	196.6	68.7	127.9
Small Claims	2	1	5	-4.0
Totals	884	$249.1	$78.0	171.1

Cumulative Results of Operations

Appropriations used increased $22.7 billion or 18 percent due to obligating FY 2005 funds for the Global War on Terror and Tsunami Relief and a FY 2004 multi-year Operations and Maintenance appropriation to train and equip the Afghan National Army.

Non-Exchange revenue increased $4.2 million or 81 percent primarily due to $3.4 million increase in collections for the Forest and Wildlife Conservation. The remaining $800 thousand is due to other miscellaneous collections.

Donations and forfeitures of cash and cash equivalents increased $946 thousand or 20 percent due to increased donations to the West Point Military Academy in FY 2005.

Budgetary financing sources transfers-in/out without reimbursement decreased $9.5 billion or 72 percent. Transfers-in/out are one time events that are not repeatable from year to year. In FY 2005, the Iraqi Relief and Reconstruction Fund reported $2.9 billion and the Defense Working Capital Fund reported $855 million. In FY 2004, $10.3 billion was reported in the Iraqi Relief and Reconstruction Fund and $2.9 billion in the Defense Working Capital 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 and Other on the Statement of Net Position. The $3.4 billion or 134 percent decrease in Other budgetary financing sources and $2.1 billion or 100 percent increase in Other is entirely due DoD policy to change the reporting of other gains and losses from Other budgetary financing sources to Other.

Other Financing Sources Transfers-in/out without reimbursement is comprised of transfers of Property, Plant and Equipment (PP&E) and Construction in Progress (CIP). Transfers in without reimbursement of $528.1 million for FY 2005 and $400.8 million for FY 2004 for an increase of $127.3 million or 32 percent: Transfers-in/out without reimbursement are one time events that are not repeatable from year to year. The following table provides a breakout of the data for each year:

(Amounts in Thousands)	Transfers In FY 2005	Transfers Out FY 2005	Transfer In FY 2004	Transfers Out FY 2004
Property Plant & Equipment				
Defense Logistics Agency	$ -	$ -	$ 4.3	$ -
Office of the Secretary of Defense	-	-	44.2	-
Special Command Operations	-	-	16.1	-
Tricare Management Activity	-	-	8.7	-
Missile Defense Agency	-	-	27.9	-
Other Defense Agencies	-	-	129.3	-
Air Force	-	-	150.9	-
U.S. Army Corps of Engineers	-	-	-	$(68.9)
Net Transfers of PP&E to the Army	71.9	-	-	-
Total Property Plant & Equipment	$71.9		$381.4	$(68.9)
Construction in Progress				
Defense Emergency Response Fund	$4.5	$ -	$ -	$ -
Office of the Secretary of Defense	581.4	-	-	-
Air Force	-	-	-	(9.3)
Defense Logistics Agency	-	(84.6)	84.6	-
Missile Defense Agency	-	(45.1)	6.2	-
Defense Health Organization	-	-	6.8	-
Total Construction in Progress	$585.9	$(129.7)	$97.6	$(9.3)
Totals	$657.8	$(129.7)	$479.0	$(78.2)

Unexpended Appropriations

Decreases in the Appropriations transferred-in/out and Other adjustments and an increase in the Appropriations used relate directly to the change in the overall Army appropriations.

Appropriations transferred-in/out decreased $2.2 billion or 46 percent due to the reporting of Net Transfers of

$2.6 billion in FY 2005 and $4.8 billion in FY 2004. Appropriations transferred-in/out are one time events that are not repeatable from year to year. The following table provides a breakout of the net changes for FY 2005:

(Amounts in Thousands)	Transfer in FY 2005	Transfer out FY 2005
Drug Interdiction	$457.5	$ -
Restoration of Formerly Used Defense Sites	265.6	-
National Nuclear Security Administration	-	(72.3)
Defense Agencies	357.0	-
Miscellaneous Transfers	62.8	-
Defense Working Capital Fund	855.0	-
Foreign Currency Fluctuations	259.0	-
Total	$2,256.9	$(72.3)

Other adjustments decreased $516.8 million or 37 percent due primarily to decreases in the amount of rescissions of current year authority of $97.8 million or 29 percent, prior year balances of $314.5 million or 78 percent and cancelled authority of $104.5 million or 16 percent.

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

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2005	2004
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 71,524,849	$ 60,568,539
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The Net Amount of Budgetary Resources Obligated for Undelivered Orders increased $11.0 billion or 18 percent primarily due to the increase in appropriations received for the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief.

Fluctuations and/or Abnormalities

Budget Authority – Net Transfers for FY 2005 of $1.0 billion consists of appropriation transfers of $457.5 million in Drug Interdiction, $265.6 million in Restoration of Formerly Used Defense Sites, ($72.3) million in National Nuclear Security Administration, $357.0 million with Defense Agencies, and $7.8 million in miscellaneous transfers. The decrease of $1.5 billion or 58 percent is largely due to decreases in transfers from the Office of the President and the Iraqi Freedom Fund in support of Iraqi Security and Stability and contingency missions.

Unobligated balance - Beginning of period increased $14.7 billion or 179 percent largely due to the $13.5 billion supplemental received in September 2004 for Operations and Maintenance related to Operation Iraqi Freedom. As of September 2004, only $2.5 million had been obligated causing the material increase.

Unobligated balance-Net transfers, actual of $2.4 billion consists of prior year appropriation transfers of $1.2 billion from the Iraqi Freedom Fund in support of contingency missions, $855.0 million from the Defense Working Capital Fund, $259.0 million from Foreign Currency Fluctuations, Defense, and $55.0 million in miscellaneous transfers. Transfers are a one-time event and fluctuations between fiscal years do not correlate with each other.

Spending Authority from Offsetting Collections – Receivable from Federal sources of ($415.0) million reflects the change in receivables from FY 2004 to FY 2005.

Recoveries of Prior Year Obligations or deobligations increased $3.0 billion or 22 percent from FY 2004 consisting primarily of $1.7 billion in Operations and Maintenance, $702.6 million in Military Personnel, and $430.7 million in Procurement 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 FY 2005 Army Military Personnel deobligation is $697.1 million of which $394.0 million was a transfer to Foreign Currency Fluctuations, Defense and $1.1 billion in Operations and Maintenance.

Permanently not available decreased $516.8 million or 37 percent due to decreases in the amount of Recissions of current year authority of $97.8 million or 29 percent, prior year balances of $314.5 million or 78 percent, and cancelled authority of $104.5 million or 16 percent. Recissions of current year authority consist of $70.1 million in Operations and Maintenance, and $35.8 million in Procurement. Recissions of prior year balances consist primarily of $237.5 million in Military Construction and $105.1 million of Procurement. Cancelled year authority increased $129.1 million in Military Personnel and decreased $24.5 million in Operations and Maintenance.

Obligations incurred, Undelivered orders, and Disbursements increased $23.5 billion or 13 percent, $10.3 billion or 18 percent, and $24.2 billion or 16 percent, respectively and the Unobligated balance – Apportioned decreased $7.7 billion or 36 percent. The fluctuations are due to obligating FY 2005 funds for the Global War on Terror and Tsunami Relief and a FY 2004 multi-year Operations and Maintenance appropriation to train and equip the Afghan National Army.

Unobligated Balance – Exempt from Apportionment decreased $1.4 million or 11 percent primarily due to a decrease in the Forest & Wildlife Conservation, Military Reservations appropriation.

Unobligated Balances Not Available increased $391.1 million or 28 percent due to an increase in unapportioned authority and allotments of expired authority. Unapportioned authority increased $150.0 million for the procurement of ammunition. Allotments of expired authority increased $241.3 million primarily in the Operations and Maintenance appropriations.

Accounts Receivable and Unfilled Customer Orders from Federal Sources increased $415.1 million or 22 percent and decreased $2.2 billion or 17 percent, respectively, due to fluctuations in the status of Spending Authority from Offsetting Collections. Spending Authority from Offsetting Collections had an overall increase of $1.4 billion or 7 percent.

Collections increased $2.0 billion or 10 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 $118.9 million in Army General Fund Proprietary Receipts, $42.5 million in Recoveries under the Foreign Military Sales, $13.5 million in Collections of Receivables from Cancelled Accounts, and $11.0 million in Recoveries of Government Property Lost or Damaged. The $131.9 million or 208 percent increase is largely attributed to $83.1 million increase in General Fund Proprietary Receipts and $44.7 million increase in Recoveries under the Foreign Military Sales.

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 $174.1 billion in Category A, Direct; $945.3 million in Category B, Direct; $20.2 billion in Category A, Reimbursable; and $4.3 billion in Category B, 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 increased $101 thousand, or 7 percent due to new loan obligations and liabilities for an impending loss claim. Spending authority from offsetting collections – Collected and Outlays – Collections increased $51 thousand due to the collection of guaranteed fees into the Rural Development appropriation for a FY 2004 loan.

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.

Note 21. Disclosures Related to the Statement of Financing

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 $23.5 billion or 13 percent and

$1.2 billion or 16 percent, respectively primarily due to the obligating FY 2005 funds for the Global War on Terror and Tsunami Relief and a FY 2004 multi-year Operations and Maintenance appropriation to train and equip the Afghan National Army.

Spending authority from offsetting collections and recoveries decreased $4.5 billion or 13 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 increased $131.9 million primarily due to $44.7 million increase in Recoveries under the Foreign Military Sales and $83.1 million increase in Army General Fund Proprietary Receipts.

Transfers-in/out without reimbursement of $528.0 million is comprised of $71.9 million for Property, Plant and Equipment and $456.2 million for Construction in Progress (CIP). CIP was transferred in from the Office of the Secretary of Defense for $581.4 million and the Defense Emergency Response Fund for $4.5 million and transferred out to the Missile Defense Agency for $45.1 million and Defense Logistics Agency for $84.6 million. Transfers-in/out are one time events that are not repeatable from year to year.

Imputed financing from costs absorbed by others has increased by $210.7 million or 24 percent primarily due to a $171.0 million increase in Judgment Fund Imputed Financing. This increase represents an increase in payments by the Court of Claims for $47.2 million, Torts for $127.9 million, and a decrease in Small Claims since October 1, 2004.

Other Resources – Other decreased $2.9 billion or 100 percent and Other resouces or adjustments to net obligated resources that do not affect net cost operations – Other increased $2.8 billion or 704 percent due to a mapping change that includes Other Gains and Losses. The majority of Other Gains and Losses 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.

Resources that fund expenses recognized in prior periods decreased $411.6 million or 47 percent primarily due to decreases of in Defense Environmental Restoration Program liabilities.

Resources that finance the acquisition of assets increased by $16.9 billion and or 170 percent and Depreciation and amortization increased by $7.1 billion or 73 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 environmental and disposal liability decreased $3.1 billion or 100 percent. The FY 2005 decrease in environmental and disposal liabilities is reflected in Resources that fund expenses recognized in prior periods.

Upward/Downward reestimates of credit subsidy expense decreased $10.9 million or 100 percent. The FY 2004 expense was due to a September 2004 reestimation of an impending loss claim for the Armament Retooling and Manufacturing Support Initiative.

Other Components Requiring or Generating Resources in Future Period represents increases in future funded expense for various liabilities such as Federal Employment Compensation Act, Unemployment Compensation, and Closed Accounts Payable. The decrease of $8.7 million or 14 percent represents decreases in the expected unemployment compensation.

Revaluation of assets or liabilities in FY 2005 represents the $1.1 million in Construction in Progress that was terminated. In FY 2004, the Revaluation of assets or liabilities was comprised of excess, obsolete, and unserviceable Operating Material and Supplies.

Other Trust Fund Exchange Revenue increased by $45.6 thousand or 125 percent due to investments earning higher revenue in FY 2005.

Cost of Goods Sold and Operating Material and 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 $5.2 billion 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 $3.8 billion increase is largely attributed to $2.2 billion increase in expenses related to Security and Law Enforcements due to the need for additional police training and border enforcement for Iraqi citizen's protection. The remainder of the increase is attributable to other miscellaneous expenses.

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

Note 22. Disclosures Related to the Statement of Custodial Activity

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

Development Fund for Iraq (DFI)

The DFI is for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. Current year deposits from the Interim Iraqi Government transferred to the Multi-National Force-Iraq are $136.0 million with $82.6 million in disbursements.

(Amounts in thousands)

	During FY 2005	Cumulative from Inception
Source of Collections		
Deposits by Foreign Governments	$136,000	$ 136,000
Disposition of Collections		
Security and Law Enforcement	$763	$763
Electric Sector	24,367	24,367
Oil Infrastructure	430	430
Water Resources and Sanitation	6,662	6,662
Transportation and Telecommunications	5,208	5,208
Roads, Bridges and Construction	4,230	4,230
Health Care	2,720	2,720
Private Sector Development	3,817	3,817
Education, Refugees, Human Rights, and Governance	34,416	34,416
Total Disbursed on behalf of Foreign Governments	82,613	82,613
Retained for Future Support of Foreign Governments	53,387	53,387
Total Disposition of Collections	$136,000	$136,000
Net Custodial Collection Activity	$0	$0

Note – The Retained for Future Support of Foreign Governments is reflected as Increase (Decrease) in Amounts to be Transferred on the Statement of Custodial Activity

Seized Assets

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi Government that are used in support of the Iraqi people. As of September 30, 2005, $61.4 million of seized monetary assets remain to be disbursed in support of the Iraqi people as shown in the table below.

(Amount in thousands)

	During FY 2005	Cumulative from Inception
Source of Collections		
Seized Iraqi Cash	$1	$927,216
Disposition of Collections		
Iraqi Salaries	$0	$30,838
Repair/Reconstruction/Humanitarian Assistance	51,231	494,959
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	830	264,737
Fuel/Supplies	0	75,312
Total Disbursed on behalf of Iraqi People	$52,061	$865,846
Retained for Future Support of the Iraqi People	(52,060)	61,370
Total Disposition of Collections	$1	$927,216
Net Custodial Collection Activity	$0	$0

Note 23. Other Disclosures

As of September 30	2005			
(Amounts in thousands)				
1. ENTITY AS LESSEE-Operating Leases				
Future Payments Due	Land and Buildings	Equipment	Other	Total
Fiscal Year				
2006	$ 6,303	$ 0	$ 0	$ 6,303
2007	6,298	0	0	6,298
2008	4,950	0	0	4,950
2009	3,794	0	0	3,794
2010	2,118	0	0	2,118
After 5 Years	15,550	0	0	15,550
Total Future Lease Payments Due	$ 39,013	$ 0	$ 0	$ 39,013

Definitions

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

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

Relevant Information for Comprehension

Land and Building lease periods vary and are not expected to be renewed at the end of the lease term. There are no material escalation clauses or contingent rental restrictions. Costs are gathered from existing leases, General Service Administration bills, and 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.

Department of Defense - Department of the Army

CONSOLIDATING BALANCE SHEET

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve	Army National Guard
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	$ 81,913,671	$ 1,281,261	$ 3,604,102
Non-Entity Seized Iraqi Cash	61,370	0	0
Non-Entity-Other	232,913	0	0
Investments (Note 4)	3,495	0	0
Accounts Receivable (Note 5)	1,229,724	19,389	18,801
Other Assets (Note 6)	126	0	(4)
Total Intragovernmental Assets	$ 83,441,299	$ 1,300,650	$ 3,622,899
Cash and Other Monetary Assets (Note 7)	$ 1,482,046	$ 0	$ 0
Accounts Receivable (Note 5)	524,138	22,294	37,573
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	37,703,353	0	0
General Property, Plant and Equipment (Note 10)	117,980,798	1,505,613	915,335
Investments (Note 4)	0	0	0
Other Assets (Note 6)	3,765,423	2,883	76,218
TOTAL ASSETS	$ 244,897,057	$ 2,831,440	$ 4,652,025
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	$ 3,117,641	$ 103,362	$ 68,933
Debt (Note 13)	0	0	0
Other Liabilities (Note 15 & Note 16)	2,400,920	9,003	47,787
Total Intragovernmental Liabilities	$ 5,518,561	$ 112,365	$ 116,720
Accounts Payable (Note 12)	$ 7,830,236	$ 273,181	$ 1,620,125
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,332,740	55,397	275,513
Environmental Liabilities (Note 14)	39,760,514	0	0
Loan Guarantee Liability (Note 8)	12,394	0	0
Other Liabilities (Note 15 and Note 16)	5,763,213	191,718	446,985
TOTAL LIABILITIES	$ 60,217,658	$ 632,661	$ 2,459,343
NET POSITION			
Unexpended Appropriations	$ 71,104,696	$ 881,002	$ 1,842,539
Cumulative Results of Operations	113,574,703	1,317,777	350,143
TOTAL NET POSITION	$ 184,679,399	$ 2,198,779	$ 2,192,682
TOTAL LIABILITIES AND NET POSITION	$ 244,897,057	$ 2,831,440	$ 4,652,025

Component Level	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
$ 0	$ 86,799,034	$ 0	$ 86,799,034	$ 89,297,373
0	61,370	0	61,370	113,430
0	232,913	0	232,913	137,806
0	3,495	0	3,495	1,496
(991,280)	276,634	0	276,634	461,867
824,181	824,303	0	824,303	556,380
$ (167,099)	$ 88,197,749	$ 0	$ 88,197,749	$ 90,568,352
$ 0	$ 1,482,046	$ 0	$ 1,482,046	$ 1,525,090
0	584,005	0	584,005	492,394
0	0	0	0	0
0	37,703,353	0	37,703,353	37,647,721
0	120,401,746	0	120,401,746	113,111,572
0	0	0	0	0
0	3,844,524	0	3,844,524	3,351,504
$ (167,099)	$ 252,213,423	$ 0	$ 252,213,423	$ 246,696,633
$ (1,371,627)	$ 1,918,309	$ 0	$ 1,918,309	$ 1,706,731
0	0	0	0	0
(85,449)	2,372,261	0	2,372,261	2,402,903
$ (1,457,076)	$ 4,290,570	$ 0	$ 4,290,570	$ 4,109,634
$ 413,469	$ 10,137,011	$ 0	$ 10,137,011	$ 9,460,194
0	1,663,650	0	1,663,650	1,632,843
0	39,760,514	0	39,760,514	40,366,172
0	12,394	0	12,394	12,293
0	6,401,916	0	6,401,916	8,669,192
$ (1,043,607)	$ 62,266,055	$ 0	$ 62,266,055	$ 64,250,328
$ 876,508	$ 74,704,745	$ 0	$ 74,704,745	$ 73,238,304
0	115,242,623	0	115,242,623	109,208,001
$ 876,508	$ 189,947,368	$ 0	$ 189,947,368	$ 182,446,305
$ (167,099)	$ 252,213,423	$ 0	$ 252,213,423	$ 246,696,633

Department of Defense - Department of the Army

CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve	Army National Guard
Program Costs			
A. Military Personnel			
Intragovernmental Gross Costs	$ (746)	$ 0	$ 0
(Less: Intragovernmental Earned Revenue)	(118,985)	(18,470)	4,186
Intragovernmental Net Costs	$ (119,731)	$ (18,470)	$ 4,186
Gross Costs With the Public	$ 43,328,299	$ 3,678,830	$ 6,299,842
(Less: Earned Revenue From the Public)	7,509	620	(8,596)
Net Costs With the Public	$ 43,335,808	$ 3,679,450	$ 6,291,246
Total Net Cost	$ 43,216,077	$ 3,660,980	$ 6,295,432
B. Operation and Maintenance	0		
Intragovernmental Gross Costs	$ 8,838,719	$ 10,086	$ 21,379
(Less: Intragovernmental Earned Revenue)	(10,860,946)	(60,950)	(155,148)
Intragovernmental Net Costs	$ (2,022,227)	$ (50,864)	$ (133,769)
Gross Costs With the Public	$ 62,432,671	$ 1,832,231	$ 4,729,764
(Less: Earned Revenue From the Public)	(921,770)	(3,339)	(5,687)
Net Costs With the Public	$ 61,510,901	$ 1,828,892	$ 4,724,077
Total Net Cost	$ 59,488,674	$ 1,778,028	$ 4,590,308
C. Procurement			
Intragovernmental Gross Costs	$ 969,985	$ 0	$ 0
(Less: Intragovernmental Earned Revenue)	(927,288)	0	0
Intragovernmental Net Costs	$ 42,697	$ 0	$ 0
Gross Costs With the Public	$ 10,210,123	$ 0	$ 0
(Less: Earned Revenue From the Public)	(49,382)	0	0
Net Costs With the Public	$ 10,160,741	$ 0	$ 0
Total Net Cost	$ 10,203,438	$ 0	$ 0
D. Research, Development, Test & Evaluation			
Intragovernmental Gross Costs	$ 3,077,434	$ 0	$ 0
(Less: Intragovernmental Earned Revenue)	(3,411,852)	0	0
Intragovernmental Net Costs	$ (334,418)	$ 0	$ 0
Gross Costs With the Public	$ 10,373,745	$ 0	$ 0
(Less: Earned Revenue From the Public)	(127,135)	0	0
Net Costs With the Public	$ 10,246,610	$ 0	$ 0
Total Net Cost	$ 9,912,192	$ 0	$ 0
E. Military Construction/Family Housing			
Intragovernmental Gross Costs	$ 3,655,992	$ 1,804	$ 0
(Less: Intragovernmental Earned Revenue)	(3,725,421)	0	0
Intragovernmental Net Costs	$ (69,429)	$ 1,804	$ 0
Gross Costs With the Public	$ 493,506	$ 13,824	$ 427,008
(Less: Earned Revenue From the Public)	(138,852)	0	0
Net Costs With the Public	$ 354,654	$ 13,824	$ 427,008
Total Net Cost	$ 285,225	$ 15,628	$ 427,008

Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
$ (746)	$ 0	$ (746)	$ 8,816,058
(133,269)	0	(133,269)	(371,996)
$ (134,015)	$ 0	$ (134,015)	$ 8,444,062
$ 53,306,971	$ 0	$ 53,306,971	$ 38,206,501
(467)	0	(467)	18,804
$ 53,306,504	$ 0	$ 53,306,504	$ 38,225,305
$ 53,172,489	$ 0	$ 53,172,489	$ 46,669,367
$ 8,870,184	$ 0	$ 8,870,184	$ 8,721,639
(11,077,044)	0	(11,077,044)	(10,871,264)
$ (2,206,860)	$ 0	$ (2,206,860)	$ (2,149,625)
$ 68,994,666	$ 0	$ 68,994,666	$ 62,739,839
(930,796)	0	(930,796)	(832,216)
$ 68,063,870	$ 0	$ 68,063,870	$ 61,907,623
$ 65,857,010	$ 0	$ 65,857,010	$ 59,757,998
$ 969,985	$ 0	$ 969,985	$ 826,430
(927,288)	0	(927,288)	(778,486)
$ 42,697	$ 0	$ 42,697	$ 47,944
$ 10,210,123	$ 0	$ 10,210,123	$ 17,237,458
(49,382)	0	(49,382)	(64,604)
$ 10,160,741	$ 0	$ 10,160,741	$ 17,172,854
$ 10,203,438	$ 0	$ 10,203,438	$ 17,220,798
$ 3,077,434	$ 0	$ 3,077,434	$ 2,588,330
(3,411,852)	0	(3,411,852)	(2,703,026)
$ (334,418)	$ 0	$ (334,418)	$ (114,696)
$ 10,373,745	$ 0	$ 10,373,745	$ 8,684,468
(127,135)	0	(127,135)	(123,475)
$ 10,246,610	$ 0	$ 10,246,610	$ 8,560,993
$ 9,912,192	$ 0	$ 9,912,192	$ 8,446,297
$ 3,657,796	$ 0	$ 3,657,796	$ 2,340,929
(3,725,421)	0	(3,725,421)	(3,267,676)
$ (67,625)	$ 0	$ (67,625)	$ (926,747)
$ 934,338	$ 0	$ 934,338	$ 1,956,026
(138,852)	0	(138,852)	(144,173)
$ 795,486	$ 0	$ 795,486	$ 1,811,853
$ 727,861	$ 0	$ 727,861	$ 885,106

Department of Defense - Department of the Army

CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve	Army National Guard
F. Other			
Intragovernmental Gross Costs	$ 61,873	$ 0	$ 0
(Less: Intragovernmental Earned Revenue)	(9,060)	0	0
Intragovernmental Net Costs	$ 52,813	$ 0	$ 0
Gross Costs With the Public	$ 6,662,016	$ 0	$ 0
(Less: Earned Revenue From the Public)	(2,655)	0	0
Net Costs With the Public	$ 6,659,361	$ 0	$ 0
Total Net Cost	$ 6,712,174	$ 0	$ 0
G. Total Program Costs			
Intragovernmental Gross Costs	$ 16,603,257	$ 11,890	$ 21,379
(Less: Intragovernmental Earned Revenue)	(19,053,552)	(79,420)	(150,962)
Intragovernmental Net Costs	$ (2,450,295)	$ (67,530)	$ (129,583)
Gross Costs With the Public	$ 133,500,360	$ 5,524,885	$ 11,456,614
(Less: Earned Revenue From the Public)	(1,232,285)	(2,719)	(14,283)
Net Costs With the Public	$ 132,268,075	$ 5,522,166	$ 11,442,331
Total Net Cost	$ 129,817,780	$ 5,454,636	$ 11,312,748
Cost Not Assigned to Programs	$ 0	$ 0	$ 0
(Less:Earned Revenue Not Attributable to Programs)	0	0	0
Net Cost of Operations	$ 129,817,780	$ 5,454,636	$ 11,312,748

Component Level	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
$ 23,350,794	$ 23,412,667	$ 0	$ 23,412,667	$ 12,166,754
10,792,774	10,783,714	0	10,783,714	10,604,070
$ 34,143,568	$ 34,196,381	$ 0	$ 34,196,381	$ 22,770,824
$ (34,302,547)	$ (27,640,531)	$ 0	$ (27,640,531)	$ (19,962,477)
0	(2,655)	0	(2,655)	(6,391)
$ (34,302,547)	$ (27,643,186)	$ 0	$ (27,643,186)	$ (19,968,868)
$ (158,979)	$ 6,553,195	$ 0	$ 6,553,195	$ 2,801,956
$ 23,350,794	$ 39,987,320	$ 0	$ 39,987,320	$ 35,460,140
10,792,774	(8,491,160)	0	(8,491,160)	(7,388,378)
$ 34,143,568	$ 31,496,160	$ 0	$ 31,496,160	$ 28,071,762
$ (34,302,547)	$ 116,179,312	$ 0	$ 116,179,312	$ 108,861,815
0	(1,249,287)	0	(1,249,287)	(1,152,055)
$ (34,302,547)	$ 114,930,025	$ 0	$ 114,930,025	$ 107,709,760
$ (158,979)	$ 146,426,185	$ 0	$ 146,426,185	$ 135,781,522
$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0	0
$ (158,979)	$ 146,426,185	$ 0	$ 146,426,185	$ 135,781,522

Department of Defense - Department of the Army

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve	Army National Guard
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 107,622,334	$ 1,338,565	$ 247,102
Prior Period Adjustments (+/-)			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
Beginning Balances, as adjusted	$ 107,622,334	$ 1,338,565	$ 247,102
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	133,021,007	5,605,817	11,580,888
Nonexchange revenue	9,331	0	0
Donations and forfeitures of cash and cash equivalents	5,609	0	0
Transfers-in/out without reimbursement (+/-)	3,721,535	0	0
Other budgetary financing sources (+/-)	2,141	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	456,293	0	0
Imputed financing from costs absorbed by others	1,092,805	0	0
Other (+/-)	(2,538,572)	(171,969)	(165,099)
Total Financing Sources	$ 135,770,149	$ 5,433,848	$ 11,415,789
Net Cost of Operations (+/-)	129,817,780	5,454,636	11,312,748
Net Change	$ 5,952,369	$ (20,788)	$ 103,041
Ending Balance	$ 113,574,703	$ 1,317,777	$ 350,143
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 69,762,599	$ 761,566	$ 1,996,609
Prior period adjustments (+/-)			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
Beginning Balances, as adjusted	$ 69,762,599	$ 761,566	$ 1,996,609
Budgetary Financing Sources:			
Appropriations received	132,583,149	5,823,476	11,425,313
Appropriations transferred-in/out (+/-)	2,512,119	(54,903)	103,543
Other adjustments (rescissions, etc) (+/-)	(732,165)	(43,320)	(102,038)
Appropriations used	(133,021,006)	(5,605,817)	(11,580,888)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Total Financing Sources	$ 1,342,097	$ 119,436	$ (154,070)
Net Cost of Operations (+/-)	0	0	0
Net Change	$ 1,342,097	$ 119,436	$ (154,070)
Ending Balance	$ 71,104,696	$ 881,002	$ 1,842,539

Component Level	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
$ 0	$ 109,208,001	$ 0	$ 109,208,001	$ 100,631,646
0	0	0	0	0
0	0	0	0	0
$ 0	$ 109,208,001	$ 0	$ 109,208,001	$ 100,631,646
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
(158,979)	150,048,733	0	150,048,733	127,335,115
0	9,331	0	9,331	5,143
0	5,609	0	5,609	4,663
0	3,721,535	0	3,721,535	13,189,641
0	2,141	0	2,141	2,540,445
0	0	0	0	0
71,778	528,071	0	528,071	400,794
0	1,092,805	0	1,092,805	882,077
(71,778)	(2,947,418)	0	(2,947,418)	0
$ (158,979)	$ 152,460,807	$ 0	$ 152,460,807	$ 144,357,878
(158,979)	146,426,185	0	146,426,185	135,781,522
$ 0	$ 6,034,622	$ 0	$ 6,034,622	$ 8,576,356
$ 0	$ 115,242,623	$ 0	$ 115,242,623	$ 109,208,002
$ 717,530	$ 73,238,304	$ 0	$ 73,238,304	$ 47,674,714
0	0	0	0	0
0	0	0	0	0
$ 717,530	$ 73,238,304	$ 0	$ 73,238,304	$ 47,674,714
0	149,831,938	0	149,831,938	149,547,719
0	2,560,759	0	2,560,759	4,745,349
0	(877,523)	0	(877,523)	(1,394,364)
158,978	(150,048,733)	0	(150,048,733)	(127,335,114)
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$ 158,978	$ 1,466,441	$ 0	$ 1,466,441	$ 25,563,590
0	0	0	0	0
$ 158,978	$ 1,466,441	$ 0	$ 1,466,441	$ 25,563,590
$ 876,508	$ 74,704,745	$ 0	$ 74,704,745	$ 73,238,304

Department of Defense - Department of the Army

COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve	Army National Guard
Budgetary Financing Accounts			
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 132,598,127	$ 5,823,476	$ 11,425,313
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	737,956	5,792	302,824
Other	0	0	0
Unobligated balance:			
Beginning of period	22,015,477	185,127	680,153
Net transfers, actual (+/-)	2,629,163	(60,695)	(199,281)
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	20,660,481	78,351	209,406
Receivable from Federal sources	(374,726)	3,789	(44,162)
Change in unfilled customer orders	0	0	0
Advance received	78,015	(301)	19
Without advance from Federal sources	2,155,926	6,572	(2,559)
Anticipated for the rest of year, without advances	0	0	0
Previously unavailable	0	0	0
Transfers for trust funds	0	0	0
Subtotal	$ 22,519,696	$ 88,411	$ 162,704
Recoveries of prior year obligations	14,784,600	722,876	1,525,971
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(732,165)	(43,320)	(102,038)
Total Budgetary Resources	$ 194,552,854	$ 6,721,667	$ 13,795,646
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$ 155,608,378	$ 6,434,921	$ 13,042,916
Reimbursable	24,184,351	97,240	225,069
Subtotal	$ 179,792,729	$ 6,532,161	$ 13,267,985
Unobligated balance:			
Apportioned	13,461,059	21,928	182,465
Exempt from apportionment	11,980	0	0
Other available	1	1	0
Unobligated Balances Not Available	1,287,085	167,577	345,196
Total, Status of Budgetary Resources	$ 194,552,854	$ 6,721,667	$ 13,795,646
Relationship of Obligations to Outlays:			
Obligated Balance, Net - beginning of period	$ 52,852,406	$ 1,419,081	$ 2,750,912
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	(1,435,542)	(19,534)	(23,273)
Unfilled customer order from Federal sources	(14,835,779)	(32,652)	(4,678)
Undelivered orders	64,893,024	706,276	1,206,084
Accounts payable	11,579,523	437,665	1,898,308
Outlays:			
Disbursements	155,878,110	6,126,250	11,463,206
Collections	(20,738,496)	(78,050)	(209,425)
Subtotal	$ 135,139,614	$ 6,048,200	$ 11,253,781
Less: Offsetting receipts	(195,234)	0	0
Net Outlays	$ 134,944,380	$ 6,048,200	$ 11,253,781

Component Level	2005 Combined	2004 Combined
$ 0	$ 149,846,916	$ 149,559,892
0	0	0
0	0	0
0	1,046,572	2,517,085
0	0	0
0	22,880,757	8,212,989
0	2,369,187	4,698,264
0	0	0
0	0	0
0	20,948,238	18,739,994
0	(415,099)	412,742
0	0	0
0	77,733	306,576
0	2,159,939	1,896,851
0	0	0
0	0	0
0	0	0
$ 0	$ 22,770,811	$ 21,356,163
0	17,033,447	13,996,679
0	0	0
0	(877,523)	(1,394,364)
$ 0	$ 215,070,167	$ 198,946,708
$ 0	$ 175,086,215	$ 152,590,936
0	24,506,660	23,475,016
$ 0	$ 199,592,875	$ 176,065,952
0	13,665,452	21,458,641
0	11,980	13,411
0	2	0
0	1,799,858	1,408,704
$ 0	$ 215,070,167	$ 198,946,708
$ 0	$ 57,022,399	$ 46,482,855
0	0	0
0	(1,478,349)	(1,893,446)
0	(14,873,109)	(12,713,171)
(33,121)	66,772,263	56,509,574
33,121	13,948,617	15,119,442
0	173,467,566	149,220,137
0	(21,025,971)	(19,046,568)
$ 0	$ 152,441,595	$ 130,173,569
0	(195,234)	(63,289)
$ 0	$ 152,246,361	$ 130,110,280

COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve	Army National Guard
Non-Budgetary Financing Accounts			
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 0	$ 0	$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	1,424	0	0
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	101	0	0
Receivable from Federal sources	0	0	0
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Previously unavailable	0	0	0
Transfers for trust funds	0	0	0
Subtotal	$ 101	$ 0	$ 0
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	$ 1,525	$ 0	$ 0
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$ 0	$ 0	$ 0
Reimbursable	0	0	0
Subtotal	$ 0	$ 0	$ 0
Unobligated balance:			
Apportioned	1,525	0	0
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$ 1,525	$ 0	$ 0
Relationship of Obligations to Outlays:			
Obligated Balance, Net - beginning of period	$ 0	$ 0	$ 0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	0	0	0
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	0	0	0
Accounts payable	0	0	0
Outlays:			
Disbursements	0	0	0
Collections	(101)	0	0
Subtotal	$ (101)	$ 0	$ 0
Less: Offsetting receipts	0	0	0
Net Outlays	$ (101)	$ 0	$ 0

	Component Level	2005 Combined	2004 Combined
	$ 0	$ 0	$ 0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	1,424	1,272
	0	0	0
	0	0	0
	0	0	0
	0	101	152
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	$ 0	$ 101	$ 152
	0	0	0
	0	0	0
	0	0	0
	$ 0	$ 1,525	$ 1,424
	$ 0	$ 0	$ 0
	0	0	0
	$ 0	$ 0	$ 0
	0	1,525	1,424
	0	0	0
	0	0	0
	0	0	0
	$ 0	$ 1,525	$ 1,424
	$ 0	$ 0	$ 0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	(101)	(152)
	$ 0	$ (101)	$ (152)
	0	0	0
	$ 0	$ (101)	$ (152)

Department of Defense - Department of the Army

CONSOLIDATING STATEMENT OF FINANCING

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 179,792,729	$ 6,532,161
Less: Spending authority from offsetting collections and recoveries (-)	(37,304,397)	(811,287)
Obligations net of offsetting collections and recoveries	$ 142,488,332	$ 5,720,874
Less: Offsetting receipts (-)	(195,234)	0
Net obligations	$ 142,293,098	$ 5,720,874
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	456,293	0
Imputed financing from costs absorbed by others	1,092,805	0
Other (+/-)	(2,538,572)	(171,969)
Net other resources used to finance activities	$ (989,474)	$ (171,969)
Total resources used to finance activities	$ 141,303,624	$ 5,548,905
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	$ (10,668,692)	$ (121,479)
Unfilled Customer Orders	2,233,941	6,271
Resources that fund expenses recognized in prior periods	(1,276,787)	(3,123)
Budgetary offsetting collections and receipts that do not affect net cost of operations	195,334	0
Resources that finance the acquisition of assets	(26,103,979)	(336,314)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	2,082,280	171,968
Total resources used to finance items not part of the net cost of operations	$ (33,537,903)	$ (282,677)
Total resources used to finance the net cost of operations	$ 107,765,721	$ 5,266,228
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	$ 81,190	$ 5,901
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the the public (-)	0	0
Other (+/-)	52,127	454
Total components of Net Cost of Operations that will require or generate resources in future periods	$ 133,317	$ 6,355
Components not Requiring or Generating Resources:		
Depreciation and amortization	16,747,389	181,309
Revaluation of assets or liabilities (+/-)	0	0
Other (+/-)		
Trust Fund Exchange Revenue	(82)	0
Cost of Goods Sold	0	0
Operating Material & Supplies Used	0	0
Other	5,171,436	743
Total components of Net Cost of Operations that will not require or generate resources	$ 21,918,743	$ 182,052
Total components of net cost of operations that will not require or generate resources in the current period	$ 22,052,060	$ 188,407
Net Cost of Operations	$ 129,817,781	$ 5,454,635

	Army National Guard	Component Level	2005 Consolidated	2004 Consolidated
	$ 13,267,985	$ 0	$ 199,592,875	$ 176,065,951
	(1,688,675)	0	(39,804,359)	(35,352,991)
	$ 11,579,310	$ 0	$ 159,788,516	$ 140,712,960
	0	0	(195,234)	(63,289)
	$ 11,579,310	$ 0	$ 159,593,282	$ 140,649,671
	0	0	0	0
	0	71,778	528,071	400,794
	0	0	1,092,805	882,077
	(165,099)	(71,778)	(2,947,418)	0
	$ (165,099)	$ 0	$ (1,326,542)	$ 1,282,871
	$ 11,414,211	$ 0	$ 158,266,740	$ 141,932,542
	$ 6,245	$ (158,979)	$ (10,942,905)	$ (12,185,137)
	(2,540)	0	2,237,672	2,203,425
	(2,427)	0	(1,282,337)	(870,785)
	0	0	195,334	63,441
	(312,198)	0	(26,752,491)	(9,901,005)
	0	0	0	0
	165,098	0	2,419,346	(400,794)
	$ (145,822)	$ (158,979)	$ (34,125,381)	$ (21,090,855)
	$ 11,268,389	$ (158,979)	$ 124,141,359	$ 120,841,687
	$ 4,564	$ 0	$ 91,655	$ 95,284
	0	0	0	3,103,711
	0	0	0	10,869
	0	0	0	0
	2,327	0	54,908	63,634
	$ 6,891	$ 0	$ 146,563	$ 3,273,498
	36,376	0	16,965,074	9,815,563
	1,074	0	1,074	515,037
	0	0	(82)	(36)
	0	0	0	0
	0	0	0	0
	18	0	5,172,197	1,335,773
	$ 37,468	$ 0	$ 22,138,263	$ 11,666,337
	$ 44,359	$ 0	$ 22,284,826	$ 14,939,835
	$ 11,312,748	$ (158,979)	$ 146,426,185	$ 135,781,522

Department of Defense - Department of the Army

COMBINING STATEMENT OF CUSTODIAL ACTIVITY

As of September 30, 2005 and 2004 ($ in Thousands)

	Active Army	Army Reserve	Army National Guard
SOURCE OF COLLECTIONS			
Deposits by Foreign Governments	$ 136,000	$ 0	$ 0
Seized Iraqi Cash	1	0	0
Other Collections	0	0	0
Total Cash Collections	136,001	0	0
Accrual Adjustments (+/-)	0	0	0
Total Custodial Collections	$ 136,001	$ 0	$ 0
DISPOSITION OF COLLECTIONS			
Disbursed on Behalf of Foreign Governments and International Organizations	$ 82,613	$ 0	$ 0
Seized Assets Disbursed on behalf of Iraqi People	52,061	0	0
Increase (Decrease) in Amounts to be Transferred	53,387	0	0
Collections Used for Refunds and Other Payments	0	0	0
Retained by The Reporting Entity	0	0	0
Seized Assets Retained for Support of the Iraqi People	(52,060)	0	0
Total Disposition of Collections	$ 136,001	$ 0	$ 0
NET CUSTODIAL COLLECTION ACTIVITY	$ 0	$ 0	$ 0

	Component Level	2005 Combined	2004 Combined
SOURCE OF COLLECTIONS			
Deposits by Foreign Governments	$ 0	$ 136,000	$ 0
Seized Iraqi Cash	0	1	118,349
Other Collections	0	0	0
Total Cash Collections	0	136,001	118,349
Accrual Adjustments (+/-)	0	0	0
Total Custodial Collections	$ 0	$ 136,001	$ 118,349
DISPOSITION OF COLLECTIONS			
Disbursed on Behalf of Foreign Governments and International Organizations	$ 0	$ 82,613	$ 0
Seized Assets Disbursed on behalf of Iraqi People	0	52,061	283,058
Increase (Decrease) in Amounts to be Transferred	0	53,387	0
Collections Used for Refunds and Other Payments	0	0	0
Retained by The Reporting Entity	0	0	0
Seized Assets Retained for Support of the Iraqi People	0	(52,060)	(164,709)
Total Disposition of Collections	$ 0	$ 136,001	$ 118,349
NET CUSTODIAL COLLECTION ACTIVITY	$ 0	$ 0	$ 0

FY 2005 Required Supplementary Stewardship Information (RSSI)

National Defense Property, Plant, and Equipment

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond, and encouraged early implementation.

Heritage Assets

For Fiscal Year Ended September 30, 2005

(a)	(b)	(c)	(d)	(e)	(f)
	Measurement / Quantity	As of 10/1/04	Additions	Deletions	As of 9/30/05
Museums (Note 2)	Each	60	0	0	60
Monuments and Memorials (Note 3)	Each	1,411	38	209	1,240
Cemeteries (Note 4)	Sites	523	61	118	466
Archeological Sites (Note 6)	Sites	0	68,280	0	68,280
Buildings & Structures (Note 1)	Each	10,019	1,404	1,357	10,066
Major Collections (Note 5)	Each	6	84	0	90

Narrative Statement:

In most cases, the additions/deletions are the result of sites/installations: (a) identifying cemeteries and historical facilities; (b) disposing of BRAC Closure property or excess installations; and (c) privatization/RCI program. BRAC Mission Closure installations/sites are included in this report.

Notes:

1. Historical Buildings and Structures: buildings and structures designated as historical exclude museums, monuments, and memorials. The number of Buildings and Structures increased as a result of the following initiatives:
   - Installations conducting real property surveys and making adjustments according to their findings
   - Active installations now reporting previously omitted National Guard Bureau buildings and structures designated as heritage assets
   - Both National Guard and Reserve are now reporting new buildings and structures designated as heritage assets
2. Museums: The Army Museum System consists of 60 museums and museum activities in the active Army and Army Reserve. There are a relatively small number of federally owned artifacts in National Guard Museum activities, which are primarily state entities. In addition, there is historical property displayed in numerous regimental rooms, trophy rooms, officer's clubs, visitor's centers, chapels, and headquarters building elements that are not individually recognized by the Department of the Army as museums or museum activities. Solely for reporting purposes, we have consolidated all of these separate and smaller collections during this reporting period.

   Army had previously reported 117 museums as of 9/30/2004. There are 57 museum activities or other collections located on National Guard property that contain primarily State owned artifacts, and whose employees and operations are funded by their States. As a result, these 57 museum activities have been removed from the Army's Heritage Asset report.

3. Memorial/Monuments: includes category code 76020 (monuments).
4. Cemeteries: includes category code 76030 (cemetery), 76031 (National Cemetery), 76032 (Veterans Cemetery), and excludes 76033 (Pet Cemeteries).
5. Major Collections: The US Army Tank automotive & Armaments Life Cycle Management Command (TACOM LCMC) reports two (2) major collections under the Army Donations Program consisting of Ceremonial Rifles and Monuments/Static Displays. The Ceremonial Rifle collection consists of approximately 300,000 weapons in the hands of over 23,000 veterans' organizations, law enforcement agencies and National cemeteries. This collection is in good condition with 95% accountability of serial number tracking. The Monuments/Static Display collection consists of approximately 4760 major end items which are in good condition with 100% accountability.

   Major collections also includes 84 archeological collections identified at individual Army installations. The Army is including Archeological Collections in the number of Major Collections for the first time. These collections are managed in accordance with Federal Regulations and are kept in perpetuity. Some collections are accessible to the public but not all items within an Archeological Collection are accessible to the public due to Federal regulations such as the Native American Graves Protection and Repatriation Act (1990). Each installation maintaining an archeological collection is considered to have only one collection per installation regardless of whether the collection is divided among different facilities or locations. The collections are the responsibility of the Army but may be in the care of a contractor, a public institution or other entity.

   The condition of the Army's Archeological Collections is good. Only 15% of the Army's existing archeological collections need upgrading of either curatorial facilities, accessioning, packaging and/or conservation to meet Federal requirements under 36 CFR 79.
6. Archeological collections: The Army counted all sites recorded on Army owned/controlled Federal land that are known to exist but may or may not have been evaluated to determine if they are historically significant and eligibility for the National Register of Historic Places. This number was omitted from previous Army annual reports. This number was calculated as of 30 June 2005.

   The Army is reporting Archeological Sites for the first time in the Annual Financial Statement. The number is inclusive of all sites recorded on Army owned Federal land that are known to exist but may or may not have been evaluated to determine eligibility for the National Register of Historic Places. This number was omitted from previous Army annual reports. This number was calculated as of 30 June 2005. In future years the number will also be counted as of 30 June CY until such time as the Army has in place a automated system that can calculate the number of sites as of the end of the Financial Year. Next year the Army intends to separate out the number of archeological sites that are on or eligible to be on the National Register of Historic Places from the total number of recorded archeological sites and will report them separately. The Army does not generally acquire or remove new archeological sites annually but instead identifies new sites on existing Army land or evaluates existing sites during the course of the financial year. New land acquisitions that include new archeological sites will be specifically noted in future calendar year "additions".

   The condition of archeological sites across the Army range varies depending on factors including the environmental setting, the type of the site, and past impacts from Army activities. If an Army activity has the potential to adversely impact an archeological site eligible for the National Register of Historic Places, the installation's Installation Cultural Resource Management Plan (ICRMP) contains provisions for how the installation would proceed to mitigate those impacts. ICRMPs are the plan that installations use to manage their cultural resources including archeological sites in compliance with federal requirements. These plans provide for site protection, site conditions monitoring, and mitigation procedures for adverse impacts to sites. Overall, the conditions of sites on Army installations are variable based on the Army's cultural resource management procedures.

FY 2005 Required Supplementary Stewardship Information (RSSI)

Stewardship Land

For Fiscal Year Ended September 30, 2005
(Acres in Thousands)

(a)	(b) As of 10/1/04	(c) Additions	(d) Deletions	(e) As of 9/30/05
Land Use				
Mission (Note 1)	6,910.0	28.8	24.2	6,914.5
Parks & Historic Sites (Note 2)	.94	.07	.08	.94
Total				

Narrative Statement:

Additions/deletions are the result of: (a) acquiring additional land through donation or withdrawal from public domain; (b) identification of missing land records; and (c) disposal of BRAC Closure sites or transfer of land to another DOD agency. BRAC Mission Closure installations/sites are included in this report

Notes:

1. Mission Land: includes the following category codes: 91120, 91131, 91141, 91210, 91310, 91320, 91330, 91410, 92111, 92121, 92131, 92190. These category codes represent land that was not purchased, but was either donated or withdrawn from public domain.
2. Parks/Historic Sites: Same as Cemetery Acreage on Heritage Report (includes category codes 76030, 76031, and 76032; excludes Pet Cemeteries). Unable to determine if cemeteries are purchased, donated or transferred property. This value could be double reported within Mission Related; therefore; this report should not be totaled.

FY 2005 Required Supplementary Stewardship Information (RSSI)

Nonfederal Physical Property
Yearly Investment in State and Local Governments

For Fiscal Years FY 2001 through FY 2005
(In Millions of Dollars)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Transferred Assets:					
National Defense Mission Related	$94.8	$7.4	$85.0	$54.7	$70.7
Funded Assets:					
National Defense Mission Related	0	0	0	0	0
Total	$94.8	$7.4	$85.0	$54.7	$70.7

Narrative Statement:

Investments in Nonfederal Physical Property refers to those expenses incurred by the Army for the purchase, construction, or major renovation of physical property owned by State and Local Governments, including major additions, alterations and replacements; the purchase of major equipment; and the purchase of improvement of other physical assets. The following is a schedule of estimated investments value of state-owned properties that are used by the Federal Government.

Notes:

1. Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards requirements.
2. Data provided here are significant because these are properties that are owned by the various U.S. Property and Fiscal Offices and are essential in accomplishing the mission of the Army National Guard.
3. Costs of maintenance of these non-federal assets are included in the budgetary resources of Army National Guard.
4. These properties represent non-cash items that were transferred to State and local governments.

FY 2005 Required Supplementary Stewardship Information (RSSI)

Investments in Research and Development
Yearly Investment in Research and Development

For Fiscal Years FY 2001 through FY 2005
(In Millions of Dollars)

(a) Categories	(b) FY 2001	(c) FY 2002	(d) FY 2003	(e) FY 2004	(f) FY 2005
Basic Research	$209.2	$206.4	$226.9	$291.6	$360.0
Applied Research	806.6	864.1	847.2	886.8	995.1
Development					
Advanced Technology Development	821.9	863.1	988.6	1,010.4	1,185.8
Advanced Component Development and Prototypes	622.6	897.7	880.1	767.7	830.3
Systems Development and Demonstration	1,653.0	1,954.9	2,265.1	3,288.3	4,309.4
Research, Development, Test and Evaluation Management Support	888.8	880.9	979.4	1.069.8	1,157.3
Operational Systems Development	849.3	970.4	964.9	929.8	1,156.7
Total	$5,851.4	$6,637.5	$7,152.2	$8,244.4	$9,994.6

Narrative Statement:

Basic Research is the systematic study directed toward greater knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications towards processes or products in mind. It includes all scientific study and experimentation directed toward increasing fundamental knowledge and understanding in those fields of the physical, engineering, environmental, and life sciences related to long-term national security needs. It is farsighted high payoff research that provides the basis for technological progress.

The following are two representative program examples for each of the major categories:

Defense Research Sciences (PE 0601102A): This program fosters fundamental scientific knowledge while sustaining U.S. Army scientific and technological superiority in land warfighting capability. This research provides new technology concepts and operational applications for the Army's Future Force. These investments also provide the resources to exploit scientific breakthroughs and avoid technological surprises. This program fosters innovation in Army niche areas and where the commercial incentive to invest is lacking due to limited markets. It also focuses university single investigators on research in areas of Army interest. The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to expeditiously transition knowledge and technology into practical applications. The extramural program leverages the research efforts of other government agencies, academia, and industry. This promotes efficiency while eliminating undesirable duplication to achieve a well-integrated program that is executed by four primary contributors: 1) the Army Research, Development and Engineering Command (RDECOM); 2) the U.S. Army Engineer Research and Development Center (ERDC); 3) the Army Medical Research and Materiel Command (MRMC) laboratories; and 4) the Army Research Institute for Behavioral and Social Sciences (ARI). The basic research program is coordinated with the other Services through the Defense Basic Research Advisory Group, the Defense Basic Research Technology Area Review and Assessment (TARA) process and other inter-service working groups. This program responds to the scientific and technological requirements of the Department of Defense Basic Research Plan by enabling the technologies that can significantly improve joint war fighting capabilities.

University and Industry Research Centers (PE 0601104A): A significant portion of the work performed within this program directly supports US Army requirements by providing research that supports enabling technologies for the Future Force. Broadly, the work in this program falls into three categories: Collaborative Technology Alliances

(CTAs), University Centers of Excellence (COE), and University-Affiliated Research Centers (UARCs). The Army has formed CTAs to leverage large investments by the commercial sector in basic research areas that are of great interest to the Army. Collaborative Technology Alliances involve partnerships between industry, academia, and the Army Research Laboratory to incorporate the practicality of industry, the expansion of boundaries of knowledge from universities, and Army scientists to shape, mature and transition technology. The Army's COEs focus on expanding the frontiers of knowledge in research areas where the Army has enduring needs. Centers of Excellence couple state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in information sciences, materials science, electronics, automotive and rotary wing technology. Additionally, Historically Black Colleges and Universities and Minority Institution (HBCU/MI) Centers of Excellence address critical research areas for Army Transformation. Also included in this program is eCYBERMISSION, the Army's national web-based competition to stimulate interest in science, math and technology among middle and high school students. This program also includes four "paradigm shifting" research centers seeking to accelerate opportunities in specific areas of potentially high payoff. The centers are: The Institute of Advanced Technology, the Institute for Soldier Nanotechnologies (ISN) at the Massachusetts Institute of Technology, the Institute for Collaborative Biotechnologies, and the Army's Institute of Creative Technologies (ICT) -- a partnership with academia and the entertainment and gaming industries pursuing research in immersive simulations.

Applied Research is the systematic study to understand the means to meet a recognized and specific need. It is a systematic expansion and application of knowledge to develop useful materials, devices, systems or methods. It may be oriented, ultimately, toward the design, development, and improvement of prototypes and new processes to meet general mission area requirements. Applied research may translate promising basic research into solutions for broadly defined military needs, short of system development.

The following are two representative program examples for this category:

Materials Technology (PE 0602105A): This program researches and evaluates material technologies for armor and armaments that will significantly enhance the survivability and lethality of Future Force systems and, where feasible, can be exploited to enhance Current Force capabilities. It provides the technology base required for solving materials-related problems in soldier support equipment, armor, armaments, aircraft, ground and combat vehicles, and combat support.

Combat Vehicle and Automotive Technology (PE 0602601A): This program researches, investigates and applies combat vehicle and automotive component technologies that will improve survivability, mobility, sustainability, and maintainability of Army ground combat and tactical vehicles. As combat vehicle systems become smaller and lighter to provide the necessary strategic deployability and tactical mobility, one of the greatest technological and operational challenges is providing adequate crew protection without reliance on heavy passive armor. This challenge is being met by using a layered approach, including long-range situational awareness, multi-spectral signature reduction, Active Protection systems and advanced lightweight armor in place of heavy conventional armor. This program also funds the National Automotive Center (NAC). The goal of the NAC is to leverage large commercial investments in automotive technology research and development by pursuing automotive-oriented technology programs that have potential benefit to military ground vehicles. This program also investigates hybrid electric propulsion and electronic vehicle component technologies.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. **Advanced Technology Development:** This area of technology includes all efforts to mature technology (hardware or software) sufficient for demonstration in an operational environment—this may be live or virtual. In this program experimental systems or subsystems are demonstrated to prove the technical feasibility and military utility of the approach selected. Advanced technology development provides the path for the rapid development and demonstration of new components and systems. The most complex efforts in this program

are designated as Advanced Technology Demonstrations (ATDs). The Army's ATDs are developed to facilitate the smooth transition of advanced technology into systems as part of a formal acquisition program.

2. **Advanced Component Development and Prototypes (ACD&P)** evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of ACD&P development are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.
3. **System Development and Demonstration** concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.
4. **RDT&E Management Support** includes research, development, test and evaluation efforts and funds to sustain and/or modernize the installations or operations required for general research, development, test and evaluation.
5. **Operational Systems Development** includes developmental efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal years.

The following are five representative program examples of development:

Electronic Warfare Advanced Technology (PE 0603008A): The goal of this program is to provide enabling technologies for a secure, mobile, wireless network that will operate reliably in diverse and complex terrain, in all environments for the Army's Future Force and, where feasible, exploit opportunities to enhance Current Force capabilities. Technologies will be matured and demonstrated to address this challenge with distributed, mobile, secure, self-organizing communications networks. A key objective is to demonstrate seamlessly integrated communications technologies across all network tiers, ranging from unattended networks and sensors through maneuver elements and airborne/space assets. To accomplish that goal this program will investigate and leverage external communication technologies and combine technology options in a series of Command, Control, Communications, and Computers Intelligence, Surveillance and Reconnaissance (C4ISR) On-The-Move (OTM) experiments to measure the battlefield effectiveness for Future Combat Systems (FCS) and the Future Force. This program also provides: protection technologies for tactical wireless networks against modern network attacks; smart communication technologies to network and control unmanned systems anywhere on the battlefield; advanced antenna technologies for greater communications mobility, range and throughput; and automated network management aids. Several tasks are conducted in conjunction with the Defense Advanced Research Projects Agency (DARPA) and the other Services.

Advanced Tank Armament System (PE 0603653A): This program supports the development of the Family of Stryker vehicles. A critical need exists to improve the deployability and operational effectiveness of rapid response/ early entry forces. The Stryker equipped Brigade Combat Team (BCT) will be capable of deployment to anywhere on the globe in a combat ready configuration. Immediate response by a lethal, versatile, tactically agile joint force capable of operational maneuver once in the Area of Operations is essential to fulfilling the warfighting needs of the U. S. Army. The Stryker family includes: the Infantry Carrier, the Reconnaissance Vehicle, the Mobile Gun System, the Mortar Carrier, the Commander's Vehicle, the Fire Support Vehicle, the Engineer Squad Vehicle, the Medical Evacuation Vehicle, the Anti-Tank Guided Missile Vehicle, and the Nuclear/Biological/Chemical Reconnaissance Vehicle. The use of a common platform/common chassis design reduces requirements for repair parts and logistics support in the area of operations.

Air Defense Command, Control and Intelligence – Engineering Development (PE 0604741A): This program supports the Air and Missile Defense Planning and Control System (AMDPCS), which is an Army Future Force System with Homeland Defense capabilities that allows for the integration of Air and Missile Defense (AMD) operations. It also supports the Forward Area Air Defense Command, Control, and Intelligence (FAAD C2I) System which provides continuously tailored situational awareness and situational understanding of the battle space. Unique FAAD command and control (C2) software will provide this mission capability by integrating FAAD C2 engagement operations software with the Joint Digital Radio (JDR), Single Channel Ground and Airborne Radio System (SINCGARS), Enhanced Position Location Reporting System (EPLRS), Global Positioning System (GPS), Airborne Warning and Control System (AWACS), Sentinel, and the Army Battle Command System (ABCS) architecture. It also provides joint command and control interoperability and horizontal integration with Patriot, the Terminal High-Altitude Area Defense (THAAD) program, the Medium Extended Air Defense System (MEADS), the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System (JLENS) and short-range air defense weapon systems.

Army Test Ranges and Facilities (0605601A): This program provides the institutional funding required to operate the developmental test activities required by Department of Defense (DoD), weapons systems developers and Research, Development, and Engineering Centers. This program provides resources to operate four Army Major Range and Test Facility Bases (MRTFB): White Sands Missile Range, New Mexico; Aberdeen Test Center and Aberdeen Proving Ground, Aberdeen, Maryland; and Yuma Proving Ground, Arizona.

This program also provides the resources to operate the Army's developmental test capabilities at the Aviation Technical Test Center, Fort Rucker, Alabama; and the Redstone Technical Test Center, Redstone Arsenal, Alabama. It also provides the resources for test planning and safety verification/confirmation at the Developmental Test Command located at Aberdeen Proving Ground, Maryland. Developmental test capabilities at the test ranges have been uniquely established, are in place to support test and evaluation (T&E) requirements of funded weapons programs, and are required to assure technical performance, adherence to safety requirements, reliability, logistics supportability, and quality of materiel in development and in production.

Multiple Launch Rocket System (MLRS) Product Improvement Program (PIP) (0603778A): This program provides support for the following improvements to MLRS: High Mobility Artillery Rocket System (HIMARS), M270A1, Guided Multiple Launch Rocket System (GMLRS) and GMLRS Unitary munition which provide precision strike capability.

- HIMARS, is a C-130 transportable launcher mounted on a Family of Medium Tactical Vehicles (FMTV) chassis. HIMARS is capable of firing either six MLRS Family of Munitions (MFOM) rockets or one Army Tactical Missile (ATACMS) Family of Munitions (AFOM) missile, including precision munitions, to a range of 300KM.
- The M270A1 upgraded MLRS launcher is mounted on a Bradley Fighting Vehicle chassis, and is capable of firing the MFOM and the AFOM, including precision munitions, to a range of 300KM.
- GMLRS is a precision munition which provides an increased range and Global Positioning System (GPS) accuracy. Fired from M270A1 and HIMARS launchers, GMLRS comes in two variants: Dual Purpose Improved Conventional Munitions (DPICM) which contains 414 submunitions, for attacking area targets with improved accuracy and significantly reduced hazardous duds; and GMLRS Unitary which has a 200lb High Explosive (HE) warhead for attacking point targets with reduced collateral damage.

FY 2005 Required Supplementary Stewardship Information (RSSI)

General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts

As of September 30, 2005

Narrative Statement:

FY2005 sustainment requirements for the Army are from version 5.1 of the DoD Facilities Sustainment Model (FSM). The required and executed amounts represent facilities funded from Operations & Maintenance (O&M), Army Family Housing (AFH), and Working Capital Fund (WCF) appropriations, and from Non-Appropriated Funds (NAF). Sustainment funding contributions from host nation funding (Japan) and military pay are included. The appropriated amount includes no contribution from WCF, NAF and host nation funding as these funds are not appropriated by Congress. Army sustainment data includes facilities that are multi-use heritage assets. The sustainment data excludes facilities funded from Research, Development, Test and Evaluation (RDTE), and Procurement appropriations, and Chemical Depots, because we lack separately identifiable sustainment funding for these locations.

Annual Sustainment FY 2005

Property Type	1. Required	2. Appropriated	3. Executed	4. Difference
Buildings, Structures, and Utilities	$3,175.8M	$2,648.0M	$2,167.8M	$1,008.0M

Annual Deferred Sustainment Trend

Property Type	FY 2002	FY 2003	FY 2004	FY 2005
Buildings, Structures, and Utilities	$913.4M	$792.3M	$959.9M	$1,008.0M

Army Restoration & Modernization (R&M) requirements are modeled in the annual Installation Status Report (ISR). During ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed for each component within each facility type.

The requirement reported for General PP&E R&M is the ISR cost to improve the quality of facilities to full up Q-1 status, which represents full improvement cost for each facility. For FY2005, these requirements address facility types funded from Army appropriated operations and maintenance (O&M), working capital fund (WCF), and Army family housing (AFH) funds. The Army's R&M requirement does not include requirements for facilities funded by Department of Defense agencies (DECA, DLA, TMA, DODDS), non-appropriated funds-NAF (recreation, sports), Army Air Force Exchange Service, and private funding. The R&M requirement also excludes costs for utilities planned for privatization, closures from base realignment and closure (BRAC) decisions, ammunition plants and chemical depots.

The Army's estimate to return these facilities to a full-up Q-1 status for FY 2005 is $24.4B, based on the 2005 ISR. Reduced requirements for FY 2005 are a result of three actions:

- ISR 2005 data reflects a significant change in the ISR methodology. The Army completely revised the ISR Infrastructure standards to reduce subjectivity, and revised the quality improvement cost methodology to more accurately estimate the quality improvement cost.
- Investments in restoration and modernization show improvements to the condition of facilities.
- Privatization efforts continue to move utilities and Army family housing away from Army responsibility to recapitalize.

Restoration & Modernization Requirements

Property Type	End FY 2004	End FY 2005	Change
Buildings, Structures, and Utilities	$32.1B	$24.4B	-$7.7B

Military Equipment
Deferred Maintenance Amounts

As of September 30, 2005
(Amount in Thousands)

(a) Major Type	(b)
1. Aircraft	$ 74,500
2. Ships	0
3. Missiles	10,000
4. Combat Vehicles	164,352
5. Other Weapons Systems	256,600
Total	$505,452

The FY 2005 Op-30 Report was used to compile the deferred depot level maintenance. Language has been incorporated into the draft AR 750-1 (currently released to the field for worldwide for staffing) that will require the reporting of depot-level deferred maintenance requirements into Depot Maintenance Operations and Planning System (DMOPS). DMOPS is the automated system for capturing depot-level deferred maintenance data.

The following amounts of depot-level deferred maintenance are reported as follows: a) Aircraft -74,500K; b) Missile Maintenance-10,000K; c) Combat Vehicles-164,352K; d) Other Weapons Systems-256,600K. The total amount of $505,452 thousand includes depot-level deferred maintenance for the active and reserve component.

Special Note: The MDEP used to compile deferred Field-Level Maintenance was divested by PA&E because they determined that the Army Fleet Readiness Program (AFRP) was not a valid requirement.

Department of Defense - Department of the Army

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

Budgetary Financing Accounts	Other	Research, Development, Test & Evaluation	Operation and Maintenance
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 8,803,516	$ 10,682,659	$ 50,222,363
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	(901,008)	(91,962)	3,268,840
Other	0	0	0
Unobligated balance:			
Beginning of period	287,087	1,737,106	14,520,858
Net transfers, actual (+/-)	(33,414)	(15,350)	1,298,325
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	20,672	3,557,863	12,205,176
Receivable from Federal sources	(9,038)	(18,876)	(197,337)
Change in unfilled customer orders	0	0	0
Advance received	(3,400)	53,315	44,545
Without advance from Federal sources	(12,468)	1,273,925	(32,823)
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$ (4,234)	$ 4,866,227	$ 12,019,561
Recoveries of prior year obligations	180,709	1,316,462	10,575,388
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(1,895)	(159,975)	(424,916)
Total Budgetary Resources	$ 8,330,761	$ 18,335,167	$ 91,480,419
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$ 2,739,091	11,031,051	76,915,312
Reimbursable	14,807	4,995,892	13,039,467
Subtotal	2,753,898	16,026,943	89,954,779
Unobligated balance:			
Apportioned	5,546,332	2,219,181	360,158
Exempt from apportionment	11,980	0	0
Other available	0	0	0
Unobligated Balances Not Available	18,551	89,043	1,165,481
Total, Status of Budgetary Resources	$ 8,330,761	$ 18,335,167	$ 91,480,418
Relationship of Obligations to Outlays:			
Obligated Balance, Net ? beginning of period	$ 1,183,133	$ 5,250,125	$ 27,917,307
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net ? end of period:			
Accounts receivable	93	(173,658)	(1,137,543)
Unfilled customer order from Federal sources	(4,365)	(3,303,484)	(5,223,233)
Undelivered orders	1,746,786	8,085,774	25,200,133
Accounts payable	172,174	783,875	9,098,442
Outlays:			
Disbursements	1,863,139	13,313,051	79,589,060
Collections	(17,272)	(3,611,178)	(12,249,721)
Subtotal	$ 1,845,867	$ 9,701,873	$ 67,339,339
Less: Offsetting receipts	(195,234)	0	0
Net Outlays	$ 1,650,633	$ 9,701,873	$ 67,339,339

Procurement	Military Personnel	Military Construction/ Family Housing	2005 Combined	2004 Combined
$ 23,239,203	$ 52,886,976	$ 4,012,199	$ 149,846,916	$ 149,559,892
0	0	0	0	0
0	0	0	0	0
894,232	(2,139,445)	15,915	1,046,572	2,517,085
0	0	0	0	0
3,058,013	1,249,522	2,028,170	22,880,757	8,212,989
1,597,849	(234,709)	(243,514)	2,369,187	4,698,264
0	0	0	0	0
0	0	0	0	0
973,007	295,082	3,896,438	20,948,238	18,739,994
3,662	(161,345)	(32,166)	(415,099)	412,742
0	0	0	0	0
(5,011)	0	(11,715)	77,733	306,576
644,252	11,228	275,825	2,159,939	1,896,851
0	0	0	0	0
0	0	0	0	0
$ 1,615,910	$ 144,965	$ 4,128,382	$ 22,770,811	$ 21,356,163
1,031,465.00	3,092,929	836,494	17,033,447	13,996,679
0	0	0	0	0
(160,518)	(89,384)	(40,835)	(877,523)	(1,394,364)
$ 31,276,154	$ 54,910,854	$ 10,736,811	$ 215,070,167	$ 198,946,708
26,391,549	54,213,579	3,795,634	175,086,215	152,590,936
1,745,499	366,472	4,344,523	24,506,660	23,475,016
28,137,048	54,580,051	8,140,157	199,592,875	176,065,952
2,824,379	122,008	2,593,394	13,665,452	21,458,641
0	0	0	11,980	13,411
0	0	0	2	0
314,726	208,796	3,262	1,799,858	1,408,704
$ 31,276,153	$ 54,910,855	$ 10,736,813	$ 215,070,167	$ 198,946,708
$ 15,444,383	$ 4,687,457	$ 2,539,993	$ 57,022,399	$ 46,482,855
0	0	0	0	0
(72,171)	(5,777)	(89,293)	(1,478,349)	(1,893,446)
(2,172,766)	(25,733)	(4,143,528)	(14,873,109)	(12,713,171)
24,540,050	59,692	7,139,828	66,772,263	56,509,574
2,098,471	1,131,622	664,033	13,948,617	15,119,442
17,508,467	55,164,891	6,028,958	173,467,566	149,220,137
(967,995)	(295,082)	(3,884,723)	(21,025,971)	(19,046,568)
$ 16,540,472	$ 54,869,809	$ 2,144,235	$ 152,441,595	$ 130,173,569
0	0	0	(195,234)	(63,289)
$ 16,540,472	$ 54,869,809	$ 2,144,235	$ 152,246,361	$ 130,110,280

Department of Defense - Department of the Army

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

As of September 30, 2005 ($ in Thousands)

Non-Budgetary Financing Accounts	Other	Research, Development, Test & Evaluation	Operation and Maintenance
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 0	$ 0	$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	1,424	0	0
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	101	0	0
Receivable from Federal sources	0	0	0
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$ 101	$ 0	$ 0
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	$ 1,525	$ 0	$ 0
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$ 0	0	0
Reimbursable	0	0	0
Subtotal	0	0	0
Unobligated balance:			
Apportioned	1,525	0	0
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$ 1,525	$ 0	$ 0
Relationship of Obligations to Outlays:			
Obligated Balance, Net ? beginning of period	$ 0	$ 0	$ 0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net ? end of period:			
Accounts receivable	0	0	0
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	0	0	0
Accounts payable	0	0	0
Outlays:			
Disbursements	0	0	0
Collections	(101)	0	0
Subtotal	$ (101)	$ 0	$ 0
Less: Offsetting receipts	0	0	0
Net Outlays	$ (101)	$ 0	$ 0

Procurement	Military Personnel	Military Construction/ Family Housing	2005 Combined	2004 Combined
$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	1,424	1,272
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	101	152
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$ 0	$ 0	$ 0	$ 101	$ 152
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$ 0	$ 0	$ 0	$ 1,525	$ 1,424
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	1,525	1,424
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$ 0	$ 0	$ 0	$ 1,525	$ 1,424
$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	(101)	(152)
$ 0	$ 0	$ 0	$ (101)	$ (152)
0	0	0	0	0
$ 0	$ 0	$ 0	$ (101)	$ (152)

AT21 - Army General Fund

($ Amounts in Thousands)

Schedule, Part A DoD Intra-governmental Asset Balances.	Treasury Index:	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		$1,017			
Department of Agriculture	12		$85			$575
Department of Commerce	13		$630			$4,788
Department of the Interior	14		$89			$588,991
Department of Justice	15		$10,444			$512
Department of Labor	16		$24			
Navy General Fund	17		$62,306			
Department of State	19		$11,722			
Department of the Treasury	20	$87,093,317	$1,830		$3,495	$162
Office of Personnel Management	24					$16,422
Department of Veterans Affairs	36		$356			
General Service Administration	47		$1,257			
National Science Foundation	49					$20
Air Force General Fund	57		$58,326			$15,778
Environmental Protection Agency	68		$264			$3,918
Department of Transportation	69		$674			$3,789
Homeland Security	70		$7,450			$71,681
Small Business Administration	73					$248
Department of Health and Human Services	75		$368			$41
National Aeronautics and Space Administration	80		$266			$21,239
Department of Energy	89		$470			$3,956
Other Legislative Branch Agencies	9		$10			
US Army Corps of Engineers	96		$2,930			
Other Defense Organizations General Funds	97		$59,469			
Other Defense Organizations Working Capital Funds	97-4930		$29,386			$72,511
Army Working Capital Fund	97-4930.001		$26,041			$19,661
Navy Working Capital Fund	97-4930.002					$11
Air Force Working Capital Fund	97-4930.003		$1,220			
Totals		**$87,093,317**	**$276,634**		**$3,495**	**$824,303**

AT21 - Army General Fund

($ Amounts in Thousands)

Schedule, Part B DoD Intra-governmental entity liabilities.	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Executive Office of the President	11			$46,755
Department of Agriculture	12	$8,896		$84
Department of Commerce	13	$469		
Department of the Interior	14	$10,360		$1
Department of Justice	15	$2,771		$23
Department of Labor	16	$13		$423,617
Navy General Fund	17	$37,536		$207
Department of State	19	$2,205		$2,630
Department of the Treasury	20	$227,678		$1,494
Office of Personnel Management	24	$3,236		$58,708
Federal Communications Commission	27	$595		
Library of Congress	3			$23
Nuclear Regulatory Commission	31	$104		
Department of Veterans Affairs	36	$3,938		$984
General Service Administration	47	$477,169		$67
National Science Foundation	49	$670		
Central Intelligence Agency	56			$325
Air Force General Fund	57	$26,277		$2,249
Tennessee Valley Authority	64	$5,777		
Environmental Protection Agency	68	$10,336		
Department of Transportation	69	$15,980		$177
Homeland Security	70	$12,130		$37,919
Small Business Administration	73	$184		
Department of Health and Human Services	75	$1,594		$44,645
National Aeronautics and Space Administration	80	$10,963		$443
Department of Energy	89	$24,515		$48
US Army Corps of Engineers	96	$15,948		
Other Defense Organizations General Funds	97	$68,587		$2,082
Other Defense Organizations Working Capital Funds	97-4930	$592,630		
Army Working Capital Fund	97-4930.001	$312,950		$0
Navy Working Capital Fund	97-4930.002	$10,484		
Air Force Working Capital Fund	97-4930.003	$1,347		
The General Fund of the Treasury	99			$1,749,780
DoD Medicare-Eligible Retiree Health Care Fund		$32,970		
Totals		**$1,918,312**		**$2,372,261**

Required Supplemental Information - Part C

AT21 - Army General Fund

($ Amounts in Thousands)

Schedule, Part C DoD Intra-governmental revenue and related costs.	Treasury Index:	Earned Revenue
Executive Office of the President	11	$38,746
Department of Agriculture	12	$2,772
Department of Commerce	13	$7,017
Department of the Interior	14	$1,206
Department of Justice	15	$72,317
Department of Labor	16	$105
Navy General Fund	17	$826,324
Department of State	19	$272,302
Department of the Treasury	20	$13,889
Library of Congress	3	$1,038
Department of Veterans Affairs	36	$3,740
General Service Administration	47	$5,860
Central Intelligence Agency	56	$14,621
Air Force General Fund	57	$1,463,044
Environmental Protection Agency	68	$7,402
Department of Transportation	69	$12,711
Homeland Security	70	$100,329
Department of Health and Human Services	75	$47,765
National Aeronautics and Space Administration	80	$28,131
Department of Housing and Urban Development	86	$41
Department of Energy	89	$30,711
Other Legislative Branch Agencies	9	$10
Department of Education	91	$870
US Army Corps of Engineers	96	$390,711
Other Defense Organizations General Funds	97	$4,429,253
Other Defense Organizations Working Capital Funds	97-4930	$170,421
Army Working Capital Fund	97-4930.001	$386,412
Air Force Working Capital Fund	97-4930.003	$8,285
DoD Medicare-Eligible Retiree Health Care Fund		$113,180
Totals		**$8,449,213**

Required Supplemental Information - Part E

AT21 - Army General Fund

($ Amounts in Thousands)

	Treasury Index:	Transfers In	Transfers Out
Executive Office of the President	11	$2,866,535	
Air Force General Fund	57	$36,234	
US Army Corps of Engineers	96	$34	$361
Other Defense Organizations General Funds	97	$621,827	$129,669
Other Defense Organizations Working Capital Funds	97-4930	$5	
Army Working Capital Fund	97-4930.001	$700,000	
Air Force Working Capital Fund	97-4930.003	$155,000	
The General Fund of the Treasury	99	$9,290	$9,290
Totals		**$4,388,925**	**$139,320**

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2005

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Fiscal Year 2005 Army General Fund Financial Statements (Report No. D 2006 015)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army General Fund Consolidated Balance Sheet as of September 30, 2005 and 2004, the related Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Combined Statement of Financing, and the Statement of Custodial Activity for the fiscal years then ended. The financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations. We are unable to give an opinion on the Fiscal Year 2005 financial statements of the Army General Fund because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of the audit.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that financial management systems do not substantially comply with Federal financial management system requirements, generally accepted accounting principles, or the U.S. Government Standard General Ledger at the transaction level. Therefore, Army cannot provide adequate evidence supporting various material amounts on the financial statements. As a result, we did not perform auditing procedures to determine whether material amounts on the financial statements were fairly presented. We did not perform these and other auditing procedures because Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. The Army has also acknowledged, and prior audits have identified, the material weaknesses listed in the Summary of Internal Control. These material weaknesses also affect the reliability of certain information contained in the annual financial statements—much of which is taken from the same data sources as the principal financial statements.* Therefore, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

** The annual financial statements include the principal financial statements, management discussion and analysis, consolidating and combining financial statements, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.*

Summary of Internal Control

In planning our audit, we considered Army internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance, but our purpose was not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance. However, previously identified reportable conditions, all of which are material, continue to exist in the following areas.

- Financial Management Systems
- Accounting Adjustments
- Intragovernmental Transactions and Eliminations
- Abnormal Account Balances
- Fund Balance with Treasury
- Accounts Receivable
- Inventory and Related Property
- General Property, Plant, and Equipment
- Accounts Payable
- Environmental Liabilities
- Statement of Net Cost
- Statement of Budgetary Resources
- Statement of Financing

Material weaknesses are reportable conditions in which internal controls do not reduce (to a relatively low level) the risk of misstatements that are material to the financial statements and that might not be timely detected by employees while performing their normal, assigned functions.

In addition, we identified weaknesses in reporting contingent legal liabilities, which we consider to be a reportable condition. Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

Our internal control work would not necessarily disclose all reportable conditions. See the Attachment for additional details on reportable conditions, most of which we consider to be material internal control weaknesses.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited because management acknowledged, and prior audits confirm, that instances of noncompliance continue to exist. The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army was unable to comply with the requirements of the Chief Financial Officers Act of 1990, as amended. The Army has also acknowledged that many of its financial management and feeder systems do not comply with the requirements of the Federal Financial Management Information Act of 1996. The Army was also unable to comply with Government Performance and Results Act requirements because it did not have cost accounting systems in place to collect, process, and report operating costs. Therefore, we did not determine whether the Army was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to Army officials.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Attachment:
As stated

Report on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and reportable conditions that could adversely affect a favorable opinion on internal control.

Material Weaknesses. Management acknowledged that previously identified reportable conditions, all of which are material, continue to exist.

Financial Management Systems. Army accounting systems lack a single, standard transaction-driven general ledger. The Army also needs to upgrade or replace many of its nonfinancial feeder systems so that financial statement reporting requirements can be met. The lack of integrated, transaction-driven financial management systems will continue to prevent the Army from preparing auditable financial statements.

The Army has acknowledged that its financial management systems were unable to meet all of the requirements for full accrual accounting. Many of the Army financial systems, nonfinancial feeder systems, and processes were designed and implemented before generally accepted accounting principles were issued and, therefore, were not designed to collect and record financial information on the accrual basis. Until the Army's systems and processes are updated in accordance with generally accepted accounting principles, the Army's financial data will be based on budgetary transactions, nonfinancial feeder system transactions, and adjustments for known accruals of major items. The Army derives its reported values and information for major asset and liability accounts from nonfinancial feeder systems, such as inventory and logistics systems. Major assets include Property, Plant, and Equipment and Inventory and Related Property. In addition, budgetary transactions are recorded in line items such as Fund Balance with Treasury, Accounts Receivable, Accounts Payable, Gross Costs, and Earned Revenue. Until the Army systems are updated, Army financial data will be based on budgetary transactions (obligations, disbursements, and collections).

Accounting Adjustments. Because of inadequate financial management systems and processes, journal voucher adjustments and data calls are used to prepare the Army General Fund financial statements. Defense Finance and Accounting Service Indianapolis did not adequately support $241.5 billion in journal voucher adjustments used to prepare the Army General Fund financial statements. Specifically, Defense Finance and Accounting Service Indianapolis made:

- $71.1 billion in unsupported adjustments to force amounts to agree with records, other sources of information, or financial statement lines,
- $26.2 billion in unsupported adjustments to intragovernmental accounts to force the accounts to agree with the records of the Army's trading partners,
- $72.0 billion in unsupported adjustments to correct errors and reclassify amounts to other accounts, and
- $72.2 billion in unsupported adjustments to force general ledger accounts to agree with status of appropriations data (or ending balance adjustments) without reconciling the differences or determining which data source was correct.

Intragovernmental Transactions and Eliminations. DoD is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified. This is primarily because of systems limitations, as the majority of the systems currently used within DoD do not allow for the capture of buyer-side information for use in reconciliations and eliminations. DoD and Army accounting systems are unable to capture trading partner data at the transaction level in a manner that facilitates required trading partner eliminations, and DoD guidance does not require adequate support for eliminations. In addition, DoD procedures require that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. Therefore, Defense Finance and Accounting Service Indianapolis made $26.2 billion in unsupported adjustments to intragovernmental accounts to force the accounts to agree with the records of Army's trading partners.

Abnormal Account Balances. Defense Finance and Accounting Service Indianapolis did not detect, report, or take action to eliminate abnormal balances included in the Army General Fund accounting records. The FY 2005 trial balance data for the Army General Fund included 224 general ledger accounts with $1.2 trillion of unresolved abnormal balances.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, "Form and Content of the DoD Audited Financial Statements," requires the separate disclosure of any individual components that represent more than 10 percent of a line item identified as "Other" on the financial statements and notes. An $825.3 million abnormal balance that is part of the Non-Federal Other Assets (With the Public) line item on the Balance Sheet was not disclosed or explained in Note 6, Other Assets.

In response to DoD IG Report No. D-2004-118, "Army General Fund Controls Over Abnormal Balances For Field Accounting Activities," September 28, 2004, Defense Finance and Accounting Service Indianapolis stated that the Defense Departmental Reporting System-Budgetary Module (Budgetary Module) would significantly reduce abnormal balances in accounting records. Defense Finance and Accounting Service Indianapolis estimated the completion date for corrective action as September 30, 2005. However, the implementation of the Budgetary Module has been delayed until December 2005. The DoD Financial Management Regulation has not been revised to require the disclosure of the amounts of unresolved abnormal balances for all financial statement lines impacted in the notes to the financial statements. Abnormal balances not only distort the Army General Fund financial statements, but also indicate internal control and operational deficiencies and may conceal instances of fraud.

Fund Balance with Treasury. DoD has long-standing problems in reconciling transaction activity in their Fund Balance with Treasury accounts. Army appropriation balances recorded in the accounting records do not agree with balances held at the Department of Treasury. Therefore, the Defense Finance and Accounting Service Indianapolis made unsupported adjustments that had a net effect of $44.0 billion on the three Fund Balance With Treasury line items.

Accounts Receivable. DoD has acknowledged weaknesses in its accounts receivable management. The weaknesses are considered to be DoD-Wide and apply to both public and intragovernmental receivables at the Army General Fund level. Weaknesses include:

- noncompliance with policies and procedures regarding referrals to the Debt Management Office and the Department of Treasury and for write-offs of 2 year old debt;
- a lack of controls to ensure all entitlement system receivables (vendor pay, civilian pay, and interest) are recorded in the accounting systems; and
- a lack of controls to ensure that accounts receivable balances are supportable at the transaction level.

As a result, Defense Finance and Accounting Service Indianapolis made $476.1 million in unsupported adjustments for FY 2005 that decreased accounts receivable balances by $421 million.

Inventory and Related Property. Inventories are reported at approximate historical cost using Latest Acquisition Cost adjusted for holding gains and losses. The systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems are also unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement of Federal Financial Accounting Standards No. 3 states that Operating Materials and Supplies will be expensed when the items are consumed. However, DoD has acknowledged that significant amounts of Operating Materials and Supplies were expensed when purchased, instead of when consumed.

General Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires that all General Property, Plant, and Equipment be recorded at cost, and that depreciation expense be recognized on all General Property, Plant, and Equipment. The Army has acknowledged that real property was not recorded at acquisition or historical cost and did not include all costs needed to bring the real property to a form and location suitable for its intended use. Also, the Army could not support the reported cost of Military Equipment in accordance with Statement of Federal Financial Accounting Standards No. 6. Military Equipment was not recorded at acquisition or historical cost and did not include all costs needed to bring the equipment to a form and location suitable for its intended use. The Army also lacks property accountability systems for all its Military Table of Equipment unit property books that comply with the Federal Financial Management Improvement Act of 1996.

Accounts Payable. The Army is unable to properly account for and report Accounts Payable. Defense Finance and Accounting Service Indianapolis made $14.4 billion in unsupported adjustments for FY 2005 that increased Accounts Payable by $9.6 billion. In addition, 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 has acknowledged that it is unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generate the payables.

Environmental Liabilities. The Army has not properly estimated and reported its environmental liabilities. For example, the processes used to report environmental liabilities for the Defense Environmental Restoration Program, Base Realignment and Closure, and the non Defense Environmental Restoration Program on the financial statements are not adequate to establish or maintain sufficient documentation and audit trails. Although estimators were properly qualified to perform estimates, the Army did not document supervisory reviews of estimates and does not have adequate quality control programs in place to ensure the reliability of data. The Defense Finance and Accounting Service has identified ongoing actions to correct the reporting of environmental liabilities by October 2006.

Statement of Net Cost. The financial information in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DoD strategic and performance plans required by the Government Performance and Results Act. Because financial processes and systems do not collect costs in line with performance measures, revenues and expenses are reported by appropriation categories. The amounts presented in the Statement of Net Cost are based on funding, obligation, and disbursing transactions, which are not always recorded using accrual accounting. Army systems do not always record the transactions on an accrual basis as required by generally accepted accounting principles. To capture all cost and financing sources for the Army, the information presented also includes data from nonfinancial feeder systems. In addition, Army General Fund budgetary and proprietary information does not correlate. As a result, Defense Finance and Accounting Service Indianapolis made $10.5 billion in unsupported adjustments to force costs to agree with obligation information. Specifically, these adjustments forced costs reported on the Statement of Net Cost to match the value of Expended Appropriations minus the amount of Capitalized Assets reported on the Statement of Financing.

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 Circular No. 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. Because the Statement of Budgetary Resources does not include eliminating entries, a Disaggregated Statement of Budgetary Resources is included in the Required Supplementary Information section of the financial statements. The Army uses budget execution data composed of transaction report codes to prepare both the monthly Standard Form 133 and the quarterly Federal Agencies Centralized Trial Balance System II budgetary general ledger accounts. Defense Finance and Accounting Service Indianapolis personnel use the Federal Agencies

Centralized Trial Balance System II data to prepare the Statement of Budgetary Resources. Because both the Standard Form 133 and the Statement of Budgetary Resources are prepared using budget execution data, there is no true reconciliation between the two reports. Office of Management and Budget Circular No. A-136, "Financial Reporting Requirements," states that the Statement of Budgetary Resources should be predominantly derived from an entity's budgetary general ledger, instead of based on budget execution data. In FY 2005, Defense Finance and Accounting Service Indianapolis prepared $1.8 billion in unsupported adjustments that affected general ledger accounts used in the Statement of Budgetary Resources.

Statement of Financing. The Office of Management and Budget requires a consolidated Statement of Financing, except for the budgetary information used to calculate net obligations, which must be presented on a combined basis. However, the Statement of Financing for the Army General Fund is prepared on a combined basis. Also, because the differences between the Statement of Net Cost and the Statement of Financing were not reconciled, the Statement of Financing does not accurately present the relationship between budgetary obligations incurred by the Army General Fund and its Net Cost of Operations. For example, Defense Finance and Accounting Service Indianapolis prepared $10.5 billion in unsupported adjustments to force costs to agree with obligation information.

Reportable Conditions. During FY 2005, we noted deficiencies related to contingent legal liabilities. The Army legal representation process did not provide meaningful assessments of potential liabilities and was not linked to the Army process for reporting and disclosing contingent legal liabilities on the financial statements. The legal representation letter from the Army Office of General Counsel and its attached management schedule did not corroborate the $187 million reported on the Balance Sheet as part of Non-Federal Other Liabilities nor the $255 million disclosed as contingent legal liabilities on footnote 16 in the FY 2005 Army General Fund Financial Statements. In addition, the legal representation letter and management schedule did not disclose $5.8 billion in contingent liabilities that, individually, were not considered material but, when aggregated, exceeded the materiality threshold requested by the auditors.

These financial management deficiencies are indications of material weaknesses in internal control that may adversely affect any decision by the Army that is based, in whole or in part, on information that is inaccurate because of these deficiencies. Financial information reported by DoD may also contain misstatements resulting from these deficiencies.

Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Army was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations.

Statutory Financial Management Systems Reporting Requirements. The Army is required to comply with financial management systems reporting requirements. For example, the Federal Financial Management Information Act of 1996 requires the Army to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires DoD to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. The Act requires that each agency develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control. The system should comply with internal control standards and applicable accounting principles, standards, and requirements; and it should provide for complete, reliable, consistent, and timely information.

The Army acknowledged that many of its critical financial management and feeder systems do not comply substantially with Federal financial management systems requirements, Federal accounting standards, and the U.S.

Government Standard General Ledger at the transaction level. The Army is also unable to comply with the Chief Financial Officers Act because its financial management systems are not integrated, and it has acknowledged that many of its financial management and feeder systems do not comply with applicable Federal accounting standards.

Government Performance and Results Act. The Government Performance and Results Act requires that each Federal agency prepare a strategic plan and annual performance plans and reports. The Army did not comply with the Government Performance and Results Act because it does not have cost accounting systems in place to collect, process, and report operating costs. As a result, the Army General Fund Statement of Net Cost cannot provide cost-of-operations data that are consistent with the Government Performance and Results Act performance goals and measures.

Audit Disclosures

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us on January 11, 2005, that the Army financial management systems cannot provide adequate evidence supporting various material amounts on the financial statements. Therefore, we did not conduct audit work related to the previously identified deficiencies.

In addition, we did not perform audit work related to the following selected provisions of laws and regulations.

- Antideficiency Act
- Provisions Governing Claims of the United States Government
- Federal Credit Reform Act of 1990
- Pay and Allowance System for Civilian Employees
- Prompt Payment Act

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance because previous audit reports contained recommendations for corrective actions.

Working Capital Fund

"The Letterkenny Army Depot - the things they do there in terms of the equipment refurbishment, design and manufacture for some of the Special Operations forces, is remarkable. I mean...the work they do is going right to the field, right in the hands of Soldiers and is improving their combat effectiveness within hours of being unloaded from the dock."

Mr. Michael A. Kirby, Executive Director for Institutional Army Transformation

Working Capital Fund – Management's Discussion & Analysis

Overview

The business operations of the Army Working Capital Fund (AWCF) generated over $16 billion during FY 2005 in support of Army and other DoD logistics requirements. This equates to a 13% increase in business volume from FY 2004. They employed approximately 24,000 civilians and 42 uniformed personnel at 18 locations in the continental United States (CONUS).

The Army manages two AWCF activity groups, Supply Management and Industrial Operations (a consolidation of the former Depot Maintenance and Ordnance activity groups, the reasons for which will be discussed in the Industrial Operations Performance Results section). These activity groups provide the capability to satisfy the peacetime and wartime needs of the Department of Defense (DoD) by providing supplies, equipment, and ordnance necessary to project, sustain, and reconstitute forces. The support services provided by AWCF activity groups are essential to the readiness and sustainability of Army operating forces and are an integral part of the total DoD team. This becomes more apparent as the Army continues to wage war on global terrorism and to provide disaster relief and humanitarian assistance around the world.

Mission

The primary mission of AWCF activities is to help the Army maintain constant readiness by providing supplies, equipment, and ordnance necessary to support the projection and sustainment of its forces. In carrying out this mission, the activities are obligated to control and reduce costs. In addition, the activities must maintain their capability to quickly ramp up from peacetime workload levels to meet wartime requirements.

Supply Management

Supply Management, Army (SMA) buys and maintains stocks of materiel for sale to Army operating units and other DoD customers. The Army's equipment and operational readiness, and its combat capability, are directly to the availability of this materiel. As a result of deployments to Southwest Asia and continued support of the Global War on Terrorism (GWOT), inventory sales are significantly higher than for previous budget submissions. For example, in the peacetime conditions of FY 2002, SMA gross sales were $5.8 billion. In FY 2005, SMA gross sales were $11.5 billion. The level of activity during FY 2005 reflects the SMA activity group's on-going efforts to satisfy increased customer demands from Operation Iraqi Freedom (OIF). This high level of demand is expected to continue until FY 2007.

This activity group is committed to meeting the needs of Soldiers by ensuring that supplies and equipment are available when and where needed during peacetime and when at war. The major subordinate commands of the Army Materiel Command (AMC) manage this activity.

Industrial Operations

The Industrial Operations (IO) activity group provides the equipment and ordnance necessary to project, sustain, and reconstitute forces as required to satisfy the peacetime and wartime needs of the DoD.

The IO activity group is composed of five maintenance depots, three arsenals, two ammunition plants, three ammunition storage depots, and three munitions centers. The activity group provides the Army and DoD with the organic industrial capability to:

- perform depot-level maintenance, repair, and modernization of weapon systems and component parts;
- manufacture, renovate, and demilitarize materiel;
- produce quality munitions and large-caliber weapons;
- perform a full range of ammunition maintenance services for the DoD and U.S. Allies;
- perform ammunition receipt, store, and issue functions; and
- provide installation base support to mission elements and tenant activities.

In its industrial activities IO both competes and partners with the private sector to ensure that its goods and services are delivered efficiently and effectively. The five heavy maintenance depots (Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna) have been designated as centers of industrial and technical excellence (CITE) for the performance of core maintenance workload in support of the DoD and America's foreign allies. The CITE designation provides the depots with the authority to partner with and/or lease facilities to industry on programs relating to core maintenance expertise.

Organization

AMC, headquartered at Fort Belvoir, VA, serves as the management command for the AWCF activities. It does this through the major supply management subordinate commands shown in Table 10, the Army Field Support Command (AFSC) at Rock Island, IL, and the Chemical Munitions Agency (CMA) at Aberdeen Proving Ground, MD.

Table 10. Supply Management, Army

"Wholesalers" that buy and maintain stocks of materiel for sale to operating force units and other customers

Command/Location	Area of Materiel Support
Aviation and Missile Command, Huntsville, AL (AMCOM)	Aircraft and aviation ground support items, missile system items.
Communications–Electronics Command, Fort Monmouth, NJ (CECOM)	Communication and electronics items.
Tank–automotive and Armaments Command, Warren, MI (TACOM-W)	Combat, automotive, and construction items.
Tank–automotive and Armaments Command, Acquisition and Logistics Activity, Rock Island, IL (TACOM-RI)	Weapons, special weapons, and fire control systems.
Tank–automotive and Armaments Command, Soldier and Biological Chemical, Natick, MA (TACOM-SBC)	Ground support items and chemical weapons.

AMC also serves as the management command for the IO activity group. Installations or activities in this group fall under the direct command and control of AMC major subordinate commands each aligned in accordance with the nature of its mission (Table 11). Corpus Christi and Letterkenny Army Depots report to the Aviation and Missile Command (AMCOM) located at Redstone Arsenal, AL. Anniston, Red River, and Sierra Army Depots, as well as Rock Island and Watervliet Arsenals report to the Tank-automotive and Armaments Command (TACOM) in Warren, MI. Tobyhanna Army Depot reports to the Communication-Electronics Command (CECOM) at Ft. Monmouth, NJ. Pine Bluff Arsenal reports to the CMA at Aberdeen Proving Ground, MD. Bluegrass and Tooele Army Depots, as well as Crane Army Ammunition Activity and McAlester Army Ammunition Plant report to the AFSC at Rock Island Arsenal, IL.

A Soldier from 3rd Brigade, 3rd Infantry Division, returns to Forward Operating Base Warhorse in his M2A2 Bradley Fighting Vehicle after a mission near Baqubah, Iraq. (by Staff Sgt. Suzanne Day)

Table 11. Industrial Operations

Activity/Location Combat Systems Command/Activity/Location	Command/Activity/Location
TACOM Anniston Army Depot, Anniston, AL*	Maintains, repairs, overhauls, and upgrades heavy-tracked combat vehicles and artillery.
AMCOM Corpus Christi Army Depot, Corpus Christi, TX	Maintains, repairs, overhauls, and upgrades rotary wing aircraft, engines, and components.
AMCOM Letterkenny Army Depot, Chambersburg, PA*	Maintains, repairs, overhauls, and upgrades tactical missile systems.
TACOM Red River Army Depot, Texarkana, TX*	Maintains, repairs, overhauls, and upgrades light armored vehicles and select missile systems.
CECOM Tobyhanna Army Depot, Tobyhanna, PA*	Maintains, repairs, overhauls, and upgrades communications—electronics and missile guidance and control systems and equipment.
CMA Pine Bluff Arsenal, Pine Bluff, AR*	Manufactures conventional ammunition and chemical and biological defense items. Produces and rebuilds decontaminating kits, large filters, masks, and defensive chemical test equipment.
TACOM Rock Island Arsenal, Rock Island, IL*	Produces weapons for infantry, artillery, and air defense; armament for tanks, artillery, and personnel- and cargo-carriers; and special tools and tool sets.
TACOM Watervliet Arsenal, Watervliet, NY*	Produces mortars, recoilless rifles, cannon for tanks and towed and self-propelled artillery, special tool sets, and training devices and simulators.
AFSC Crane Army Ammunition Activity, Crane, IN	Produces, loads and assembles, stores, distributes, renovates, maintains, and demilitarizes conventional ammunition and ammunition-related components.
AFSC McAlester Army Ammunition Plant, McAlester, OK*	Produces, loads and assembles, stores, distributes, renovates, maintains, and demilitarizes bombs, missiles, and conventional ammunition and missiles.
TACOM Sierra Army Depot, Herlong, CA*	Responsible for receipt, storage, and care of supplies in storage; as well as repair, assembly, disassembly, and shipment of major and secondary items for operational project stocks.
AFSC Tooele Army Depot, Tooele, UT*	Designs and develops ammunition-peculiar equipment. Stores, maintains, distributes, and demilitarizes conventional ammunition.
AFSC Blue Grass Army Depot, Richmond, KY*	Responsible for receipt, issue, storage, testing, and minor repair of chemical defense equipment. Stores, maintains, distributes, and demilitarizes conventional ammunition.
AFSC Red River Munitions Center, Texarkana, TX	Store, maintain, distribute, and demilitarize conventional ammunition.
AFSC Letterkenny Munitions Center, Chambersburg, PA	
AFSC Anniston Munitions Center, Anniston, AL	

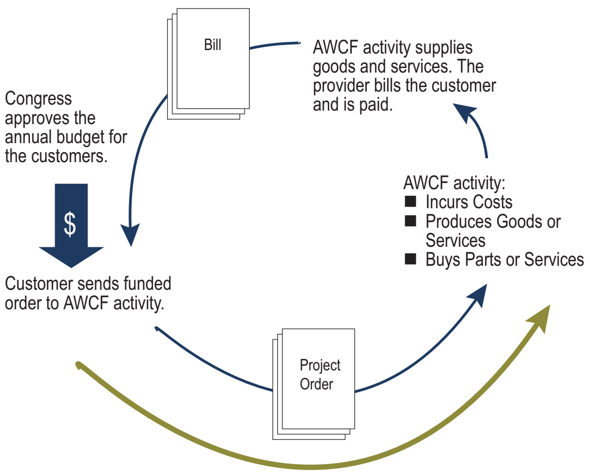
**Also provides base support services to tenant organizations*

AMC reports to the Army Deputy Chief of Staff, G-4 and to the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)). A DoD corporate board provides oversight of AWCF functions; the board is comprised of representatives from the military services, defense agencies, DoD offices, and oversight organizations.

About Working Capital Funds

The AWCF is a revolving fund, which is an account that operates much like a business, deriving income from, and incurring costs for, operations without fiscal year limitation (no-year account). The fund operates through a five-step process shown in Figure 11. First, Congress appropriates funds to support programs and projects of AWCF customers. Second, a customer sends an AWCF activity a funded request for a given amount of products or services, such as overhauling 100 tanks. Third, the AWCF activity performs the work, incurring costs such as for labor and materials, which are paid for from AWCF cash. Fourth, the AWCF activity bills the customer for the cost of the order. Finally, the customer deposits payment in the AWCF, thus replenishing the fund so that it can supply working capital to other projects.

Figure 11. How the AWCF Operates



Pricing

AWCF activities bill customers in one of two manners:

- The SMA activity group bills customers by applying a surcharge to the cost of the materiel or item being requisitioned. The surcharge is designed to recover the actual costs of operating the supply business.
- The IO activity group bills customers based on a direct labor hour rate, which is designed to recover all costs associated with the work being performed (e.g., labor, materials, and overhead). Once the standard direct labor hour rate is set in the budget process, it does not change in the year of execution. This shields customers from price swings and enables them to plan their budgets and appropriation requests with more certainty than if costs reflected short-term market variations.

Working Capital Fund Performance Results

Corporate Performance

The mission of the AWCF is to provide support services to the operating forces in the most efficient and cost-effective manner possible. Support services provided by AWCF activities are essential to the success of operating forces. Assessing the performance of the AWCF through the use of financial and program performance measures indicates how well the AWCF is accomplishing its mission.

Performance Measures

Cash Management

The ability to generate and manage cash is dependent on: (1) setting rates to recover full costs, including any previous year losses; (2) accurately projecting workload; and (3) meeting established operational goals. The Army must maintain sufficient cash on hand in the AWCF account at the U.S. Treasury to pay liabilities when due. To minimize the cash balance required for operating and capital disbursements, the Army manages cash at the corporate level. Rather than having to maintain a positive cash balance, the AWCF activity groups and installations project collections and disbursements on a monthly basis, working within a 10 percent margin of error.

Projecting cash flows has, in past years, proven challenging. A direct correlation can be made between monthly revenue and collections, but no direct correlation can be made between monthly expenses and disbursements. The difficulty arises within the SMA activity group where monthly expenses are based on the cost of goods sold, while disbursements are based on deliveries of materiel on order or in repair.

The Defense Finance and Accounting Service (DFAS), the Army's accounting services provider, is implementing systems improvements that are expected to enable the Army to see collections and disbursements in real-time.

Table 12 shows the actual collections, disbursements, and outlays at the Army corporate level for the last three fiscal years, and the resulting cash balance that will be used to pay suppliers and producers of goods. The AWCF ended FY 2005 with a cash balance of $623.3 million, $212.7 million above plan. This represents a variance of 34 percent. The ending cash balance reflects the results of the increase in consumption of repair parts and production at Army industrial facilities that is due to the GWOT. In addition, the Army transferred $700 million in FY 2005 and $1.3 billion in FY 2004 in cash to the Operations and Maintenance, Army (OMA) appropriation in support of the GWOT. The $2.0 billion will need to be returned to the AWCF at a future date in order for the fund to pay its suppliers and producers of goods. As operations in Iraq and Afghanistan are drawn down and payments associated with the delivery of replacement stocks and repair of equipment are made, the AWCF cash balance should return to a level closer to its corpus requirement.

Table 12. Corporate Collections, Disbursements, and Outlays ($ millions)

	FY 2003	FY 2004	FY 2005
Collections, Appropriations, and Transfers-in	$9,714.1	$12,467.9	$14,383.6
Disbursements and Transfers-out	$8,416.6	$13,067.9	$14,708.7
Net Outlays	$1,297.5	$600.0	$325.1
Cash Balance	$1,548.5	$948.4	$623.3

Total Revenue

Total revenue is an indicator of the volume of work completed by the AWCF activity groups. The total projected revenue for FY 2005 was $15.3 billion. Actual revenue was $16.1 billion, 5 percent greater than projected. This was primarily due to operations in support of the GWOT.

Table 13 displays total revenue and direct appropriations by activity group. SMA generates the largest balances, accounting for more than $11.5 billion in revenue, or 72 percent of all AWCF revenue. In addition to the revenue shown in Table 13 and Table 14, the AWCF received $184 million in FY 2005 in transfers-in.

Table 13. Total Revenue and Direct Appropriations by Activity Group ($ millions)

Appropriation	FY 2003	FY 2004	FY 2005
Supply Management, Army	$9,558.0	$10,620.6	$11,526.8
Industrial Operations	$2,885.3	$3,684.1	$4,551.5
Information Services	$96.7	$0.0	$0.0
Total Revenue and Appropriation	$12,540.0	$14,304.7	$16,078.3

Table 14 displays total corporate revenue by customer. The largest customer for the AWCF is OMA, which accounted for revenues of $11.3 billion.

Table 14. Total Corporate Revenue by Customer ($ millions)

	FY 2003	FY 2004	FY 2005
Operations and Maintenance, Army	$8,358.3	$10,297.7	$11,325.5
Army Procurement	680.0	493.7	1,000.0
AWCF	1,570.4	1,441.8	2,075.8
Other Army	224.0	337.0	253.6
Other Services	641.2	825.7	794.5
Other DoD	351.9	284.0	107.1
Foreign Military Sales	315.4	318.0	357.7
Non-DoD	40.8	87.5	64.5
Total Revenue*	$12,182.0	$14,085.4	$15,978.7

**This is revenue from operations only. Does not include direct appropriations or transfers-in.*

Personnel Resources

To achieve maximum efficiency of performance, the AWCF activity groups need to achieve the configuration of skilled workforce that is most appropriate to the workload. Skill mismatches sometimes occur as a result of deviations between planned and actual workload. They also can be caused by workforce reductions realized through voluntary separation and hiring freezes. Such mismatches can lead to unplanned operating losses.

Table 15. Military and Civilian Personnel by Activity Group

Personnel	FY 2003	FY 2004	FY 2005
Supply Management			
Civilian End Strength	2,893	2,779	3,017
Civilian FTEs	2,790	2,935	3,044
Military End Strength	13	13	11
Military Average Strength	13	13	11
Industrial Operations			
Civilian End Strength	17,709	19,917	21,687
Civilian FTEs	17,007	18,393	20,950
Civilian OT Usage (% DLH)	NA	17.1%	16.9%
Productive Yield	NA	1,634	1,596
Military End Strength	48	33	31
Military Average Strength	48	26	31
Total			
Civilian End Strength	20,602	22,696	24,704
Civilian FTEs	19,797	21,328	23,994
Military End Strength	61	46	42
Military Average Strength	61	39	42

Supply Management, Army

Program Scope

Customer Revenue (Program Size)

SMA revenue from customer sales in FY 2005 was $11.5 billion. This exceeded the President's Budget estimate of $10.7 billion. This excess revenue was a direct result of increased operations conducted in support of the GWOT. Included in the revenue table are SMA's direct appropriations for war reserves of $89 million in FY 2003 and $105.4 million in FY 2004, and a transfer-in of $84.4 million in FY 2005.

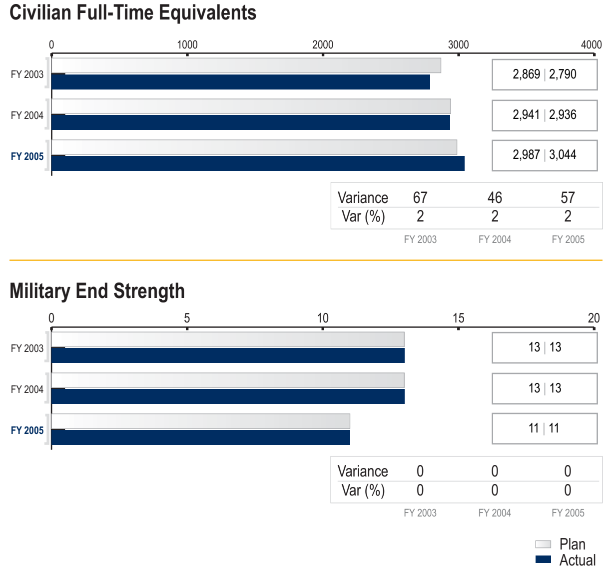
Table 16. Total SMA Revenue by Customer ($ millions)

Appropriation	FY 2003	FY 2004	FY 2005
Operations and Maintenance, Army	$7,379.8	$8,785.4	$9,573.0
Army Procurement	374.8	161.5	300.3
AWCF	468.5	434.5	740.5
Other Army	187.4	209.3	77.4
Other Services	562.1	589.5	528.8
Other DoD	93.6	22.3	13.2
Foreign Military Sales	281.1	271.2	288.8
Non-DoD	9.4	41.5	4.8
Total Revenue	**$9,356.7**	**$10,515.2**	**$11,526.8**

Personnel

As Figure 12 shows, the FY 2005 actual number of civilian full-time equivalent employees varied less than two percent from plan. Military employment was on plan, with two positions converted to civilian staffing from FY 2004 to FY 2005

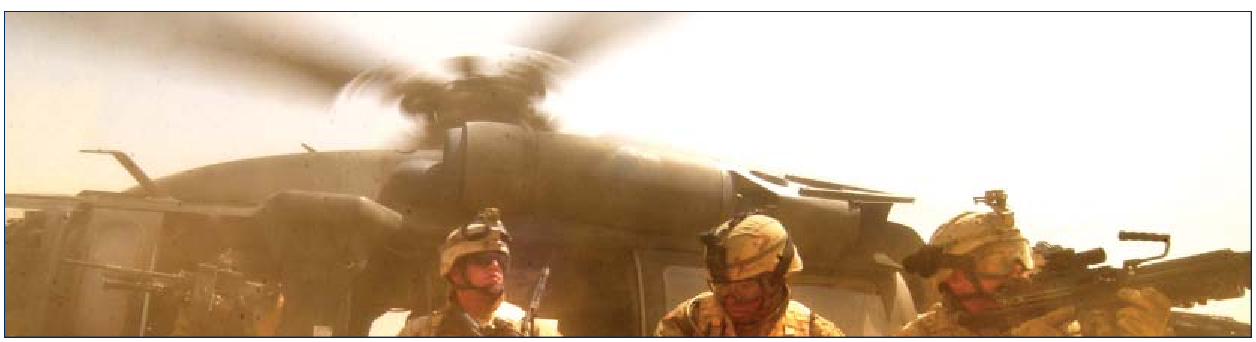
Figure 12. SMA Personnel Indicators – Civilian Full-Time Equivalents



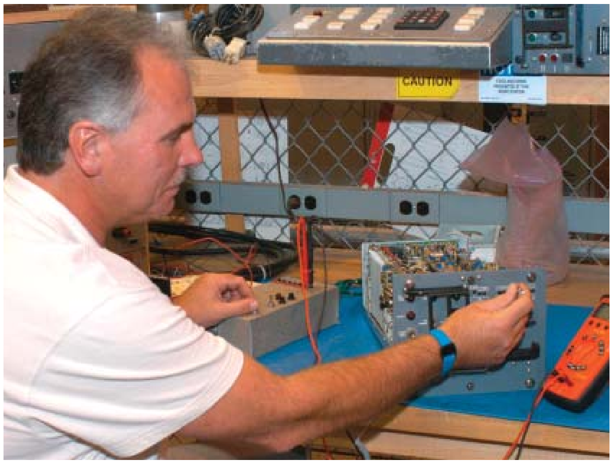
Financial Performance

The financial performance of the SMA activity group is evaluated on a variety of fiscal measures. The primary measure, unit cost, is used as a managerial control and relates resources consumed to outputs produced. The aim of the unit cost measure is to associate total cost to the work or output. Other measures include total gross sales; revenue; cost; net operating results; capital investment; cash collections, disbursements, and outlays; and stock availability and stock turn.

Wholesale Unit Costs. The wholesale division sells principally to federal government customers and, through the Foreign Military Sales Program, to foreign governments. Wholesale costs include the costs of



Soldiers from 1st Battalion, 41st Infantry Regiment, 3rd Brigade, 1st Armored Division, scan the landing zone for possible hostile forces in northern Baghdad. The troops are on their way to refurbish an outdoor playground at an Iraqi public school. (by Tech. Sgt. Russell Cooley IV) logistics operations, the cost of materiel, and credit issued to customers for materiel returns. Unit cost is measured by dividing these costs by gross wholesale sales.



Bruce Telincho, a Pittston Township resident, tests a telephone circuit switch power supply component at Tobyhanna Army Depot. The component will be used in AN/TTC-46 and 47 Mobile Subscriber Equipment. (by Anthony Ricchiazzi)

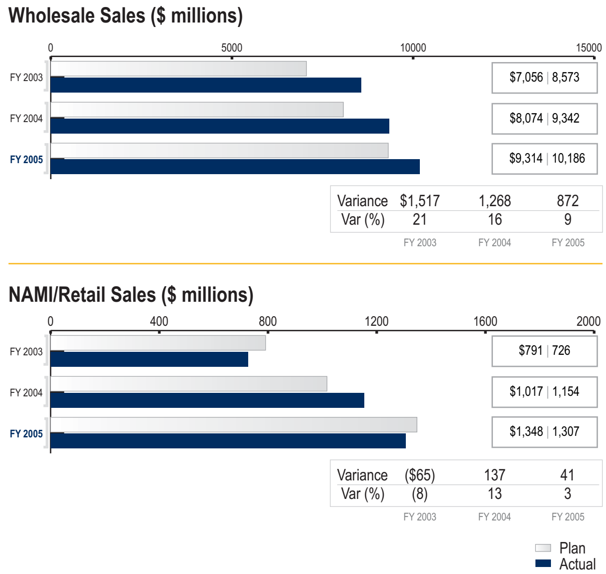
In FY 2005, the wholesale division achieved a unit cost of $1.12. The initial unit cost goal (UCG) of $0.98 was revised during the fiscal year to allow the execution of immediate requirements for OIF and the GWOT resulting in higher–than-expected sales and high hardware obligations.

NAMI/Retail Unit Costs. Implementation of the Single Stock Fund (SSF) in FY 2003 has altered the mission of the retail division. Prior to SSF, the retail divisions sold to authorized customers within their local geographical area. The retail divisions bought and sold both Army managed items (AMI) and non-Army managed items (NAMI) at the catalog price of the source of supply. Under SSF, the retail division consists only of NAMI.

In FY 2005, gross materiel costs were greater than planned, producing a unit cost of $1.12 that was above the UCG of $0.98. The higher costs occurred due to increased inventory requirements caused by OIF and the GWOT.

Gross Sales. To achieve its goals in inventory management and operations management, and to recoup operations costs, it is essential that the AWCF attain its projected sales levels.

Figure 13. SMA Gross Sales



Financial Operation Measures. Budgetary guidelines require the SMA activity group to recover its operating costs and fees while achieving zero accumulated operating results at the end of the budget period. To achieve this goal, AWCF activities set stabilized rates eight or more months prior to the beginning of each fiscal year. These rates are based on forecasts of the potential workload and the cost of meeting workload requirements. This projection is then used to set a standard price for AWCF goods and services. Since revenue is defined as gross sales at standard price, the logical financial measures of AWCF operations are revenue, cost, and net operating results. In FY 2005, the rates were set to achieve a net operating result (NOR) of $218.0 million. The actual NOR, less extraordinary items, was a gain of $193 million. Results of operations, computed according to budget guidance, are presented in Table 17.

Table 17. Financial Operation Measures ($ millions) for SMA

	FY 2003			FY 2004			FY 2005		
	Plan	Actual	Variance (%)	Plan	Actual	Variance (%)	Plan	Actual	Variance (%)
Revenue	$5,595	$9,358	67%	$9,097	$10,515	31%	$10,669	$11,527	8%
Cost of Goods Sold	$4,496	$8,450	87%	$9,052	$10,381	30%	$10,451	$11,334	8%
Net Operating Results	$239	$908	280%	$45	$134	197%	$218	$193	(12%)
Accumulated Operating Results	$11	$29	164%	$99	$29	(71%)	$0	($42)	0%

Capital Investment. The SMA activity group's capital investment program is focused primarily on the development of computer software to assist managerial decision-making, to enable the sharing of databases, and to support the development of more efficient business practices.

Table 18. Capital Budget Obligations ($ millions) for SMA

Category	FY 2003	FY 2004	FY 2005
Equipment	$0.0	$0.0	$0.0
ADPE and Telecom	0.0	1.2	0.0
Software	45.7	31.3	24.8
Total	$45.7	$32.5	$24.8

FY 2005 Capital Investment Program (CIP) projects include the purchase of the following:

Logistics Modernization Program (LMP) ($21.5 million). The goal of the LMP is to re-engineer existing logistics processes to provide flexibility in support of CONUS-based power projection scenarios. The program leverages modern information technology enablers to provide real-time visibility of the entire logistics supply chain and thereby support the transformation of military logistics.

Exchange Pricing (EP) ($2.0 million). The goals of EP are to stabilize credit for reparable secondary items, separate credit from OPTEMPO funding, enable a multiple price/exchange price structure, significantly improve tracking carcass returns to the supply system, reduce associated logistical and financial transactions and employee workloads, and reduce risk to AWCF SMA cash flow by providing credit only where credit is due.

Common Operating Environment (COE) ($1.3 million). The goal of COE is to provide a windows-based common technology enterprise architecture, which will pull all relevant business processes into the integrated domain to ensure the Army can maximize its return on investment. It will allow users access to all logistics automated tools within the Army logistics enterprise through a single workstation.

Cash Management

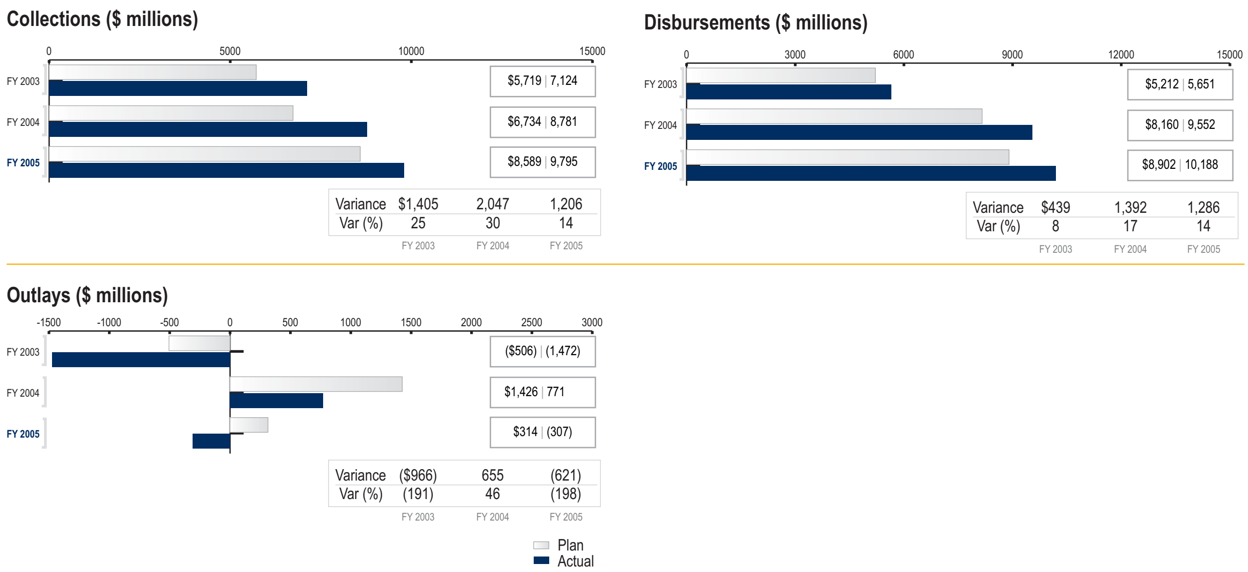
The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays rather than against independent cash balances. FY 2005 collections were greater than projected because of the increase in customer sales associated with OIF and the GWOT. These increases far exceeded planned increases. Disbursements included a cash transfer of $700 million from AWCF to the OMA appropriation in support of GWOT.

Program Performance

Supply Management uses the following program performance measure:

Stock Availability: Stock availability measures the percentage of SMA requisitions for stocked items completely filled within Uniform Materiel Movement and Issue Priority System (UMMIPS) timeframes. DoD and the Army have set a target of 85 percent stock availability. High demands continued in FY 2005. On-going contingency operations and the high level of OPTEMPO in support of OIF and the GWOT continue to impact stock availability as item managers' focus on high priority demands for deployed forces. While stock availability improved, adverse environmental impacts and long supply pipelines continued to drawdown strategic assets faster than the SMA activity group could replace them.

Figure 14. SMA Cash Management



Note: Positive outlays drain cash

Table 19. SMA Stock Availability (percentage)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
FY 2003	85	80	75	70
FY 2004	73	69	74	76
FY 2005	76	78	82	79

Industrial Operations

Program Scope

As mentioned previously, the IO activity group reflects the consolidation of the former AWCF Depot Maintenance and Ordnance activity groups into a consolidated Industrial Operations activity group. The Army took this action primarily because the activities operate very similarly from a financial perspective and there are benefits from consolidation. These benefits include the creation of a more integrated business perspective that encourages cooperation and partnering and focusing capital investment on the good of the business entity rather than on the good of individual installations. This combination of activities does not include any increase in organizational structure or cost. It leverages the capabilities of depots and arsenals to improve the quality and responsiveness of logistics services and better support the requirements of future customers and Army transformation.

Customer Revenue (Program Size)

Customer requirements drive workload. Revenue generated by providing goods and services to meet customer requirements was $4.5 billion in FY 2005. Table 20 displays customer revenue for the past three fiscal years by appropriation.

Total revenue increased $882 million, or 25 percent, between FY 2004 and FY 2005. This increase was attributable primarily to heightened global commitments and OPTEMPO. Revenue increases support ongoing combat requirements as well as intensive efforts to convert the Army from a division-centric operating force to a more scalable brigade-centric force. This concept, known as modularity, generates high equipment requirements. Satisfying these requirements involves a combination of methods, which include resetting equipment used in the extreme desert operating environment to pre-war operating condition and continuing to recapitalize (recap) selected legacy systems to bring them back to near zero-time, zero-miles condition. In addition to the revenue shown in Table 20, the IO activity group received direct appropriations of $60 million in FY 2003 and $113.9 million in FY 2004, and a transfer-in of $99.6 million in FY 2005. This funding supports costs associated with industrial mobilization capacity, which represents equipment and facilities purposely held above peacetime requirements to support mobilization and surge requirements. Direct funding keeps the cost of maintaining this capacity out of the rates charged to mission customers.

Table 20. IO Revenue by Customer ($ millions)

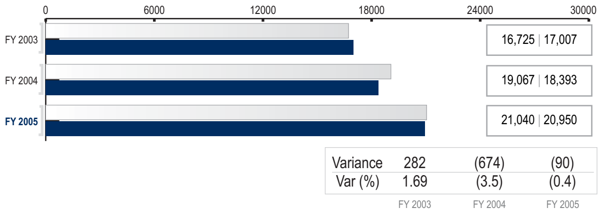
Appropriation	FY 2003	FY 2004	FY 2005
Operations and Maintenance, Army	$978.5	$1,512.3	$1,752.5
Army Procurement	305.2	332.2	699.7
AWCF	1,101.9	1,007.3	1,335.3
Other Army	36.6	127.7	176.2
Other Services	79.1	236.2	265.7
Other DoD	258.3	261.7	93.9
Foreign Military Sales	34.3	46.8	68.9
Non-DoD	31.4	46.0	59.7
Total Revenue	**$2,825.3**	**$3,570.2**	**$4,451.9**

A key objective of the Army is to have the correct number of appropriately skilled people in the right places to meet customer workload demands. As reflected in Figure 15, the workforce continues to expand to meet this objective. These workforce requirements are supported by the Army workload and performance system, which is a model designed to help AWCF activities staff their operations appropriately for the workload. In FY 2005, activities used both permanent and non-permanent sources of labor, multiple shifts, and additional overtime to help meet increasing customer requirements.

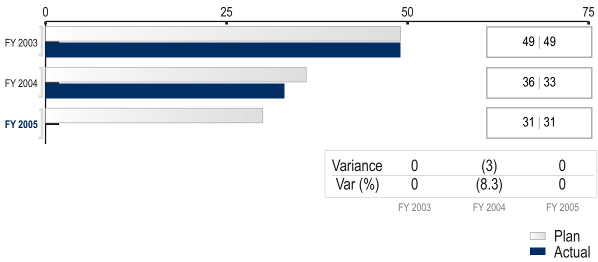
Four M-1 Abrams tanks are in various stages of upgrade on the reassembly line at Anniston Army Depot Combat Vehicle Facility.

Figure 15. IO Personnel Indicators

Civilian Full-Time Equivalents



Military End Strength



Performance Measures

Financial Performance

Financial performance measures include cost per direct labor hour, revenue, cost of goods sold, accumulated operating results, customer revenue rate, capital investment, and cash management.

Cost per Direct Labor Hour. The cost per direct labor hour (DLH) is computed by taking the sum of all labor and non-labor expenses (direct, indirect, and general and administrative (G&A)), plus the change in work in process, and dividing that sum by the total number of DLHs worked during the fiscal year. This calculation is also known as the unit cost, which reflects macro-level changes in the cost of providing goods and services.

Table 21. IO Cost per Direct Labor Hour

	FY 2003	FY 2004	FY 2005
	Actual	Actual	Actual
Cost per Direct Labor Hour	$152.0	$150.3	$156.3
Change from Prior Year (%)	(0.81%)	(1.2%)	4%
Direct Labor Hours (thousands)	18,552	23,072	27,897

Financial Operating Measures. Under the full-cost recovery concept, stabilized rates are set to cover all costs and produce a zero accumulated operating result (AOR) at the end of the fiscal year. The rates are stabilized so that customers' programs will not be affected during execution, even though the actual costs of the AWCF activity may be higher or lower than planned. They are included in the President's Budget, published approximately eight months in advance of the year of execution.

During execution, the IO activity group may experience either a positive or negative net operating result (NOR). The gain or loss shown in the NOR is added to the AOR from past years. Deviations from the plan impact the IO activity group to the extent that an unplanned gain or loss must be included in the following year's rates to bring the AOR to zero. Any change in rates may result in an increase or decrease in the customer buying power.

Table 22 shows financial operating measures for the past three fiscal years. FY 2005 revenue and costs were

Table 22. IO Financial Operation Measures ($ millions)

	FY 2003		FY 2004		FY 2005	
	Plan	Actual	Plan	Actual	Plan	Actual
Revenue	$2,340.3	$2,885.2	$4,087.9	$3,684.1	$4,625.5	$4,551.5
Cost of Goods Sold	2,358.2	2,820.8	4,107.6	3,466.6	4464.4	$4,361.2
Operating Results	(17.9)	64.4	(19.7)	217.5	161.1	$190.3
(less Cash Surcharge)	0.4	0.7	0.5	0.6	0.3	($0.3)
(less Extraordinary Items)	0.0	0.0	0.0	0.0	0.0	$0.0
Net Operating Results	(18.3)	63.7	(20.2)	216.9	160.8	$190.0
Beginning AOR	135.7	142.6	213.9	213.9	455.2	$455.2
(less Adjustments)	0.0	7.6	(74.7)	24.4	(124.7)	$1.9
Beginning AOR Adjusted	135.7	150.2	139.2	238.3	330.5	$457.0
AOR (NOR plus adjusted AOR)	$117.4	$213.9	$119.0	$455.2	$491.3	$647.0

$4.5 billion and $4.4 billion respectively. FY 2005 variance from plan was low at minus 2 percent, which is a remarkable achievement given the number of installations and spectrum of production lines involved.

Customer Revenue Rate. Customer revenue rates are set per DLH and are stabilized so that the customer's buying power is protected in the year of execution. Table 23 shows the composite stabilized revenue rates per DLH. Because the Depot Maintenance and Ordnance activity groups were merged into the IO activity group in FY 2005, consolidated rates are not available for FY 2003 and FY 2004. Therefore, the separate revenue rates are shown for those years.

Table 23. IO Stabilized Rates

Direct Labor Rate	FY 2003	FY 2004	FY 2005
Depot Maintenance			
Customer Revenue Rate ($)	133.80	144.91	NA
Customer Rate Change (%)	7.4%	8.3%	NA
Ordnance			
Customer Revenue Rate ($)	69.07	70.05	NA
Customer Rate Change (%)	(27.0%)	1.4%	NA
Industrial Operations			
Customer Revenue Rate ($)	NA	NA	129.57
Customer Rate Change (%)	NA	NA	NA

Capital Investment. The AWCF capital investment threshold is $100,000. Any items purchased at or above the threshold are capitalized and then depreciated through the operating budget.

The activity group seeks to maintain and develop capabilities through capital acquisition of new equipment and minor construction projects. The capital investment program provides a way to replace worn and obsolete equipment, to eliminate environmental hazards, and to increase throughput via enhanced productivity.

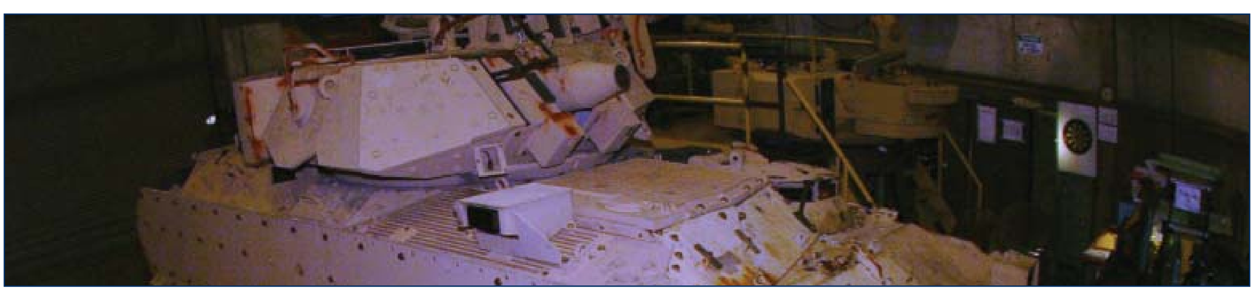
Table 24 represents capital obligation authority. Selected FY 2005 highlights include $39.4 million for new facility equipment to repair, rebuild, and test reciprocating engines at Anniston Army Depot; $18.9 million to replace obsolete Patriot missile test station equipment ensuring missile reliability at Red River Army Depot; and $9.1 million to conduct non-destructive tests of flight critical parts at Corpus Christi Army Depot. The FY 2005 capital budget is higher than FY 2003 and FY 2004 based on the increasing volume of work being performed in the organic industrial base in support of wartime workload.

Table 24. IO Capital Budget ($ millions)

Category	FY 2003	FY 2004	FY 2005
Equipment	$40.8	$41.9	$114.6
Minor Construction	4.5	15.3	17.7
ADPE and Telecom	0.0	2.6	3.6
Software	21.3	20.9	17.8
Total	**$66.6**	**$80.7**	**$153.7**

Cash Management.

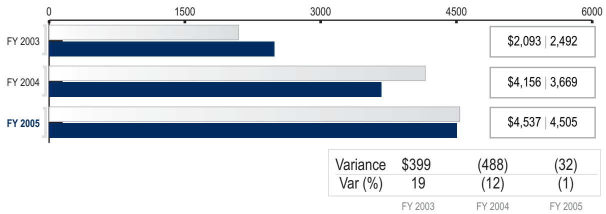
The Army manages AWCF cash at the corporate level maintaining a single merged account for both SMA and IO. The performance of individual activity groups is measured against planned collections, disbursements, and outlays rather than in terms of cash balances. IO collections and disbursements in FY 2005 were $4.5 billion each. Outlays exceeded the plan by $51.3 million as installations pre-positioned a significant amount of spare parts in support of repair and manufacturing programs to help preclude breaks in production.



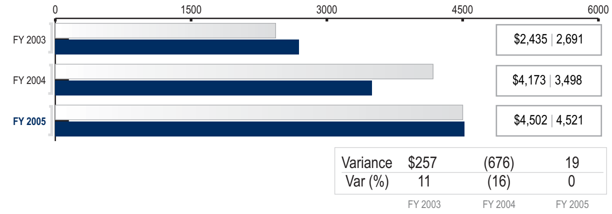
Bradley manufacturing division at Red River Army Depot, Texarkana, Texas. (by Staff Sgt. Reeba Critser)

Figure 16. IO Cash Management ($ millions)

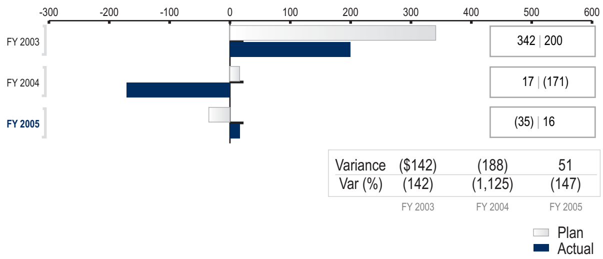
Collections ($ millions)



Disbursements ($ millions)



Outlays ($ millions)



Ammunition Short Tons

Ammunition short tons is a measure of the amount of short tons (2,000 pounds) of ordnance received, issued, or demilitarized. Based on standards at the installations, this figure has a direct correlation to personnel, funding, and rates (see Table 26).

Program Performance

Program performance measures include production output, schedule conformance, and ammunition short tons received, issued, or demilitarized.

Table 25 lists the quantity and customer price for representative items over the last three fiscal years. The table highlights a specific repair item at each maintenance depot. Prices indicated are per unit prices. Fluctuations are attributable primarily to changes in direct materiel costs.

Table 26. Ammunition Short Tons

	FY 2003	FY 2004	FY 2005		
	Actual	Actual	Plan	Actual	Variance (%)
Receipts	162,395	257,744	136,635	214,066	56%
Issues	202,655	198,661	152,500	192,066	26%
Demilitarized	19,780	19,806	20,797	23,348	12%

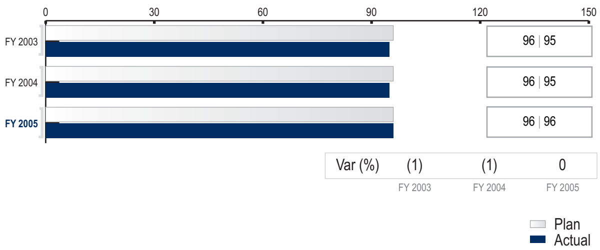
Table 25. IO Production Output

	FY 2003		FY 2004		FY 2005			
Maintenance Item (Installation)	Actual Quantity	Unit Price ($)	Actual Quantity	Unit Price ($)	Proposed Quantity	Actual Quantity	Deviation (%)	Unit Price ($)
Engine, Turbine, T701C (Anniston)	560	$149,848	355	$213,776	153	188	23%	$287,060
Engine, Turbine, T700-GE (Corpus Christi)	55	$264,751	130	$258,972	144	185	28%	$265,793
Patriot Launcher (Letterkenny)	40	$699,575	40	$653,725	34	34	0	$581,804
Wheel, Solid Rubber (Red River)*	8,945	$208	8,975	$214	19,868	13,580	(32)	$263
Visual Display Unit, AH64 (Tobyhanna)	49	$8,438	60	$8,755	100	100	0	$9,411

**The quantities and unit prices reflected for Red River are for 26x6 road wheels only.*

Schedule Conformance. This performance measure records the number of units completed on schedule as a percentage of the number of units scheduled. Units completed include both major end items and secondary items (reparable parts) (see Figure 17).

Figure 17. IO Schedule Conformance (percentage)



Future Effects of Existing Conditions

Cash Corpus

Over the past two years, in FY 2004 with congressional notification and in FY 2005 with congressional approval, the Army has transferred $2.0 billion from the AWCF to the OMA account. The AWCF is required to maintain cash only in the amount that is needed for current operations. These transfers were made in support of higher priority items, based on unforeseen military requirements, stemming from the GWOT. The cash was excess to current requirements of the AWCF. Funds will need to be returned in future years as operations are drawn down and the fund returns to peacetime operations. The cash may be replenished by either a direct appropriation to the AWCF or by adding a cash surcharge to the rates.

Advancing the President's Management Agenda

The President's management agenda has great relevance in the logistics arena. By improving their management efficiency, all AWCF activities should be able to lower the rates they charge to customers.

Improved Financial Performance

Rapid Improvement Event (RIE) Initiatives

In FY 2005, the AWCF initiated a value stream analysis process to assess inefficiencies and redundancies in the supply requirements determination process, the price/credit and repair process, and the budget stratification processes. As a result, several RIEs have been conducted to develop ways to improve these processes notably by streamlining the requirements determination process and the price/credit process used to determine customer prices and obligation authority requirements for AWCF inventory. Many of these new initiatives will be implemented beginning in FY 2006. The RIE teams continue to create meaningful dialogue between all stakeholders and identify critical areas to be addressed. As these RIE teams work through the process and identify more efficient ways of doing business, these solutions will be implemented.

Lean/Six Sigma

In recent years, the Army has begun implementing Lean/Six Sigma to re-engineer many of its manufacturing and administrative processes. This year, tangible and measurable benefits have been realized as Lean/Six Sigma implementations mature, particularly in the manufacturing, recapitalization, maintenance, and repair facilities operated by AMC, which is leading the execution of the program. Lean/Six Sigma initiatives are designed to streamline operations across the enterprise, reduce bureaucracy, and improve flexibility and agility. Process improvements have resulted in millions of dollars of savings that will be passed back directly to customers in the form of reduced costs and/or more production output.

Letterkenny Army Depot. Prior to Lean/Six Sigma, approximately 8,000 Patriot air defense missile system components were processed per month in the directorate of maintenance. Following the Lean/Six Sigma implementation, throughput and productivity significantly increased. During 2004, with OIF mission surge, parts volume increased to about 20,000 parts per month without having to add personnel. During 2005, three additional workers were hired as the parts volume rose to a high of 36,912 parts in March 2005 – a productivity increase of 312 percent when factoring in the added manpower. Process quality improved to the point in March 2005 when zero rejects were recorded and, during the six month period of November 2003 through April 2005, only nine external rejects were recorded equating to a 99.993 percent quality rating.

Red River Army Depot. The High Mobility Multipurpose Wheeled Vehicle (HMMWV) recapitalization production line was averaging just three vehicles weekly and required over 400 man-hours per vehicle in July 2004. In June 2005, the HMMWV team was producing 84 vehicles a week, with a new one-day record of 21 vehicles produced in a 10 hour work shift.

Vice Chief of Staff Gen. Richard A. Cody looks at the finished uparmor kits produced by the employees at Red River Army Depot, Texarkana, Texas. (by Staff Sgt. Reeba Critser)

Corpus Christi Army Depot. Corpus Christi Army Depot (CCAD) has used Lean/Six Sigma to reduce by more than half the amount of time it takes to recapitalize the Black Hawk and Apache helicopter T-700 engines. In 2000, it took more than 260 days to disassemble one T-700 engine and reassemble it with new parts; CCAD now averages only 81 days and the total annual number of units shipped has increased from 520 to 1344 over the same period.

Anniston Army Depot. A Lean/Six Sigma implementation on the M88 assembly line has increased production from eight vehicles per month to 12 vehicles per month.

Expand Electronic Government

Single Army Logistics Enterprise

The Single Army Logistics Enterprise (SALE) involves integrating several modernizing initiatives, including LMP, the Global Combat Support System-Army (GCSS-Army) (Field/Tactical), and GCSS-Army (Product Lifecycle Management Plus) within the DoD Future Logistics Enterprise (FLE). The FLE, which is also commonly referred to as business enterprise architecture (BEA)-logistics, or BEA-LOG, has six principal components: total lifecycle systems management (TLCSM), end-to-end customer support, condition-based maintenance, depot partnering, executive agency, and enterprise integration. All services must ensure that their enterprise integration efforts and architectures are in concert with the FLE/BEA-LOG, which in turn maps to the BEA. The desired outcome is that within DoD, all services and the Defense Logistics Agency (DLA) will operate a single integrated solution whose technical and functional architecture supports the warfighter.

The central objective of the SALE is to develop a fully integrated knowledge environment that builds and sustains warfighting capability. Logistics, financial, acquisition, and product data will be brought together in an environment that operates in a near seamless fashion from the Soldier, to the major Army command, to Army headquarters, across DoD, and across industry. Business systems will capture and integrate data flowing from automatic identification technology and embedded weapons system diagnostics, and will make these data available to logisticians, system engineers, and warfighters.

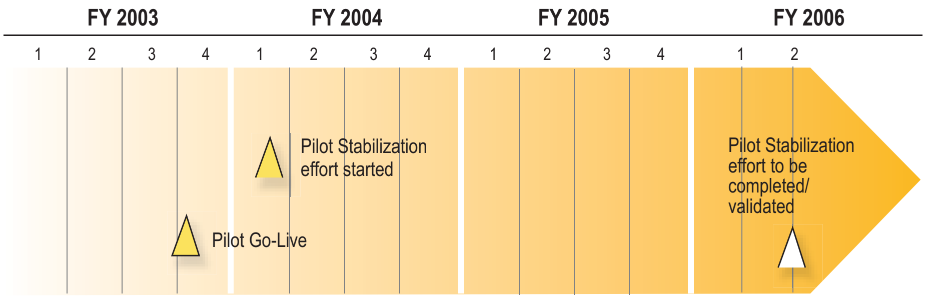
The Army has adopted an incremental approach to delivering SALE capabilities as quickly as possible to its Soldiers. The SALE strategy consists of four phases. Today, in phase 1, the Army is enhancing its current logistics legacy systems at the tactical level in support of modularity. Simultaneously, the Army is fielding the Logistics Modernization Program (LMP) at the national level through FY 2007. In phase 2, projected in the FY 2007-2008 timeframe, the Army will include the fielding of the modernized tactical level, enterprise resource planning (ERP) programs: Global Combat Support System (Field/Tactical) and GCSS-Army (Product Lifecycle Management Plus) along with delivering LMP to the installation level. In phases 3 and 4 the Army will accelerate the elimination of interfaces and integrate logistics functions more clearly into one SALE – providing even greater capability to sustain the combat readiness of deployed forces.

Logistics Modernization Program

The LMP, a key component of Army transformation, will update the Army's national-level logistics business practices and supporting information technology. The LMP will provide integrated logistics management capabilities such as total asset visibility, a single source of data, better forecasting accuracy, and real-time access to enterprise information. The Army also expects that LMP will improve readiness measurably. AMC initiated the pilot phase in July 2003, as shown in Figure 18. LMP is implemented at CECOM; Headquarters, AMC; and associated DFAS sites. Deployment to AMCOM and associated DFAS sites is scheduled to begin in 2006. The final deployment will be to the remainder of AMC, Army CONUS installations, and OCONUS war reserve and Army prepositioned stocks locations, beginning in 2007.

Figure 18. Logistics Modernization Program

Institutional Risk | Streamline Decision Processes, Financial Management Acquisition Excellence



Pilot
Communications-Electronics Command (CECOM)
HQ Army Materiel Command (AMC)
Tobyhanna Army Depot (TYAD)
Defense Finance & Accounting Service (DFAS)

2nd Deployment
Aviation & Missle Command (AMCOM)
Corpus Christi Army Depot (CCAD)
Letterkenny Army Depot (LEAD)

3rd Deployment
Tank-automotive & Armaments Command (TACOM)
Anniston Army Depot (ANAD)
Red River Army Depot (RRAD)
Army Field Support Command (AFSC)
Joint Munitions Command (JMC)

Description: AIR 13 - Log Modernization Program
Provide the Army with integrated logistics management capabilities such as total asset visibility, a single source or data, improved forecasting accuracy, and realtime access to enterprise information.

Parameter:
Green: On schedule, Yellow: 1 Quarter behind schedule, Red: 2 Quarters behind schedule

Metric: Milestones planned/achieved

Owner: AMC

LMP is in Pilot Stabilization Phase

Making Steady Progress in Correcting Items to Complete This Phase.

Overall LMP is Rated Yellow

- As of 30 July 2004, 584 of 722 items completed (81 percent through Pilot Stabilization).
- Pilot Stabilization/Financial Correction will be completed end of October

*As of September 2005

Photo Credits

Working Capital Fund Opening Photo

Sgt. Matthew Crawford, from the 818th Maintenance Company, 1225th Corps Support Battalion, 917th Corps Support Group, welds armor on a vehicle in Q-West, Iraq. (by Sonise Lumbaca)

Principal Financial Statements, Notes, and Supplementary Information

LIMITATIONS

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the department is unable to implement all elements of the standards due to financial management systems limitations. The department continues to implement system improvements to address these limitations. There are other instances when the department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

Department of Defense - Army Working Capital Fund

CONSOLIDATED BALANCE SHEET

As of September 30, 2005 and 2004 ($ in Thousands)

	2005 Consolidated	2004 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	$ 623,330	$ 948,463
Non-Entity Seized Iraqi Cash	0	0
Non-Entity-Other	0	0
Investments (Note 4)	0	0
Accounts Receivable (Note 5)	366,622	444,923
Other Assets (Note 6)	0	79
Total Intragovernmental Assets	$ 989,952	$ 1,393,465
Cash and Other Monetary Assets (Note 7)	$ 0	$ 0
Accounts Receivable (Note 5)	12,035	13,482
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	15,933,141	13,916,672
General Property, Plant and Equipment (Note 10)	1,228,213	899,438
Investments (Note 4)	0	0
Other Assets (Note 6)	333,741	265,122
TOTAL ASSETS	$ 18,497,082	$ 16,488,179
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 105,603	$ 159,150
Debt (Note 13)	0	0
Other Liabilities (Note 15 & Note 16)	75,579	67,660
Total Intragovernmental Liabilities	$ 181,182	$ 226,810
Accounts Payable (Note 12)	$ 295,820	$ 372,054
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	286,523	304,976
Environmental Liabilities (Note 14)	0	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	642,522	213,452
TOTAL LIABILITIES	$ 1,406,047	$ 1,117,292
NET POSITION		
Unexpended Appropriations	$ 0	$ 53
Cumulative Results of Operations	17,091,035	15,370,834
TOTAL NET POSITION	$ 17,091,035	$ 15,370,887
TOTAL LIABILITIES AND NET POSITION	$ 18,497,082	$ 16,488,179

The accompanying notes are an integral part of these financial statements.

Department of Defense - Army Working Capital Fund

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2005 and 2004 ($ in Thousands)

		2005 Consolidated		2004 Consolidated
Program Costs				
Intragovernmental Gross Costs	$	2,016,164	$	2,847,994
(Less: Intragovernmental Earned Revenue)		(7,556,355)		(8,456,053)
Intragovernmental Net Costs	$	(5,540,191)	$	(5,608,059)
Gross Costs With the Public	$	10,600,436	$	8,161,300
(Less: Earned Revenue From the Public)		(6,918,271)		(4,951,052)
Net Costs With the Public	$	3,682,165	$	3,210,248
Total Net Cost	$	(1,858,026)	$	(2,397,811)
Cost Not Assigned to Programs		0		0
(Less:Earned Revenue Not Attributable to Programs)		0		0
Net Cost of Operations	$	(1,858,026)	$	(2,397,811)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005 and 2004 ($ in Thousands)

		2005 Consolidated		2004 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$	15,370,834	$	13,883,676
Prior Period Adjustments (+/-)				
Changes in Accounting Principles (+/-)		0		0
Correction of Errors (+/-)		0		0
Beginning Balances, as adjusted	$	15,370,834	$	13,883,676
Budgetary Financing Sources:				
Appropriations received		0		0
Appropriations transferred-in/out (+/-)		0		0
Other adjustments (rescissions, etc) (+/-)		0		0
Appropriations used		53		231,207
Nonexchange revenue		0		0
Donations and forfeitures of cash and cash equivalents		0		0
Transfers-in/out without reimbursement (+/-)		(515,944)		(1,448,600)
Other budgetary financing sources (+/-)		0		175,918
Other Financing Sources:				
Donations and forfeitures of property		0		0
Transfers-in/out without reimbursement (+/-)		1		0
Imputed financing from costs absorbed by others		147,135		130,821
Other (+/-)		230,930		0
Total Financing Sources	$	(137,825)	$	(910,654)
Net Cost of Operations (+/-)		(1,858,026)		(2,397,811)
Net Change	$	1,720,201	$	1,487,157
Ending Balance	$	17,091,035	$	15,370,833
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$	53	$	11,960
Prior period adjustments (+/-)				
Changes in Accounting Principles (+/-)		0		0
Correction of Errors (+/-)		0		0
Beginning Balances, as adjusted	$	53	$	11,960
Budgetary Financing Sources:				
Appropriations received		0		219,300
Appropriations transferred-in/out (+/-)		0		0
Other adjustments (rescissions, etc) (+/-)		0		0
Appropriations used		(53)		(231,207)
Nonexchange revenue		0		0
Donations and forfeitures of cash and cash equivalents		0		0
Transfers-in/out without reimbursement (+/-)		0		0
Other budgetary financing sources (+/-)		0		0
Other Financing Sources:				
Donations and forfeitures of property		0		0
Transfers-in/out without reimbursement (+/-)		0		0
Imputed financing from costs absorbed by others		0		0
Other (+/-)		0		0
Total Financing Sources	$	(53)	$	(11,907)
Net Cost of Operations (+/-)				
Net Change		(53)		(11,907)
Ending Balance	$	0	$	53

The accompanying notes are an integral part of these financial statements.

Department of Defense - Army Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2005 Combined	2004 Combined	2005 Combined	2004 Combined
BUDGETARY RESOURCES				
Budget Authority:				
Appropriations received	$ 0	$ 219,300	$ 0	$ 0
Borrowing authority	0	0	0	0
Contract authority	10,951,904	2,106,368	0	0
Net transfers (+/-)	0	(1,448,600)	0	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	1,530,242	2,093,703	0	0
Net transfers, actual (+/-)	(515,944)	0	0	0
Anticipated Transfers Balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	14,180,280	12,265,860	0	0
Receivable from Federal sources	(29,369)	(53,776)	0	0
Change in unfilled customer orders	0	0	0	0
Advance received	19,271	(17,246)	0	0
Without advance from Federal sources	(774,190)	(128,900)	0	0
Anticipated for the rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Transfers for trust funds	0	0	0	0
Subtotal	$ 13,395,992	$ 12,065,938	$ 0	$ 0
Recoveries of prior year obligations	1,435,592	499,733	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(8,798,841)	0	0	0
Total Budgetary Resources	$ 17,998,945	$ 15,536,442	$ 0	$ 0
STATUS OF BUDGETARY RESOURCES				
Obligations incurred:				
Direct	$ 0	$ 0	$ 0	$ 0
Reimbursable	16,822,445	14,006,202	0	0
Subtotal	$ 16,822,445	$ 14,006,202	$ 0	$ 0
Unobligated balance:				
Apportioned	1,176,499	1,530,241	0	0
Exempt from apportionment	0	0	0	0
Other available	1	(1)	0	0
Unobligated Balances Not Available	0	0	0	0
Total, Status of Budgetary Resources	$ 17,998,945	$ 15,536,442	$ 0	$ 0
Relationship of Obligations to Outlays:				
Obligated Balance, Net - beginning of period	$ 3,968,080	$ 1,898,332	$ 0	$ 0
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(433,233)	(462,602)	0	0
Unfilled customer order from Federal sources	(3,748,523)	(4,522,713)	0	0
Undelivered orders	9,775,648	8,334,654	0	0
Accounts payable	555,861	618,741	0	0
Outlays:				
Disbursements	14,008,740	11,619,397	0	0
Collections	(14,199,551)	(12,248,614)	0	0
Subtotal	$ (190,811)	$ (629,217)	$ 0	$ 0
Less: Offsetting receipts	0	0	0	0
Net Outlays	$ (190,811)	$ (629,217)	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

Department of Defense - Army Working Capital Fund

CONSOLIDATED STATEMENT OF FINANCING

As of September 30, 2005 and 2004 ($ in Thousands)

		2005 Consolidated		2004 Consolidated
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations incurred	$	16,822,445	$	14,006,202
Less: Spending authority from offsetting collections and recoveries (-)		(14,831,585)		(12,565,671)
Obligations net of offsetting collections and recoveries	$	1,990,860	$	1,440,531
Less: Offsetting receipts (-)		0		0
Net obligations	$	1,990,860	$	1,440,531
Other Resources				
Donations and forfeitures of property		0		0
Transfers in/out without reimbursement (+/-)		1		0
Imputed financing from costs absorbed by others		147,135		130,821
Other (+/-)		230,930		0
Net other resources used to finance activities	$	378,066	$	130,821
Total resources used to finance activities	$	2,368,926	$	1,571,352
Resources Used to Finance Items not Part of the Net Cost of Operations				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered Orders (-)	$	(1,514,883)	$	(2,497,681)
Unfilled Customer Orders		(754,919)		(146,147)
Resources that fund expenses recognized in prior periods		(21,283)		(23,337)
Budgetary offsetting collections and receipts that do not affect net cost of operations		0		0
Resources that finance the acquisition of assets		(7,998,974)		(6,214,549)
Other resources or adjustments to net obligated resources that do not affect net cost of operations				
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)		0		0
Other (+/-)		(230,931)		6,872
Total resources used to finance items not part of the net cost of operations	$	(10,520,990)	$	(8,874,842)
Total resources used to finance the net cost of operations	$	(8,152,064)	$	(7,303,490)
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
Increase in annual leave liability	$	28,898	$	1,376
Increase in environmental and disposal liability		0		0
Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
Increase in exchange revenue receivable from the the public (-)		0		0
Other (+/-)		0		172
Total components of Net Cost of Operations that will require or generate resources in future periods	$	28,898	$	1,548
Components not Requiring or Generating Resources:				
Depreciation and amortization		95,884		82,909
Revaluation of assets or liabilities (+/-)		699,913		257,468
Other (+/-)				
Trust Fund Exchange Revenue		0		0
Cost of Goods Sold		6,025,370		5,003,845
Operating Material & Supplies Used		0		0
Other		(556,029)		(440,090)
Total components of Net Cost of Operations that will not require or generate resources	$	6,265,138	$	4,904,132
Total components of net cost of operations that will not require or generate resources in the current period	$	6,294,036	$	4,905,680
Net Cost of Operations	$	(1,858,028)	$	(2,397,810)

The accompanying notes are an integral part of these financial statements.

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

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

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

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

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

1.B. Mission of the Reporting Entity

The AWCF is part of the Defense Working Capital Fund, and is divided into two separate business areas: Supply Management and Industrial Operations. In October 2004, the Depot Maintenance and Ordnance business areas were consolidated into what is now Industrial Operations. These business areas ensure delivery of critical items, such as petroleum products, repair parts, consumable supplies, depot maintenance services, munitions and weapons to support the deployment and projection of lethal force as and when required by the nation.

1.C. Appropriations and Funds

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

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

1.D. Basis of Accounting

The AWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. For FY 2005, the AWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the AWCF financial and non-financial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

The AWCF has undertaken efforts to determine the actions required to bring all of its financial and non-financial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). At this time, not all AWCF accounting systems are USSGL compliant. In addition, with the full implementation of the Logistics Modernization Program (LMP), the AWCF will be in compliance with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." As of December 31, 2003, LMP has been implemented at Tobyhanna Army Depot, Communications and Electronics Command, and other Army Materiel Command activities. Until LMP is fully implemented and all of the processes are updated to collect and report financial information as required by Federal GAAP, some of the AWCF financial data will be based on budgetary transactions (obligations, disbursements, collections), and non-financial feeder systems. For example, most financial information presented on the Statement of Net Costs is based on accrued costs; however, some of the financial information is based on obligations and disbursements.

In addition, the Army identifies programs based upon the major appropriation groups provided by Congress. The Army does not, however, accumulate costs for major programs based on performance measures because its financial processes and systems do not account for costs in line with established measures. The Army is reviewing available data and attempting to develop a cost reporting methodology that provides the cost information required by the 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

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

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

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the AWCF financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses and accounts payable. Expenditures for capital and other long-term assets are not recognized as expenses in the AWCF operations until depreciated as in the case of property, plant and equipment (PP&E). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual leave earned but not taken, are recognized in the period in which payments are made.

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

1.G. Accounting for Intragovernmental Activities

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

The AWCF proportionate share of public debt and related expenses of the Federal government are not included. Debt issued by the Federal government and the related costs are not apportioned to federal agencies. The AWCF financial statements, therefore, do not report any portion of the public debt or interest, nor do the financial statements report the source of public financing whether from issuance of debt or tax revenues.

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

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

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

The AWCF financial resources are maintained in U.S. Treasury accounts. DFAS, Military Services, U.S. Army Corps of Engineers (USACE) disbursing stations as well as the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments for the Federal government worldwide. Each disbursing station prepares monthly reports, 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 AWCF and Treasury's records sometime result and are subsequently reconciled. Material disclosures are provided in Note 3. Differences between accounting offices' detail-level records and Treasury FBWT accounts are disclosed in Note 3, Fund Balance With Treasury, specifically differences caused by in-transit disbursements and unmatched disbursements which are not recorded in the accounting offices' detail-level records.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivables from other federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise from the provision of goods and services to state, local, and foreign governments. Refunds receivable, however, are overpayments by the Federal government in the process of being collected. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances by fund type. The AWCF recognizes an allowance of 50 percent for all non-federal debt between 180 days and two years old and a 100 percent allowance for all non-federal debt over two years old. The allowance is updated annually, based on the aged accounts receivable at the end of the 2nd Quarter. The AWCF does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided in Note 5, Accounts Receivable.

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

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

Act of 1996. The AWCF transition to LMP will also allow the use of a MAC methodology for valuing inventory that, when fully implemented, will allow the AWCF to comply with SFFAS No. 3. (See Note 9, Inventory and Related Property)

SFFAS No. 3 distinguishes between inventory held for sale and inventory held in reserve for future sale. There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The AWCF holds material based on military need and support for contingencies. Therefore, the AWCF does not attempt to account separately for items held for current or future sale.

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

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

1.N Investments in U.S. Treasury Securities

Not applicable.

1.O. General Property, Plant and Equipment

General Property, Plant & Equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100 thousand. Also, improvement costs over the DoD capitalization threshold of $100,000 for General PP&E are required to be capitalized. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

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

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

Internal use software is capitalized at cost if the acquisition cost is $100 thousand or more. For commercial off-the-shelf software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life for calculating amortization of software is two to five years using the straight-line method.

1.P. Advances and Prepayments

The AWCF records payments made prior to the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

1.Q. Leases
Not applicable.

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

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

1.S. Contingencies and Other Liabilities
The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the AWCF. 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 there is 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.

1.T. Accrued Leave
Civilian annual 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 for AWCF represents the excess of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception.

1.V. Treaties for Use of Foreign Bases
Not applicable.

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for the FY 2005. Financial statement fluctuations greater than two percent of total assets on the Balance Sheet and/or greater than ten percent between FY 2004 and FY 2005 are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

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

1.Y. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the 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. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The AWCF follows this procedure.

1.Z. Logistics Modernization Program (LMP) Issues

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

Note 2. Nonentity Assets

As of September 30	2005		2004	
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	0	$	0
B. Investments		0		0
C. Accounts Receivable		0		0
D. Other Assets		0		0
E. Total Intragovernmental Assets	$	0	$	0
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	$	0	$	0
B. Accounts Receivable		0		0
C. Loans Receivable		0		0
D. Inventory & Related Property		0		0
E. General PP&E		0		0
F. Investments		0		0
G. Other Assets		0		0
H. Total Nonfederal Assets	$	0	$	0
3. Total Nonentity Assets	$	0	$	0
4. Total Entity Assets	$	18,497,082	$	16,488,179
5. Total Assets	$	18,497,082	$	16,488,179

Assets are categorized as:

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

Entity assets are resources that the AWCF has the authority to use or where management is legally obligated to use funds to meet entity obligations.

Fluctuations and/or Abnormalities

Total Assets increased $2.0 billion, or 12 percent, from FY 2004 to FY 2005. This increase is due primarily to increases in general property plant and equipment and inventory in FY 2005.

Note Reference

For additional line item discussion, see:

Note 3, Fund Balance With Treasury
Note 5, Accounts Receivable
Note 6, Other Assets
Note 9, Inventory and Related Property
Note 10, General PPE, Net

Note 3. Fund Balance with Treasury

As of September 30	2005	2004
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 0	$ 53
B. Revolving Funds	623,330	948,410
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	$ 623,330	$ 948,463
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 623,330	$ 948,463
B. Fund Balance per AWCF	623,330	948,463
3. Reconciling Amount	$ 0	$ 0

Fluctuations and/or Abnormalities

Appropriated Funds decreased $53 thousand, or 100 percent, from FY 2004 to FY 2005 due to Office of the Secretary of Defense guidance stating that all Working Capital Fund, Fund Balance With Treasury Appropriated Funds should be reported as Revolving Funds.

Revolving funds decreased $325.1 million or 34 percent, from FY 2004 to FY 2005. During FY 2005 the AWCF did not receive direct appropriations. However, the AWCF did receive transfers in of budgetary resources of $84.4 million for war reserves and $99.6 million received for industrial mobilization capacity, totaling $184.1 million in accordance with the DoD Appropriations Act, 2005, P.L. 108-287. The AWCF transferred out $250.0 million to the Army General Fund, Operations and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action FY 05-27 PA and $450.0 million to the Army General Fund, Operations and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action FY 05-47 PA.

Other disclosures

Defense Finance and Accounting Service increased field-reported data by $183 thousand to agree with the FBWT reported on the Treasury trial balance.

The deposit differences are reconcilable differences reported by the Treasury or the Army. The Army has no deposit differences greater than 180 days old as of September 30, 2005.

The Intragovernmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by the Treasury but not reported by the organization. The Army had no IPAC differences greater than 180 days old as of September 30, 2005.

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

Note Reference

For additional line item discussion, see:

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

Status of Fund Balance with Treasury

As of September 30	2005	2004
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 1,176,499	$ 1,530,240
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	$ 10,331,508	$ 8,953,395
3. Non-Budgetary FBWT	$ 0	$ 0
4. Non-FBWT Budgetary Accounts	$ (10,884,677)	$ (9,535,172)
5. Total	$ 623,330	$ 948,463

Unobligated Balance Available represents the budgetary resources from contract authority, reimbursable orders, appropriations, and transfers in of budgetary resources that have not yet been obligated.

Unobligated balance available decreased $353.7 million, or 23 percent from FY 2004 to FY 2005 as the AWCF obligated projects in FY 2005 from FY 2004 reimbursable orders.

The Obligated Balance not yet Disbursed increased $1.4 billion or 15 percent. The increase is attributable to increased undelivered orders in support of contingency missions Operation Enduring Freedom, Operation Iraqi Freedom and Noble Eagle.

Non-FBWT Budgetary Accounts increased $1.3 billion, or 14 percent. During FY 2005, the AWCF received authority to incur obligations exceeding earnings in the Supply Management Business to support anticipated operational requirements in support of contingency missions Operation Enduring Freedom, Operation Iraqi Freedom and Noble Eagle.

Disclosures Related to Suspense/Budget Clearing Accounts

Not applicable.

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

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of September 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
(Amounts in thousands)				
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDS)	$ 46,298	$ 25,484	$ 10,064	$ (15,420)
B. Negative Unliquidated Obligations (NULO)	2,850	3,810	3,773	(37)
2. Total In-transit Disbursements, Net	$ 69,687	$ 135,730	$ 94,626	$ (41,104)

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 absolute value UMDs, NULOs, and $1.8 million 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 identified 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.

Note 4. Investments and Related Interest

Not applicable.

Note 5. Accounts Receivable

As of September 30	2005 Gross Amount Due	2005 Allowance For Estimated Uncollectibles	2005 Accounts Receivable, Net	2004 Accounts Receivable, Net
(Amounts in thousands)				
1. Intragovernmental Receivables	$ 366,622	N/A	$ 366,622	$ 444,923
2. Nonfederal Receivables (From the Public)	$ 18,732	$ (6,697)	$ 12,035	$ 13,482
3. Total Accounts Receivable	$ 385,354	$ (6,697)	$ 378,657	$ 458,405

Allowance method:

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

Fluctuations and/or Abnormalities

Intragovernmental Receivables decreased $78.3 million, or 18 percent from FY 2004 to FY 2005. The majority of the decrease is attributable to the Supply Management business area. For FY 2005, the Defense Finance and Accounting Service (DFAS) extended the billing cycle cutoff dates for the Commodity Command Standard System (CCSS), thereby accelerating automated collection of accounts receivable.

Non Federal Receivables, Net decrease $1.4 million or 11 percent from FY 2004 to FY 2005. The decrease is primarily attributable to increased efforts to reduce delinquent debt during FY 2005.

Other Disclosures

The DoD policy is to allocate supported undistributed collections between intragovernmental and non-federal categories based on the percentage of each category of receivables. A review of data for the previous twelve months found no transactions for undistributed collections involving a non-federal entity. Therefore, all undistributed collections are assigned to federal entities.

For FY 2005, the AWCF reported unsupported undistributed collections of $891 thousand. These collections are reported as a Liability for Deposit Funds, Clearing Funds, and Undeposited Collections, as required by the DFAS-Arlington year-end guidance.

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

Intragovernmental accounts receivable include $5.3 million in receivables over 180 days old which is less than one percent of the total intragovernmental accounts receivable.

Non-federal accounts receivable includes $5.0 million over 180 days old. Of this amount, $4.0 million was for contractor debt. The remaining amount is due to Non-Appropriated Fund Instrumentalities and Individual Out-of-Service debt.

For FY 2005, AWCF reported non-federal refunds receivable of $2.0 million.

Note Reference

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

Note 6. Other Assets

As of September 30	2005	2004
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 0	$ 79
B. Total Intragovernmental Other Assets	$ 0	$ 79
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 331,500	$ 262,338
B. Other Assets (With the Public)	2,241	2,784
C. Total Nonfederal Other Assets	$ 333,741	$ 265,122
3. Total Other Assets	$ 333,741	$ 265,201

Fluctuations and/or Abnormalities

Intragovernmental advances and prepayments decreased by $79 thousand, or 100 percent, from FY 2004 to FY 2005. This account balance is dictated by trading partner reports of unearned revenue made by other DoD entities.

Outstanding Contract Financing Payments increased $69.2 million or 26 percent. The majority of the increase is attributable to payments made for contracts initiated by the Communications and Electronic Command (CECOM).

Other Assets (With the Public) decreased $543 thousand, or 20 percent, from FY 2004 to FY 2005. The majority of this amount is attributable to a decrease in Prepayments of $511 thousand.

Non-Federal Other Assets - Other Assets (With the Public)
(Amounts in thousands)

Type of Assets	2005	2004
Advances to Others:		
Contractor Advance	$2,012	$2,010
Travel Advances	39	73
Prepayments	190	701
Totals	$2,241	$2,784

Advances and Prepayments

In accordance with DoD elimination guidance, the FY 2005 AWCF intragovernmental advances to others balance increased by $6.0 million to agree with seller-side unearned revenue from other DoD reporting entities. The note also reflects $6.0 million in elimination entries within the AWCF, leaving a zero balance.

Note Reference

For additional line item discussion, see:
Note 1.R, Other Assets

Note 7. Cash and Other Monetary Assets

Not applicable.

Note 8. Direct Loan and/or Loan Guarantee Programs

Not applicable.

Note 9. Inventory and Related Property

As of September 30	2005	2004
(Amounts in thousands)		
1. Inventory, Net	$ 15,933,141	$ 13,916,672
2. Operating Materials & Supplies, Net	0	0
3. Stockpile Materials, Net	0	0
4. Total	$ 15,933,141	$ 13,916,672

9.A. Inventory, Net

As of September 30	2005			2004	
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valuation Method
(Amounts in thousands)					
1. Inventory Categories					
A. Available and Purchased for Resale	$ 17,507,575	$ (4,118,134)	13,389,441	$ 12,467,075	LAC,MAC
B. Held for Repair	3,762,831	(1,244,899)	2,517,932	1,428,303	LAC,MAC
C. Excess, Obsolete, and Unserviceable	577,538	(577,538)	0	0	NRV
D. Raw Materials	25,768	0	25,768	21,294	MAC,SP,LAC
E. Work in Process	0	0	0	0	AC
F. Total	$ 21,873,712	$ (5,940,571)	15,933,141	$ 13,916,672	

Legend for Valuation Methods:

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

Restrictions of Inventory Use, Sale, or Disposition:

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

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

Definitions

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

Inventory held for repair – damaged material that requires repair to make it usable.

Excess, obsolete, and unserviceable inventory – condemned materiel that must be retained for management purposes.

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

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

Future Sales

In addition to the account balances shown in Table 9.A., Federal Generally Accepted Accounting Principles require disclosure of the amount of inventory held for future sale. The Army Working Capital Fund (AWCF) estimates that all of the Inventory Held for Sale will be sold within 24 months from the end of FY 2005.

Fluctuations/Abnormalities

Total inventory increased $2.0 billion, or 14 percent, from FY 2004 to FY 2005. This increase is detailed in the paragraphs below.

The Inventory Available and Purchased for Resale increased $922.4 million, or 7 percent, from FY 2004 to FY 2005. The increase is attributable to requirements for increased stockage levels in FY 2006.

The Inventory Held for Repair increased $1.1 billion, or 76 percent, from FY 2004 to FY 2005. The increase is due to an increase in the volume of returned items needing repair in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Raw Materials increased $4.5 million, or 21 percent, from FY 2004 to FY 2005. This increase is primarily attributable to increased purchases of raw materials needed to complete orders at Tobyhanna Army Depot.

Other disclosures

The AWCF began transitioning to the Logistics Modernization Program (LMP) during June 2003. Therefore, not all AWCF inventory reported is valued under the same method. Inventory at Tobyhanna Army Depot, Communications-Electronics Command, and other Army Materiel Command (AMC) activities using LMP is valued at MAC. The remainder of the AWCF inventory is valued at LAC.

The AWCF expects to be fully converted to Moving Average Costing for Inventory Items with full deployment of LMP, which is currently scheduled for Round 3 (Final deployment) in September 2007. However, per recent GAO recommendations, until LMP addresses certain systemic problems related to data conversion, etc., Round 3 deployment has been delayed.

The Commodity Command Standard System (CCSS) inventory reported as Available and Purchased for Resale includes a net upward adjustment of $3.0 billion to bring financial records into agreement with the logistics records. Some transactions are not passing from logistical records to financial records. Upon replacement of CCSS with LMP, this adjustment should no longer be required.

Note Reference

For additional line item discussion, see:

Note 18, Disclosures Related to the Statement of Net Cost

Operating Materials and Supplies, Net

Not applicable.

The AWCF expenses rather than capitalizes OM&S because it is normally used within a year of purchase.

Stockpile Materials, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2005					2004
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in thousands)						
1. Major Asset Classes						
A. Land	N/A	N/A	$ 0	N/A	$ 0	$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	2,158,945	$ (1,361,716)	797,229	526,691
C. Leasehold Improvements	S/L	lease term	95,213	(76,337)	18,876	21,585
D. Software	S/L	2-5 Or 10	349,675	(262,583)	87,092	103,215
E. General Equipment	S/L	5 or 10	1,535,870	(1,260,079)	275,791	218,546
F. Military Equipment	S/L	Various	0	0	0	0
G. Assets Under Capital Lease	S/L	lease term	0	0	0	0
H. Construction-in-Progress	N/A	N/A	49,225	N/A	49,225	29,401
I. Other			0	0	0	0
2. Total General PP&E			$ 4,188,928	$ (2,960,715)	$ 1,228,213	$ 899,438

[1] Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line

N/A = Not Applicable

Total General Property Plant & Equipment increased $328.8 million or 37 percent, from FY 2004 to FY 2005. The increase is detailed in the following paragraphs.

Buildings, Structures, and Facilities
Buildings, Structures, and Facilities increased by $270.1 million or 51 percent, from FY 2004 to FY 2005. This increase is primarily due to the acquisition of a Chemical Weapons Disposal facility for $267.1 million at the Pine Bluff Arsenal.

Leasehold Improvements
The entire amount shown on this line is for improvements made to facilities at Corpus Christi Army Depot, which is a tenant on a Navy installation, but does not maintain a lease with the Navy. Improvements made on these facilities are recorded as leasehold improvements. The decrease of $2.7 million, or 13 percent, from FY 2004 to FY 2005 is due to depreciation recorded.

Software
Software decreased $16.1 million, or 16 percent, from FY 2004 to FY 2005. The AWCF depreciates software at approximately 20 percent annually.

General Equipment
General Equipment increased $57.2 million, or 26 percent, from FY 2004 to FY 2005. The majority of this increase, $39.4 million, is for Power Train project equipment at Anniston Army Depot. Additionally, Anniston purchased $5.4 million in other general equipment. Corpus Christi Army Depot purchased general equipment for flight critical parts inspection and treatment, valued at $9.1 million and compression hot section repair cell equipment valued at $7.0 million.

Construction in Progress
Construction in Progress increased by $19.8 million, or 67 percent, from FY 2004 to FY 2005. The majority of the increase is attributable to projects at Tobyhanna Army Depot, with other projects reported by Anniston Army Depot, Sierra Army Depot, Bluegrass Army Depot, and Pine Bluff Arsenal.

Note Reference
For additional line item discussion, see:
Note 1.O, General Plant, Property and Equipment

Assets Under Capital Lease
Not applicable.

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

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2005	2004
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	47,253	50,084
D. Total Intragovernmental Liabilities	$ 47,253	$ 50,084
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	286,523	304,976
C. Environmental Liabilities	0	0
D. Loan Guarantee Liability	0	0
E. Other Liabilities	0	66,859
F. Total Nonfederal Liabilities	$ 286,523	$ 371,835
3. Total Liabilities Not Covered by Budgetary Resources	$ 333,776	$ 421,919
4. Total Liabilities Covered by Budgetary Resources	1,072,271	695,373
5. Total Liabilities	$ 1,406,047	$ 1,117,292

Liabilities Not Covered by Budgetary Resources are liabilities incurred by the reporting entity which are not covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are liabilities incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Realized budgetary resources include:

1. New budget authority
2. Spending authority from offsetting collections (credited to an appropriation or fund account)
3. Recoveries of unexpired budget authority through downward adjustments of prior year obligations
4. Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year
5. Permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met

Fluctuations and/or Abnormalities

Non-Federal Other Liabilities decreased by $66.9 million, or 100 percent, from FY 2004 to FY 2005. During FY 2004, the AWCF reported annual leave as a not covered by budgetary resources liability due to systems reporting limitations. In FY 2005, these reporting limitations were resolved and the liability is properly reported as unfunded covered by budgetary resources.

Other Liabilities Not Covered by Budgetary Resources:
(Amounts in thousands)

	2005	2004
Intragovernmental - Other Liabilities		
FECA Reimbursement to the Dept. of Labor	$ 47,253	$50,084

Legend:

FECA – Federal Employees Compensation Act

The FECA bill is paid by the Department of Labor (DOL), which then bills the Army. At this time, the Army is not able to split out the DOL bill between AWCF and Army General Fund (AGF). Therefore the portions for AWCF and AGF are estimated. The AWCF estimate is based on the actual bill that was due to DOL in October 2004, which was actually paid in February 2005. The FECA billing period runs from July through June and bills are due and payable in the month of October, two years later.

Currently, the AWCF has a liability for two years, plus one quarter of FECA liability. The liability covers the period July 2003 through September 2005.

Non-federal Liabilities
Employment-Related Actuarial Liabilities consist of the FECA actuarial liability.

Note Reference

For additional line item discussion, see:
Note 12, Accounts Payable
Note 15, Other Liabilities
Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

Note 12. Accounts Payable

	2005						2004	
As of September 30	Accounts Payable		Interest, Penalties, and Administrative Fees		Total		Total	
(Amounts in thousands)								
1. Intragovernmental Payables	$	105,603	$	N/A	$	105,603	$	159,150
2. Non-Federal Payables (to the Public)		295,817		3		295,820		372,054
3. Total	$	401,420	$	3	$	401,423	$	531,204

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

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

Fluctuation and/or Abnormalities

The Army Working Capital Fund (AWCF) Intragovernmental Payables decreased $53.5 million, or 34 percent, from FY 2004 to FY 2005. The decrease is due to decreased activity with federal trading partners.

The AWCF Non-Federal Payables decreased $76.2 million, or 20 percent, from FY 2004 to FY 2005. This decrease is due to a higher liquidation rate since FY 2004 for Accounts Payable arising from delivered goods and services.

Other disclosures

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements recorded in the activity field records of the AWCF versus those reported by the U.S. Treasury. The DoD policy is to allocate supported undistributed disbursements between intragovernmental and non-federal categories based on the percentage of each category of payables. The AWCF allocated supported undistributed disbursements based on a 24-month review of detail transactions. Unsupported undistributed disbursements are those disbursements reported at the U.S. Treasury for which no supporting voucher exists to post to the appropriate line in the accounting records.

Unsupported Undistributed Disbursements

Unsupported undistributed disbursements are recorded in United States Standard General Ledger account 2120, Disbursements in Transit. The AWCF currently has $2.4 million in unsupported undistributed disbursements.

Intragovernmental Eliminations

The DoD summary level seller accounts receivable balances were compared to the AWCF payable balances. As a result of this comparison, adjusting entries were entered to decrease the AWCF intragovernmental payables by $123.3 million. In addition, $54.0 million of payables within the AWCF were eliminated from the report. For the majority of intragovernmental sales, the AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile its intragovernmental payables with its trading partners' receivables. The DoD intends to develop long-term systems improvements that will address this issue.

Note Reference

For additional line item discussion, see:

Note 1.G, Accounting for Intragovernmental Activities

Note 13. Debt

Not applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

Not applicable.

Note 15. Other Liabilities

As of September 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
(Amounts in thousands)				
1. Intragovernmental				
A. Advances from Others	$ 19,660	$ 0	$ 19,660	$ 10,962
B. Deposit Funds and Suspense Account Liabilities	0	0	0	0
C. Disbursing Officer Cash	0	0	0	0
D. Judgment Fund Liabilities	0	0	0	0
E. FECA Reimbursement to the Department of Labor	21,002	26,252	47,254	50,084
F. Other Liabilities	8,665	0	8,665	6,614
G. Total Intragovernmental Other Liabilities	$ 49,327	$ 26,252	$ 75,579	$ 67,660
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 91,586	$ 0	$ 91,586	$ 67,790
B. Advances from Others	42,429	0	42,429	37,206
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	(891)	0	(891)	(854)
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accrued Unfunded Annual Leave	95,756	0	95,756	66,859
H. Capital Lease Liability	0	0	0	0
I. Other Liabilities	413,642	0	413,642	42,451
J. Total Nonfederal Other Liabilities	$ 642,522	$ 0	$ 642,522	$ 213,452
3. Total Other Liabilities	$ 691,849	$ 26,252	$ 718,101	$ 281,112

Fluctuations and/or Abnormalities

Intragovernmental Other Liabilities

Total Intragovernmental Other Liabilities increased $7.9 million, or 12 percent, from FY 2004 to FY 2005 because of the following reasons:

Intragovernmental Advances from others increased $8.7 million, or 79 percent, from FY 2004 to FY 2005 primarily from FY 2004 and FY 2005 orders from the Army General Fund that were collected in advance of work performed. These orders will be completed and the resulting revenue recognized in later periods.

Intragovernmental Other Liabilities increased $2.1 million, or 31 percent, from FY 2004 to FY 2005. The change is a result of increased employee benefit liabilities as reported by the Office of Personnel Management (OPM). The AWCF is required to balance with what OPM has reported to the Department of the Treasury as an accrual for the reporting period.

Total Non-Federal Other Liabilities

Total Non-Federal Other Liabilities increased $429.1 million, or 201 percent, because of the following reasons:

Accrued Funded Payroll and Benefits increased $23.8 million, or 35 percent, from FY 2004 to FY 2005. The increase in Accrued Funded Payroll and Benefits reflects fluctuations in personnel strengths and the number of days accrued for the payroll cycle from FY 2004 to FY 2005.

Non-Federal Advances from Others increased $5.2 million, or 14 percent, from FY 2004 to FY 2005. During FY 2005, the AWCF increased workload with non-federal entities.

Accrued Unfunded Annual Leave increased $28.9 million, or 43 percent, from FY 2004 to FY 2005 because Supply Management was unable to accrue leave due to system deficiencies in prior periods. Previously, the Standard Operations Maintenance, Army Research Development System (SOMARDS) posted unfunded annual leave for the Supply Management Business Area to the Army General Fund. In March 2005, the Defense Finance and Accounting Service (DFAS) began posting SOMARDS data to the Army Working Capital Fund. Additionally, the Logistics Modernization Program (LMP) began performing the leave accrual function for Supply Management activities on LMP.

Non-Federal Other Liabilities increased $371.2 million, or 874 percent, from FY 2004 to FY 2005. The increase is attributable to inventory intransit posted by the Logistics Modernization Program (LMP). The LMP records a liability for inventory intransit to the Communications and Electronics Command (CECOM) when inventory is released from the vendor and Army takes ownership. This process was not in place during FY 2004. The process records an accrual in the current month and a reversal is posted at the beginning of the following month, which allows LMP to identify the proper liability for inventory intransit.

Other disclosures

The Federal Employment Compensation Act (FECA) is administered by the Department of Labor (DOL), Office of Workers' Compensation Programs. Workers' Compensation claims are submitted to and approved by the DOL. The DOL pays the claim holders and prepares a chargeback billing to the AWCF. The FECA law, P.L. 93-416, Section 8147, essentially gives agencies two years to pay the chargeback bill, thereby allowing time for the applicable amount to be included in budget submissions. Pursuant to the FECA law, funding should be paid within 30 days. The current liability is the amount that is payable in October 2005. The non-current liability is payable in October 2006. Only the Industrial Operations business area reports a FECA liability because it is composed of host installations responsible for paying Workers' Compensation. The Supply Management business area is made up of selected personnel at other installations, whose FECA liabilities are paid by the Army General Fund.

The Unemployment Benefits Liability bill received from the DOL is not broken out by appropriation. The AWCF does not report an Unemployment Benefits liability. The Army determined that the General Fund is responsible for the entire liability and reports it on the General Fund statements.

Other Liabilities: *(Amounts in Thousands)*

	FY 2005	FY 2004
Intragovernmental - Other Liabilities		
VSIP	$0	$0
CSRS, FERS, FEGLI, FEHB	8,665	6,614
FECA Payable, Past Due	0	0
Total Intragovernmental Other Liabilities	**$8,665**	**$6,614**
Non-Federal –Other Liabilities		
Contract Holdbacks	$41,249	$32,852
Employers Contributions to TSP and Taxes Payable	11,451	9,599
Contingent Liability	450	0
Liabilities for Intransit Inventory	360,492	0
Total Non-Federal Other Liabilities	**$413,642**	**$42,451**
Total Other Liabilities	**$422,307**	**$49,065**

Legend:

VSIP – Voluntary Separation Incentive Pay
CSRS – Civil Service Retirement System
FERS – Federal Employees Retirement System
FEGLI – Federal Employees Group Life Insurance
FEHB – Federal Employees Health Benefits
FECA – Federal Employees Compensation Act
TSP – Thrift Savings Plan

Note Reference

For additional line item discussion, see:
Note 1.S, Contingencies and Other Liabilities
Note 11, Liabilities Not Covered by Budgetary Resources
Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Relevant Information for Comprehension

Nature of Contingency
The Army Working Capital Fund (AWCF) has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the AWCF's financial statements.

As of September 30, 2005, the AWCF has approximately $873 thousand in claims considered reasonably possible. The possible contingent liability is primarily attributable to a review and legal assessment at Crane Army Ammunition Activity regarding the likelihood of a claim payment to a contractor. These contingent liabilities and estimates are presented in the following table.

Estimate of the Possible Liability

Title of Contingent Liabilities	Estimate *(in thousands)*
Army Materiel Command	$873

Note Reference

For additional line item discussion, see:
Note 1.S, Contingencies and Other Liabilities

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

As of September 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	
(Amounts in thousands)										
1. Pension and Health Benefits										
A. Military Retirement Pensions	$	0		$	0	$	0		$	0
B. Military Retirement Health Benefits		0			0		0			0
C. Medicare-Eligible Retiree Benefits		0			0		0			0
D. Total Pension and Health Benefits	$	0		$	0	$	0		$	0
2. Other										
A. FECA	$	286,523	4.53	$	0	$	286,523		$	304,976
B. Voluntary Separation Incentive Programs		0			0		0			0
C. DoD Education Benefits Fund		0			0		0			0
E. Total Other	$	286,523		$	0	$	286,523		$	304,976
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$	286,523		$	0	$	286,523		$	304,976

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

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

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

Military Retirement Benefits

The Army General Fund pays the Army Working Capital Fund (AWCF) military retirement benefits.

Federal Employment Compensation Act (FECA)

The Industrial Operations business area reports a FECA liability because it includes host installations responsible for paying Workers' Compensation. The Supply Management business area does not report FECA liability because it is made up of selected personnel at other installations, whose FECA liabilities are paid by the Army General Fund.

The Office of Personnel Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year. The AWCF computes its portion of the total Army actuarial liability based on the percentage of the AWCF FECA expense to the total Army FECA expense.

Note Reference

For additional line item discussion, see:

Note 11, Liabilities Not Covered by Budgetary Resources

Note 15, Other Liabilities

Note 18. 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 by understanding the net cost of programs and/or organizations that the Federal Government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

While the Army Working Capital Fund (AWCF) activities generally record transactions on an accrual basis, as is required by Federal Generally Accepted Accounting Principles (GAAP), the systems do not always capture actual costs. Information presented on the Consolidated Statement of Net Cost is primarily based on budgetary obligation, disbursements, or collection transactions, as well as information from non-financial feeder systems. The Army is in the process of upgrading its financial and logistical feeder systems to the Logistics Modernization Program (LMP) to address this issue.

Fluctuations and/or Abnormalities

The AWCF net costs decreased $539.8 million, or 23 percent, between FY 2004 and FY 2005. This decrease is largely attributable to the following:

Intragovernmental gross costs decreased $831.8 million, or 29 percent between FY 2004 and FY 2005. During FY 2005, the AWCF placed more orders with the public than with intragovernmental sources in support of contingency missions Operation Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Intragovernmental earned revenue decreased $899.7 million or 11 percent, between FY 2004 and FY 2005. This decrease is primarily attributable to a decrease in revenue received from the Army General Fund.

Gross Costs with the Public increased $2.4 billion, or 30 percent, between FY 2004 and FY 2005. Earned revenue from the Public increased $2.0 billion, or 40 percent between FY 2004 and FY 2005. The change in net costs is attributable to a decrease in gains on inventory adjustments in the Supply Management Business Area.

During FY 2004, it was discovered that inventory transactions in LMP were causing overstatement of other gains and other losses, impacting the Communication and Electronics Command (CECOM), Tobyhanna Army Depot, and other Army Materiel Command (AMC) activities. During 2nd Quarter FY 2005, as part of the LMP stabilization plan, AMC and the Defense Finance and Accounting Service (DFAS), and LMP contractor support processed journal voucher entries to correct this problem. These correcting entries created large offsetting gains and losses. The DFAS prepared adjusting entries to reduce the inventory gains and losses in order to properly reflect the current year gains and losses being reported. The total adjustment of $5.6 billion included $5.56 billion for CECOM and $48.0 million for Tobyhanna Army Depot activities using LMP.

In addition, elimination balancing entries to bring the AWCF buyer-side costs into agreement with the seller-side revenues caused a reclassification of $984.8 million from Public Gross and Net Costs to Intragovernmental Gross and Net Costs. For the majority of intragovernmental sales, the AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile its intragovernmental expenses with its trading partners' revenues. The DoD intends to develop long-term systems improvements that will address this issue.

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

As of September 30	2005 Cumulative Results of Operations	2005 Unexpended Appropriations	2004 Cumulative Results of Operations	2004 Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position				
A. Changes in Accounting Standards	$ 0	$ 0	$ 0	$ 0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	0	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	$ 0	$ 0	$ 0	$ 0
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 55,172	$ 0	$ 56,020	$ 0
B. Civilian Health	91,750	0	74,612	0
C. Civilian Life Insurance	213	0	189	0
D. Judgment Fund	0	0	0	0
E. Total Imputed Financing	$ 147,135	$ 0	$ 130,821	$ 0

Legend:

CSRS – Civil Service Retirement System
FERS – Federal Employees Retirement System

Prior Period Adjustments

The Department of the Treasury emphasized the reporting of prior period adjustments for material changes only. The Office of the Under Secretary of Defense (Comptroller) and the Defense Finance and Accounting Service guidance also emphasized the position that use of prior period adjustments should be infrequent. Individual entities within the Army Working Capital Fund (AWCF) submitted prior period adjustments, which were subsequently reported on internal monthly financial reports. These adjustments, totaling $82.5 million, did not meet the materiality threshold established for financial statement reporting. These balances were reclassified to accounts that would have been affected if they had occurred in the current year.

Imputed Financing

Total Imputed Financing increased $16.3 million, or 12 percent, from FY 2004 to FY 2005. This was primarily due to an increase in Civilian Health costs of $17.1 million, or 23 percent, and an increase in Civilian Life Insurance of $24 thousand, or 13 percent from FY 2004 to FY 2005. This increase is attributable to an increase in the government's share of Federal Employees Health Benefits (FEHB) and Federal Employees Group Life Insurance (FEGLI). Federal GAAP requires the reporting of government employee benefits. The amounts remitted to the OPM by and for covered employees do not generally cover the actual cost of the benefits those employees will receive after their careers are over. As a consequence, for FY 2005, the AWCF must recognize an imputed cost equal to the difference between the true cost of providing future benefits to its employees and the employer and employee contributions they remit to the OPM.

Fluctuations and/or Abnormalities

Cumulative Results of Operations:

Appropriations used decreased $231.2 million, or 100 percent, from FY 2004 to FY 2005, as the AWCF did not receive any current appropriations.

Budgetary Financing Sources Transfers-in/out without reimbursement changed $932.7 million, or 64 percent, from FY 2004 to FY 2005. During FY 2005, the AWCF received transfers in of budgetary resources of $84.4 million for war reserves and $99.6 million received for industrial mobilization capacity, totaling $184.1 million from the DoD Appropriations Act, 2005, P.L. 108 287. The AWCF transferred out $250.0 million to the Army General Fund, Operations and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action FY 05-27 PA and $450.0 million to the Army General Fund, Operations and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action FY 05-47 PA.

Other Budgetary Financing Sources decreased by $175.9 million, or 100 percent, from FY 2004 to FY 2005. This decrease resulted from a change in accounting procedures. During FY 2004, other gains and losses were reported as having a budgetary impact and recorded on this line. The AWCF began reporting other gains and losses as having no budgetary impact during FY 2005. Other gains and losses are now reported on the Other Financing Sources Other line.

Other Financing Sources Other increased by $230.9 million, or 100 percent, from FY 2004 to FY 2005. This increase resulted from a change in accounting procedures. During FY 2004, other gains and losses were reported as having a budgetary impact and recorded on the Other Budgetary Financing Sources line. The AWCF began reporting other gains and losses as having no budgetary impact during FY 2005. Other gains and losses are now reported on the Other Financing Sources Other line.

The AWCF net costs decreased by $539.8 million, or 23 percent, between FY 2004 and FY 2005. This is due to increased workload in support of contingency missions Operation Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Unexpended Appropriations:
Appropriations received decreased by $219.3 million or 100 percent, from FY 2004 to FY 2005 as the AWCF did not receive any FY 2005 appropriations.

Appropriations used decreased $231.2 million or 100 percent as the AWCF did not receive any FY 2005 appropriations.

Note Reference

For Additional Line Item discussion, see:
Note 18, Disclosures Related to the Statement of Net Cost
Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2005	2004
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 10,115,417	$ 8,600,534
2. Available Borrowing and Contract Authority at the End of the Period	6,702,921	4,549,857

The Army Working Capital Fund (AWCF) reports all obligations as reimbursable per Office of Management and Budget (OMB) circular A-11, Section 83.5. Primary funding for the AWCF is earned through customer orders, as described in Note 1.C.

Available contract authority as of September 30, 2005, is as follows: (Amounts in thousands)

Business Area	Unused Contract Authority as of September 30, 2004	Contract Authority Realized For FY 2005	Contract Authority Available as of September 30, 2005
Industrial Operations	$33,695	$27,565	$61,260
Supply Management	4,516,162	2,125,499	6,641,661
Total AWCF	**$4,549,857**	**$2,153,064**	**$6,702,921**

Unobligated balances from spending authority from offsetting collections (revenues earned) as of September 30, 2005, are as follows: (Amounts in thousands)

Business Area	Earned	Change in Unfilled Orders	Anticipated	Total Spending Authority from Offsetting Collections
Industrial Operations	$4,405,895	$(53,752)	$0	$4,352,143
Supply Management	9,745,017	(701,167)	0	9,043,850
Total AWCF	**$14,150,912**	**$(754,919)**	**$0**	**$13,395,993**

Fluctuations and/or Abnormalities

Appropriations Received decreased $219.3 million, or 100 percent, from FY 2004 to FY 2005. The AWCF did not receive direct appropriations in FY 2005.

All business activity increased from FY 2004 to FY 2005 due to increased reimbursable activity with the Army General Fund, as well as within the AWCF, in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Contract authority increased $8.8 billion, or 420 percent from FY 2004 to FY 2005. Prior to FY 2005, the net remaining contract authority was reported on the contract authority line of the statement. The Department of Defense issued reporting instructions in FY 2005, which now require reporting the total contract authority on this line.

Budget Authority, Net transfers changed $1.4 billion, or 100 percent, between FY 2004 to FY 2005. No budgetary authority has been transferred in or out of the AWCF during this period.

Unobligated balance, Net transfers, Actual changed $515.9 million, or 100 percent, between FY 2004 and FY 2005. The Army received two transfers from Defense Logistics Agency (DLA) amounting to $99.6 million for Industrial Mobilization Capacity and $84.4 million for war reserves in accordance with the DoD Appropriations Act, 2005, P.L. 108-287. The AWCF transferred out $250.0 million to the Army General Fund, Operation and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action FY 05-27 PA and $450.0 million to the Army General Fund, Operation and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action FY 05-47 PA.

Spending Authority from Offsetting Collections increased $1.3 billion, or 11 percent, from FY 2004 to FY 2005. This increase occurred because of increased orders from the Army General Fund. The increase was primarily within the Supply Management business area to replenish supplies and repair parts. Industrial Operations also recognized increased orders to repair major end items. These increases are noted below:

Earned - Collected increased by $1.9 billion, or 16 percent, in FY 2005.

Earned - Receivable from Federal Sources changed by $24.4 million, or 45 percent, in FY 2004 to FY 2005.

Change in Unfilled Customer Orders – Advance Received changed by $36.5 million, or 212 percent, from FY 2004 to FY 2005.

Change in Unfilled Customer Orders – Without Advance from Federal Sources increased by $645.3 million, or 501 percent, from FY 2004 to FY 2005.

Recoveries of Prior Year Obligations increased by $935.9 million, or 187 percent, from FY 2004 to FY 2005. During 2nd Quarter FY 2005, and throughout FY 2005 as part of the Logistics Modernization Program (LMP) stabilization plan, the Army Materiel Command (AMC), the Defense Finance and Accounting Service (DFAS), and the LMP contractor support were doing data migration cleanup to adjust obligations and unliquidated obligations on a transactional basis. These adjustments resulted in large recoveries during FY 2005.

Permanently not available increased by $8.8 billion, or 100 percent, from FY 2004 to FY 2005. The amount represents contract authority replaced by other budgetary resources throughout the year. Prior to FY 2005, the permanently not available was not reflected on the AWCF reports. The Department of Defense issued reporting instructions in FY 2005, which now require reporting.

Reimbursable obligations increased by $2.8 billion, or 20 percent, from FY 2004 to FY 2005. The AWCF recognized this increase primarily in the Supply Management business area due to increased orders for secondary items in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Unobligated balance apportioned decreased $353.7 million, or 23 percent from FY 2004 to FY 2005 as the AWCF obligated projects in FY 2005 from FY 2004 reimbursable orders.

Unfilled customer orders from federal sources decreased $774.2 million, or 17 percent, from FY 2004 to FY 2005. Due to increased receipt of inventory, the Supply Management business area was able to clear more back order items during FY 2005.

Undelivered Orders increased $1.4 billion, or 17 percent, from FY 2004 to FY 2005 primarily in the Supply Management business area. The increase is due to increased demand for secondary items in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Accounts Payable decreased $62.9 million, or 10 percent, from FY 2004 to FY 2005. This decrease is due to a higher liquidation rate since FY 2004 for delivered goods and services.

Net Outlays decreased $438.4 million, or 70 percent, from FY 2004 to FY 2005. Disbursements increased $2.4 billion, or 21 percent, and Collections increased $2 billion, or 16 percent, from FY 2004 to FY 2005. This reflects increased disbursing and collecting activity in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Other disclosures

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

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 and Adjustments line on the Statement of Budgetary Resources or the Spending Authority for Offsetting Collections and Adjustments line on the Statement of Financing.

AWCF had reimbursable obligations for apportionment category B of $11.9 billion and $5.0 billion obligations exempt from apportionment.

The Statement of Budgetary Resources does not eliminate for intragovernmental receivables, nor does it include contractor debt or refunds receivable.

Accounts payable on the Statement of Budgetary Resources includes the employee payroll liability and does not eliminate for intragovernmental payables. The Balance Sheet eliminates for intragovernmental payables and reports the employee payroll liability in Other Liabilities. This results in different balances between the Statement of Budgetary Resources and the Balance Sheet.

The AWCF contains obligation and unliquidated obligation values that were migrated to the LMP at values higher than what was reported in the respective legacy systems at time of migration. This overstatement occurred at the Supply Management activities for the Communication-Electronics Command and Tobyhanna Army Depot. The Army Materiel Command believes that the majority of these overstatements were corrected during FY 2005.

Note Reference

For Additional Line Item discussion, see:
Note 1, Significant Accounting Policies
Note 5, Accounts Receivable
Note 12, Accounts Payable
Note 18, General Disclosures Related to the Statement of Net Cost
Note 19, General Disclosures Related to the Statement of Changes in Net Position

Note 21. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

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

The Army Working Capital Fund's (AWCF) budgetary data does not agree with its proprietary expenses and assets capitalized. This results in a difference in net cost between the Statement of Net Cost and the Statement of Financing. Resources that finance the acquisition of assets were adjusted by $1.4 billion to bring the statements into agreement. The differences between budgetary and proprietary data for the AWCF were reported as material weaknesses in the FY 2005 AWCF financial statement report.

Fluctuations and/or Abnormalities

Obligations incurred increased by $2.8 billion, or 20 percent, from FY 2004 to FY 2005. The AWCF recognized this increase primarily in the Supply Management business area due to increased sales and demand for secondary items in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Spending Authority from offsetting collections and recoveries increased by $2.3 billion, or 18 percent, from FY 2004 to FY 2005. The AWCF recognized this increase primarily in the Supply Management business area due to increased sales and demand for secondary items in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle. Collections increased $1.9 billion from FY 2004 to FY 2005. Recoveries of prior year obligations increased $935.9 million from FY 2004 and FY 2005. These increases in spending authority were offset by reductions in the amount of orders received without advances, which amounted to a decrease of $645.3 million from FY 2004 to FY 2005.

Total Imputed Financing increased $16.3 million, or 12 percent, from FY 2004 to FY 2005. This was primarily due to an increase in Civilian Health costs of $17.1 million, or 23 percent, and an increase in Civilian Life Insurance of $24 thousand, or 13 percent from FY 2004 to FY 2005. This increase is attributable to an increase in the government's share of Federal Employees Health Benefits (FEHB) and Federal Employees Group Life Insurance (FEGLI). Federal GAAP requires the reporting of government employee benefits. The amounts remitted to the Office of Personnel Management (OPM) by and for covered employees do not generally cover the actual cost of the benefits those employees will receive after their careers are over. As a consequence, for FY 2005, the AWCF must recognize an imputed cost equal to the difference between the true cost of providing future benefits to its employees and the employer and employee contributions they remit to the OPM.

The Budgetary Resources Obligated - Other line increased by $230.9 million, or 100 percent from FY 2004 to FY 2005.

The FY 2005 balance represents inventory gains and losses reported as non-exchange gains and losses. During FY 2005 the presentation of this line was changed to include non-exchange gains and losses.

Change in Undelivered Orders decreased $982.8 million, or 39 percent, from FY 2004 to FY 2005. This reflects the increased delivery of items ordered in prior years in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Change in Unfilled Customer Orders increased by $608.8 million, or 417 percent, from FY 2004 to FY 2005. This reflects the increased order volume in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Resources that finance the Acquisition of Assets increased $1.8 billion, or 29 percent due to purchases of inventory to increase balances on hand.

Other Resources or Adjustments to Net Obligated Resources – Other decreased $237.8 million, or 3461 percent. The majority of the change resulted from a presentation change for non-exchange gains and losses on the Statement of Financing.

Increase in Annual Leave Liability increased by $27.5 million, or 2000 percent, from FY 2004 to FY 2005. The Supply Management activities previously reported the annual leave liability in the Army General Fund Financial Statements but began reporting in the AWCF Financial Statements during the 2nd Quarter FY 2005.

Components Requiring or Generating Resources in Future Period – Other decreased by $172 thousand or 100 percent. In FY 2004 this line contained an increase in the Federal Employee Compensation Act (FECA) expense. In FY 2005 the FECA expense decreased and is reported on the Resources that Fund Expenses Recognized in Prior Periods.

Depreciation and amortization increased $13.0 million, or 16 percent, from FY 2004 to FY 2005. This increase is attributable to the acquisition of general property plant and equipment during FY 2005.

Revaluation of Assets or Liabilities increased by $442.4 million, or 172 percent, from FY 2004 to FY 2005. The increase is due to additional inventory valuation adjustments for Supply Management activities. The Army and the Defense Finance and Accounting Service continue to monitor inventory reporting values.

Other Cost of Goods Sold increased by $1.0 billion, or 20 percent from FY 2004 to FY 2005. This is a result of increased sales made in FY 2005 in support of Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Other Other changed by $115.9 million, or 26 percent, from FY 2004 to FY 2005. The change is attributable to Treasury regulations requiring posting to a cost capitalization offset account. The AWCF implemented this accounting procedure in FY 2005.

Other disclosures

Transactions within the AWCF have not been eliminated because the statements are presented as combined and combining.

Note Reference

For Additional Line Item discussion, see:
Note 10, General PP&E
Note 11, Liabilities Not Covered by Budgetary Resources
Note 18, Disclosures Related to the Statement of Net Cost
Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 22. Disclosures Related to the Statement of Custodial Activity

Not applicable.

Note 23. Other Disclosures

Not applicable.

Department of Defense - Army Working Capital Fund

CONSOLIDATING BALANCE SHEET

As of September 30, 2005 and 2004 ($ in Thousands)

	Supply Management	Industrial Operations	Component Level
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	$ (308,788)	$ (16,494)	$ 948,612
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	221,126	199,464	(53,968)
Other Assets (Note 6)	38,831	51,295	(90,126)
Total Intragovernmental Assets	$ (48,831)	$ 234,265	$ 804,518
Cash and Other Monetary Assets (Note 7)	$ 0	$ 0	$ 0
Accounts Receivable (Note 5)	8,611	3,424	0
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	15,527,728	405,413	0
General Property, Plant and Equipment (Note 10)	75,650	1,152,563	0
Investments (Note 4)	0	0	0
Other Assets (Note 6)	333,529	212	0
TOTAL ASSETS	$ 15,896,687	$ 1,795,877	$ 804,518
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	$ 106,160	$ 176,680	$ (177,237)
Debt (Note 13)	0	0	0
Other Liabilities (Note 15 & Note 16)	100,896	70,837	(96,154)
Total Intragovernmental Liabilities	$ 207,056	$ 247,517	$ (273,391)
Accounts Payable (Note 12)	$ 38,262	$ 131,857	$ 125,701
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	286,523	0
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	469,132	174,281	(891)
TOTAL LIABILITIES	$ 714,450	$ 840,178	$ (148,581)
NET POSITION			
Unexpended Appropriations	$ 0	$ 0	$ 0
Cumulative Results of Operations	15,182,237	955,699	953,099
TOTAL NET POSITION	$ 15,182,237	$ 955,699	$ 953,099
TOTAL LIABILITIES AND NET POSITION	$ 15,896,687	$ 1,795,877	$ 804,518

Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
$ 623,330	$ 0	$ 623,330	$ 948,463
0	0	0	0
0	0	0	0
0	0	0	0
366,622	0	366,622	444,923
0	0	0	79
$ 989,952	$ 0	$ 989,952	$ 1,393,465
$ 0	$ 0	$ 0	$ 0
12,035	0	12,035	13,482
0	0	0	0
15,933,141	0	15,933,141	13,916,672
1,228,213	0	1,228,213	899,438
0	0	0	0
333,741	0	333,741	265,122
$ 18,497,082	$ 0	$ 18,497,082	$ 16,488,179
$ 105,603	$ 0	$ 105,603	$ 159,150
0	0	0	0
75,579	0	75,579	67,660
$ 181,182	$ 0	$ 181,182	$ 226,810
$ 295,820	$ 0	$ 295,820	$ 372,054
286,523	0	286,523	304,976
0	0	0	0
0	0	0	0
642,522	0	642,522	213,452
$ 1,406,047	$ 0	$ 1,406,047	$ 1,117,292
$ 0	$ 0	$ 0	$ 53
17,091,035	0	17,091,035	15,370,834
$ 17,091,035	$ 0	$ 17,091,035	$ 15,370,887
$ 18,497,082	$ 0	$ 18,497,082	$ 16,488,179

Department of Defense - Army Working Capital Fund

CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2005 and 2004 ($ in Thousands)

Program Costs	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
A. Component Level				
Intragovernmental Gross Costs	$ 979,547	$ 0	$ 979,547	$ 2,112,347
(Less: Intragovernmental Earned Revenue)	5,761,732	0	5,761,732	3,290,147
Intragovernmental Net Costs	$ 6,741,279	$ 0	$ 6,741,279	$ 5,402,494
Gross Costs With the Public	$ (6,746,549)	$ 0	$ (6,746,549)	$ (5,375,497)
(Less: Earned Revenue From the Public)	0	0	0	0
Net Costs With the Public	$ (6,746,549)	$ 0	$ (6,746,549)	$ (5,375,497)
Total Net Cost	$ (5,270)	$ 0	$ (5,270)	$ 26,997
B. Industrial Operations				
Intragovernmental Gross Costs	$ 384,554	$ 0	$ 384,554	$ 0
(Less: Intragovernmental Earned Revenue)	(4,275,537)	0	(4,275,537)	0
Intragovernmental Net Costs	$ (3,890,983)	$ 0	$ (3,890,983)	$ 0
Gross Costs With the Public	$ 9,140,787	$ 0	$ 9,140,787	$ 0
(Less: Earned Revenue From the Public)	(5,094,022)	0	(5,094,022)	0
Net Costs With the Public	$ 4,046,765	$ 0	$ 4,046,765	$ 0
Total Net Cost	$ 155,782	$ 0	$ 155,782	$ 0
C. Supply Management				
Intragovernmental Gross Costs	$ 652,063	$ 0	$ 652,063	$ 386,277
(Less: Intragovernmental Earned Revenue)	(9,042,550)	0	(9,042,550)	(8,245,086)
Intragovernmental Net Costs	$ (8,390,487)	$ 0	$ (8,390,487)	$ (7,858,809)
Gross Costs With the Public	$ 8,206,198	$ 0	$ 8,206,198	$ 8,185,419
(Less: Earned Revenue From the Public)	(1,824,249)	0	(1,824,249)	(2,810,651)
Net Costs With the Public	$ 6,381,949	$ 0	$ 6,381,949	$ 5,374,768
Total Net Cost	$ (2,008,538)	$ 0	$ (2,008,538)	$ (2,484,041)

	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
D. Depot Maintenance				
Intragovernmental Gross Costs	$ 0	$ 0	$ 0	$ 271,082
(Less: Intragovernmental Earned Revenue)	0	0	0	(2,653,482)
Intragovernmental Net Costs	$ 0	$ 0	$ 0	$ (2,382,400)
Gross Costs With the Public	$ 0	$ 0	$ 0	$ 4,195,038
(Less: Earned Revenue From the Public)	0	0	0	(1,917,228)
Net Costs With the Public	$ 0	$ 0	$ 0	$ 2,277,810
Total Net Cost	$ 0	$ 0	$ 0	$ (104,590)
E. Ordnance				
Intragovernmental Gross Costs	$ 0	$ 0	$ 0	$ 78,288
(Less: Intragovernmental Earned Revenue)	0	0	0	(847,632)
Intragovernmental Net Costs	$ 0	$ 0	$ 0	$ (769,344)
Gross Costs With the Public	$ 0	$ 0	$ 0	$ 1,156,340
(Less: Earned Revenue From the Public)	0	0	0	(223,173)
Net Costs With the Public	$ 0	$ 0	$ 0	$ 933,167
Total Net Cost	$ 0	$ 0	$ 0	$ 163,823
F. Total Program Costs				
Intragovernmental Gross Costs	$ 2,016,164	$ 0	$ 2,016,164	$ 2,847,994
(Less: Intragovernmental Earned Revenue)	(7,556,355)	0	(7,556,355)	(8,456,053)
Intragovernmental Net Costs	$ (5,540,191)	$ 0	$ (5,540,191)	$ (5,608,059)
Gross Costs With the Public	$ 10,600,436	$ 0	$ 10,600,436	$ 8,161,300
(Less: Earned Revenue From the Public)	(6,918,271)	0	(6,918,271)	(4,951,052)
Net Costs With the Public	$ 3,682,165	$ 0	$ 3,682,165	$ 3,210,248
Total Net Cost	$ (1,858,026)	$ 0	$ (1,858,026)	$ (2,397,811)
Cost Not Assigned to Programs	$ 0	$ 0	$ 0	$ 0
(Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	$ (1,858,026)	$ 0	$ (1,858,026)	$ (2,397,811)

Department of Defense - Army Working Capital Fund

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005 and 2004 ($ in Thousands)

	Supply Management	Industrial Operations
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 13,088,913	$ 732,617
Adjustments (+/-)		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
Beginning Balances, as adjusted	$ 13,088,913	$ 732,617
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	53	0
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	(615,575)	99,631
Other budgetary financing sources (+/-)	(14,080)	14,080
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	772,617	(171,142)
Imputed financing from costs absorbed by others	17,834	129,301
Other (+/-)	(76,064)	306,994
Total Financing Sources	$ 84,785	$ 378,864
Net Cost of Operations (+/-)	(2,008,538)	155,782
Net Change	2,093,323	223,082
Ending Balance	$ 15,182,236	$ 955,699
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 53	$ 0
Prior period adjustments (+/-)		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
Beginning Balances, as adjusted	$ 53	$ 0
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	(53)	0
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	$ (53)	$ 0
Net Cost of Operations (+/-)		
Net Change	(53)	0
Ending Balance	$ 0	$ 0

Component Level	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
$ 1,549,304	$ 15,370,834	$ 0	$ 15,370,834	$ 13,883,676
0	0	0	0	0
0	0	0	0	0
$ 1,549,304	$ 15,370,834	$ 0	$ 15,370,834	$ 13,883,676
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	53	0	53	231,207
0	0	0	0	0
0	0	0	0	0
0	(515,944)	0	(515,944)	(1,448,600)
0	0	0	0	175,918
0	0	0	0	0
(601,474)	1	0	1	0
0	147,135	0	147,135	130,821
0	230,930	0	230,930	0
$ (601,474)	$ (137,825)	$ 0	$ (137,825)	$ (910,654)
(5,270)	(1,858,026)	0	(1,858,026)	(2,397,811)
(596,204)	1,720,201	0	1,720,201	1,487,157
$ 953,100	$ 17,091,035	$ 0	$ 17,091,035	$ 15,370,833
$ 0	$ 53	$ 0	$ 53	$ 11,960
0	0	0	0	0
0	0	0	0	0
$ 0	$ 53	$ 0	$ 53	$ 11,960
0	0	0	0	219,300
0	0	0	0	0
0	0	0	0	0
0	(53)	0	(53)	(231,207)
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$ 0	$ (53)	$ 0	$ (53)	$ (11,907)
0	(53)	0	(53)	(11,907)
$ 0	$ 0	$ 0	$ 0	$ 53

Department of Defense - Army Working Capital Fund

COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Supply Management	Industrial Operations
Budgetary Financing Accounts		
BUDGETARY RESOURCES		
Budget Authority:		
Appropriations received	$ 0	$ 0
Borrowing authority	0	0
Contract authority	10,780,125	171,779
Net transfers (+/-)	0	0
Other	0	0
Unobligated balance:		
Beginning of period	115,216	1,378,313
Net transfers, actual (+/-)	(615,575)	99,631
Anticipated Transfers Balances	0	0
Spending authority from offsetting collections:		
Earned	0	0
Collected	9,788,111	4,392,206
Receivable from Federal sources	(43,094)	13,688
Change in unfilled customer orders	0	0
Advance received	6,475	12,796
Without advance from Federal sources	(707,642)	(66,548)
Anticipated for the rest of year, without advances	0	0
Previously unavailable	0	0
Transfers for trust funds	0	0
Subtotal	$ 9,043,850	$ 4,352,142
Recoveries of prior year obligations	1,187,808	247,784
Temporarily not available pursuant to Public Law	0	0
Permanently not available	(8,654,627)	(144,214)
Total Budgetary Resources	$ 11,856,797	$ 6,105,435
STATUS OF BUDGETARY RESOURCES		
Obligations incurred:		
Direct	$ 0	$ 0
Reimbursable	11,850,805	4,971,640
Subtotal	$ 11,850,805	$ 4,971,640
Unobligated balance:		
Apportioned	5,991	1,133,794
Exempt from apportionment	0	0
Other available	1	1
Unobligated Balances Not Available	0	0
Total, Status of Budgetary Resources	$ 11,856,797	$ 6,105,435
Relationship of Obligations to Outlays:		
Obligated Balance, Net - beginning of period	$ 4,279,888	$ (313,201)
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, Net - end of period:		
Accounts receivable	(230,875)	(201,467)
Unfilled customer order from Federal sources	(2,209,533)	(1,538,990)
Undelivered orders	8,490,049	1,285,599
Accounts payable	156,182	397,246
Outlays:		
Disbursements	9,487,799	4,521,127
Collections	(9,794,586)	(4,405,002)
Subtotal	$ (306,787)	$ 116,125
Less: Offsetting receipts	0	0
Net Outlays	$ (306,787)	$ 116,125

Component Level	2005 Combined	2004 Combined
$ 0	$ 0	$ 219,300
0	0	0
0	10,951,904	2,106,368
0	0	(1,448,600)
0	0	0
36,713	1,530,242	2,093,703
0	(515,944)	0
0	0	0
0	0	0
(37)	14,180,280	12,265,860
37	(29,369)	(53,776)
0	0	0
0	19,271	(17,246)
0	(774,190)	(128,900)
0	0	0
0	0	0
0	0	0
$ 0	$ 13,395,992	$ 12,065,938
0	1,435,592	499,733
0	0	0
0	(8,798,841)	0
$ 36,713	$ 17,998,945	$ 15,536,442
$ 0	$ 0	$ 0
0	16,822,445	14,006,202
$ 0	$ 16,822,445	$ 14,006,202
36,714	1,176,499	1,530,241
0	0	0
(1)	1	(1)
0	0	0
$ 36,713	$ 17,998,945	$ 15,536,442
$ 1,393	$ 3,968,080	$ 1,898,332
0	0	0
(891)	(433,233)	(462,602)
0	(3,748,523)	(4,522,713)
0	9,775,648	8,334,654
2,433	555,861	618,741
(186)	14,008,740	11,619,397
37	(14,199,551)	(12,248,614)
$ (149)	$ (190,811)	$ (629,217)
0	0	0
$ (149)	$ (190,811)	$ (629,217)

Department of Defense - Army Working Capital Fund

CONSOLIDATING STATEMENT OF FINANCING

As of September 30, 2005 and 2004 ($ in Thousands)

		Supply Management
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$	11,850,805
Less: Spending authority from offsetting collections and recoveries (-)		(10,231,658)
Obligations net of offsetting collections and recoveries	$	1,619,147
Less: Offsetting receipts (-)		0
Net obligations	$	1,619,147
Other Resources		
Donations and forfeitures of property		0
Transfers in/out without reimbursement (+/-)		772,617
Imputed financing from costs absorbed by others		17,834
Other (+/-)		(76,064)
Net other resources used to finance activities	$	714,387
Total resources used to finance activities	$	2,333,534
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	$	(1,385,704)
Unfilled Customer Orders		(701,167)
Resources that fund expenses recognized in prior periods		0
Budgetary offsetting collections and receipts that do not affect net cost of operations		0
Resources that finance the acquisition of assets		(6,042,800)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)		0
Other (+/-)		(696,553)
Total resources used to finance items not part of the net cost of operations	$	(8,826,224)
Total resources used to finance the net cost of operations	$	(6,492,690)
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	$	23,239
Increase in environmental and disposal liability		0
Upward/Downward reestimates of credit subsidy expense (+/-)		0
Increase in exchange revenue receivable from the the public (-)		0
Other (+/-)		0
Total components of Net Cost of Operations that will require or generate resources in future periods	$	23,239
Components not Requiring or Generating Resources:		
Depreciation and amortization		48,864
Revaluation of assets or liabilities (+/-)		665,661
Other (+/-)		
Trust Fund Exchange Revenue		0
Cost of Goods Sold		3,757,369
Operating Material & Supplies Used		0
Other		(10,982)
Total components of Net Cost of Operations that will not require or generate resources	$	4,460,912
Total components of net cost of operations that will not require or generate resources in the current period	$	4,484,151
Net Cost of Operations	$	(2,008,539)

Industrial Operations	Component Level	2005 Consolidated	2004 Consolidated
$ 4,971,640	$ 0	$ 16,822,445	$ 14,006,202
(4,599,927)	0	(14,831,585)	(12,565,671)
$ 371,713	$ 0	$ 1,990,860	$ 1,440,531
0	0	0	0
$ 371,713	$ 0	$ 1,990,860	$ 1,440,531
0	0	0	0
(171,142)	(601,474)	1	0
129,301	0	147,135	130,821
306,994	0	230,930	0
$ 265,153	$ (601,474)	$ 378,066	$ 130,821
$ 636,866	$ (601,474)	$ 2,368,926	$ 1,571,352
$ (123,909)	$ (5,270)	$ (1,514,883)	$ (2,497,681)
(53,752)	0	(754,919)	(146,147)
(21,283)	0	(21,283)	(23,337)
0	0	0	0
(1,956,174)	0	(7,998,974)	(6,214,549)
0	0	0	0
(135,852)	601,474	(230,931)	6,872
$ (2,290,970)	$ 596,204	$ (10,520,990)	$ (8,874,842)
$ (1,654,104)	$ (5,270)	$ (8,152,064)	$ (7,303,490)
$ 5,659	$ 0	$ 28,898	$ 1,376
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	172
$ 5,659	$ 0	$ 28,898	$ 1,548
47,020	0	95,884	82,909
34,252	0	699,913	257,468
0	0	0	0
2,268,001	0	6,025,370	5,003,845
0	0	0	0
(545,047)	0	(556,029)	(440,090)
$ 1,804,226	$ 0	$ 6,265,138	$ 4,904,132
$ 1,809,885	$ 0	$ 6,294,036	$ 4,905,680
$ 155,781	$ (5,270)	$ (1,858,028)	$ (2,397,810)

Department of Defense - Army Working Capital Fund

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Working Capital Funds	2005 Combined	2004 Combined
Budgetary Financing Accounts			
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 0	$ 0	$ 219,300
Borrowing authority	0	0	0
Contract authority	10,951,904	10,951,904	2,106,368
Net transfers (+/-)	0	0	(1,448,600)
Other	0	0	0
Unobligated balance:			
Beginning of period	1,530,241	1,530,241	2,093,704
Net transfers, actual (+/-)	(515,944)	(515,944)	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	14,180,280	14,180,280	12,265,860
Receivable from Federal sources	(29,369)	(29,369)	(53,776)
Change in unfilled customer orders	0	0	0
Advance received	19,271	19,271	(17,247)
Without advance from Federal sources	(774,189)	(774,189)	(128,900)
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	13,395,993	13,395,993	12,065,937
Recoveries of prior year obligations	1,435,592	1,435,592	499,733
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(8,798,841)	(8,798,841)	0
Total Budgetary Resources	$ 17,998,945	$ 17,998,945	$ 15,536,442
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:	$		
Direct	0	0	0
Reimbursable	16,822,446	16,822,445	14,006,202
Subtotal	16,822,446	16,822,445	14,006,202
Unobligated balance:			
Apportioned	1,176,499	1,176,499	1,530,241
Exempt from apportionment	0	0	0
Other available	0	1	(1)
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$ 17,998,945	$ 17,998,945	$ 15,536,442
Relationship of Obligations to Outlays:			
Obligated Balance, Net beginning of period	$ 3,968,080	$ 3,968,080	$ 1,898,332
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net end of period:			
Accounts receivable	(433,233)	(433,233)	(462,602)
Unfilled customer order from Federal sources	(3,748,523)	(3,748,523)	(4,522,713)
Undelivered orders	9,775,648	9,775,648	8,334,654
Accounts payable	555,861	555,861	618,741
Outlays:			
Disbursements	14,008,740	14,008,740	11,619,397
Collections	(14,199,551)	(14,199,551)	(12,248,614)
Subtotal	(190,811)	(190,811)	(629,217)
Less: Offsetting receipts	0	0	0
Net Outlays	$ (190,811)	$ (190,811)	$ (629,217)

	Working Capital Funds	2005 Combined	2004 Combined
Non-Budgetary Financing Accounts			
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 0	$ 0	$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	0	0	0
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	0	0	0
Receivable from Federal sources	0	0	0
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	0	0	0
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	$ 0	$ 0	$ 0
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:	$		
Direct	0	0	0
Reimbursable	0	0	0
Subtotal	0	0	0
Unobligated balance:			
Apportioned	0	0	0
Exempt from apportionment	0	0	0
Other available	0	1	(1)
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$ 0	$ 0	$ 0
Relationship of Obligations to Outlays:			
Obligated Balance, Net beginning of period	$ 0	$ 0	$ 0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net end of period:			
Accounts receivable	0	0	0
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	0	0	0
Accounts payable	0	0	0
Outlays:			
Disbursements	0	0	0
Collections	0	0	0
Subtotal	0	0	0
Less: Offsetting receipts	0	0	0
Net Outlays	$ 0	$ 0	$ 0

AT97 - Army Working Capital Fund

($ Amounts in Thousands)

Schedule, Part A DoD Intra-governmental Asset Balances.	Treasury Index:	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		$193			
Department of Agriculture	12		$2			
Department of the Interior	14		$10			
Department of Justice	15		$210			
Navy General Fund	17		$13,783			
Department of State	19		$138			
Department of the Treasury	20	$623,331	$305			
Army General Fund	21		$312,950			
Library of Congress	3		$46			
Department of Veterans Affairs	36		$13			
General Service Administration	47		$358			
Central Intelligence Agency	56		$652			
Air Force General Fund	57		$5,609			
Department of Transportation	69		$411			
Homeland Security	70		$4,366			
Department of Health and Human Services	75		$155			
National Aeronautics and Space Administration	80		$10			
Department of Energy	89		$241			
US Army Corps of Engineers	96		$1,989			
Other Defense Organizations General Funds	97		$9,769			
Other Defense Organizations Working Capital Funds	97-4930		$7,488			
Navy Working Capital Fund	97-4930.002		$5,039			
Air Force Working Capital Fund	97-4930.003		$2,884			
Totals		**$623,331**	**$366,621**			

AT97 - Army Working Capital Fund

($ Amounts in Thousands)

Schedule, Part B DoD Intra-governmental entity liabilities.	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Labor	16			$47,253
Navy General Fund	17	$2,053		
Army General Fund	21	$26,041		$19,661
Office of Personnel Management	24			$8,665
Air Force General Fund	57	$421		
US Army Corps of Engineers	96	$0		
Other Defense Organizations General Funds	97	$80		
Other Defense Organizations Working Capital Funds	97-4930	$67,316		
Navy Working Capital Fund	97-4930.002	$6,634		
Air Force Working Capital Fund	97-4930.003	$3,059		
Totals		**$105,604**		**$75,579**

Required Supplemental Information - Part C

AT97 - Army Working Capital Fund

($ Amounts in Thousands)

Schedule, Part C DoD Intra-governmental revenue and related costs.	Treasury Index:	Earned Revenue
Executive Office of the President	11	$627
Department of Agriculture	12	$80
Department of the Interior	14	$41
Department of Justice	15	$1,328
Navy General Fund	17	$372,869
Department of State	19	$1,442
Department of the Treasury	20	$669
Army General Fund	21	$6,143,838
Library of Congress	3	$283
Department of Veterans Affairs	36	$18
General Service Administration	47	$1,638
Central Intelligence Agency	56	$3,987
Air Force General Fund	57	$247,796
Department of Transportation	69	$3,585
Homeland Security	70	$22,224
Department of Health and Human Services	75	$1,135
National Aeronautics and Space Administration	80	$524
Department of Energy	89	$295
US Army Corps of Engineers	96	$4,528
Other Defense Organizations General Funds	97	$190,876
Other Defense Organizations Working Capital Funds	97-4930	$51,174
Navy Working Capital Fund	97-4930.002	$205,357
Air Force Working Capital Fund	97-4930.003	$302,041
Totals		**$7,556,355**

AT97 - Army Working Capital Fund

($ Amounts in Thousands)

	Treasury Index:	Transfers In	Transfers Out
Army General Fund	21		$700,000
Other Defense Organizations Working Capital Funds	97-4930	$184,056	
Totals		**$184,056**	**$700,000**

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 08, 2005

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Fiscal Year 2005 Army Working Capital Fund Financial Statements (Report No. D 2006 014)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army Working Capital Fund Consolidated Balance Sheet as of September 30, 2005 and 2004, the related Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Combined Statement of Financing for the fiscal years then ended. The financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations. We are unable to give an opinion on the Fiscal Year 2005 financial statements of the Army Working Capital Fund because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of the audit.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the financial management and feeder systems that Army relies on to provide evidence supporting the Army Working Capital Fund financial statements do not comply with Federal financial management system requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not perform auditing procedures to determine whether material amounts on the financial statements were fairly presented. We did not perform these and other auditing procedures because Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. The Army has also acknowledged, and prior audits have identified, the material weaknesses listed in the Summary of Internal Control. These material weaknesses also affect the reliability of certain information contained in the annual financial statements—much of which is taken from the same data sources as the principal financial statements.[1] Therefore, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

Summary of Internal Control

In planning our audit, we considered Army internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management

[1] The annual financial statements include the principal financial statements, management discussion and analysis, consolidating and combining financial statements, Required Supplementary Information, and Other Accompanying Information.

and Budget guidance, but our purpose was not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance. However, previously identified reportable conditions,[2] all of which are material, continue to exist in the following areas.

- Financial Management Systems and Processes
- Inventory
- General Property, Plant, and Equipment
- Intragovernmental Transactions and Eliminations
- Accounting Adjustments
- Accounts Payable
- Statement of Net Cost
- Statement of Financing

Material weaknesses are reportable conditions in which internal controls do not reduce (to a relatively low level) the risk of misstatements that are material to the financial statements and that might not be timely detected by employees while performing their normal, assigned functions. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited because management acknowledged, and prior audits confirm, that instances of noncompliance continue to exist. The Army acknowledged to us that many of its critical financial management and feeder systems do not comply with the requirements of the Federal Financial Management Information Act of 1996. Therefore, we did not determine whether the Army was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to Army officials.

Paul J. Granetto
Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Attachment:
As stated

[2] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

Report on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses that could adversely affect a favorable opinion on internal control.

Material Weaknesses. Management acknowledged that previously identified reportable conditions, all of which are material, continue to exist.

Financial Management Systems and Processes. Army Working Capital Fund systems are unable to meet all of the requirements for full accrual accounting. The systems do not collect and record financial information, as required by generally accepted accounting principles. Financial and nonfinancial feeder systems are not integrated and do not contain an audit trail for the proprietary and budgetary accounts. The Army Working Capital Fund derives most of its financial information for major accounts from noncompliant financial systems, such as the Commodity Command Standard System and the Logistics Modernization Program.

In FY 2003, the Army began deployment of the Logistics Modernization Program as the system solution for achieving a clean opinion for the Army Working Capital Fund. The scheduled completion date for the second deployment of the Logistics Modernization Program was initially February 2005, with full deployment anticipated by September 2005. However, numerous development problems and the inability to stabilize data at the initial deployment sites prevented the second deployment from occurring during FY 2005. The second of three planned deployments has slipped at least until the third quarter of FY 2006. The Army was unable to provide a firm date for the full deployment of the Logistics Modernization Program. This delay severely impairs the Army's ability to obtain a clean opinion on the Army Working Capital Fund financial statements in the near future.

The DoD-Wide systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely. The Under Secretary of Defense (Comptroller)/Chief Financial Officer recommended updating the Logistics Modernization Program to support the Standard Financial Information Structure. The Standard Financial Information Structure embodies the end-to-end defense financial management process, enabling traceability of budget resources throughout a transaction's lifecycle. It will allow future core financial system interoperability, establish tracking and audit traceability at the transaction level, and provide a financial data framework compliant with Federal requirements and consistent with private-sector best practices. Updating the Logistics Modernization Program to support the Standard Financial Information System may further delay full deployment of the Logistics Modernization Program.

Other system changes are necessary. For example, the Logistics Modernization Program is unable to record memorandum entries in the U.S. Government Standard General Ledger for current year asset activity as required by the Federal financial management systems. This is a critical reporting shortfall for which a system change is needed. The Army Working Capital Fund disclosed financial management system deficiencies in notes to the FY 2005 financial statements.

Inventory. The existing inventory valuation method does not produce an auditable approximation of historical cost. The Army uses the latest acquisition cost method of valuing most of the inventory because its legacy inventory systems were designed for materiel management rather than accounting. The systems provide accountability and visibility over inventory items, but do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems are unable to produce financial transactions using the U.S. Government Standard General Ledger accounts and neither the Defense Finance and Accounting Service nor the Army reconciled all differences between the accounting records and the logistical records. Instead, they accepted the data from the logistical records and adjusted the accounting records by about $3 billion. During the initial deployment of the Logistics Modernization Program, Army and Defense Finance and Accounting Service users reported problems associated with duplicate and inaccurate postings of inventory and financial transactions. During FY 2005, at least $5.6 billion in adjustments were made to correct the inaccurate postings.

General Property, Plant, and Equipment. The value of Army Working Capital Fund General Property, Plant, and Equipment is not reliably reported because the Army lacks supporting documentation, is unable to properly calculate depreciation costs, and fails to report the full value of property in the possession of contractors. Information on the acquisition date and cost is not always available and is sometimes recorded incorrectly. During FY 2005, the Army implemented system improvements to the Integrated Facilities System, designed to bring the system into compliance with the Federal Financial Management Information Act of 1996. They also took actions to resolve issues in reporting the value of general equipment and property in the possession of contractors and internal use software in the Defense Property Accountability System.

Intragovernmental Transactions and Eliminations. DoD is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified. DoD and Army systems do not adequately capture the financial data for buyer-side trading partners at the transaction level for use in reconciliation and elimination. As a result, DoD did not require trading partner reconciliations. Instead, the Defense Finance and Accounting Service required adjusting buyer-side transaction data to equal the seller-side transactions data without performing proper reconciliations. Defense Finance and Accounting Service Indianapolis made $10.8 billion in adjustments to intragovernmental accounts to force the accounts to agree with the records of Army Working Capital Fund trading partners.

Accounting Adjustments. Defense Finance and Accounting Service Indianapolis did not adequately support approximately $1.5 billion in adjustments. This amount is a forced balance made to agree with other sources of information and records used to prepare the FY 2005 Army Working Capital Fund Financial Statements. An additional $78.5 million in adjustments did not have adequate documentation attached to the journal vouchers to support either the reason for the adjustments or the dollar values. The unsupported adjusting accounting entries presented a material uncertainty regarding the line item balances on the FY 2005 Army Working Capital Fund Financial Statements. These adjustments affected the financial information on all of the statements. Defense Finance and Accounting Service Indianapolis did not always follow the established minimum requirements for documenting journal vouchers to support adjusting accounting entries made to the general ledger accounts.

Accounts Payable. Defense Finance and Accounting Service Indianapolis made significant adjustments to the accounts payable balances to derive the reported balances. Defense Finance and Accounting Service Indianapolis adjusted accounts payable with the public upward by $2.4 million for undistributed disbursements. Also, Defense Finance and Accounting Service Indianapolis was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. As a result, the Defense Finance and Accounting Service made $123.3 million in unsupported adjustments to decrease intragovernmental accounts payable to force the amounts to agree with Army Working Capital Fund trading partners. In addition, accounts payable in the Supply Management activity group were not established in accordance with Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," which requires that an accounts payable be established when the Army accepts title to the goods or services. The Army Working Capital Fund recognized accounts payable based on the physical receipt of the goods or services rather than when the Government accepted title to the goods or services. Further, the accounts payable balances were misstated by approximately $360 million because the Logistics Modernization Program reported accounts payable related to inventories in transit as "other liabilities." As a result, the Army Working Capital Fund could not ensure that its Accounts Payable line was not materially misstated.

Statement of Net Cost. The Statement of Net Cost was not presented by responsibility segments consistent with DoD performance goals and measures. Accounting systems were unable to accurately capture costs for Army

Working Capital Fund programs and properly account for intragovernmental transactions and related eliminations. In addition, some of the Army Working Capital Fund's financial data presented on the Statement of Net Cost were based on budgetary transactions.

Statement of Financing. The Statement of Financing was prepared on a combined basis, while the Statement of Net Cost was prepared on a consolidated basis. In addition, the Army cannot reconcile budgetary obligations to net cost without making unsupported adjustments.

These financial management deficiencies are indications of material weaknesses in internal control that may adversely affect any decision by the Army that is based, in whole or in part, on information that is inaccurate because of these deficiencies. Financial information reported by DoD may also contain misstatements resulting from these deficiencies.

Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Army Working Capital Fund was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations.

Statutory Financial Management Systems Reporting Requirements. The Army Working Capital Fund is required to comply with financial management systems reporting requirements. For example, the Federal Financial Management Information Act of 1996 requires DoD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires the Army to evaluate its systems and to report annually whether those systems comply with applicable requirements. The Chief Financial Officers Act of 1990 requires that each agency develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control. The system should comply with internal control standards and applicable accounting principles, standards, and requirements; and it should provide complete, reliable, consistent, and timely information.

The Army acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, generally accepted accounting principles, and U.S. Government Standard General Ledger at the transaction level. The Army was also unable to comply with the Chief Financial Officers Act of 1990, which requires agencies to develop and maintain integrated agency accounting and financial systems.

Audit Disclosures

The Army acknowledged to us on April 13, 2005, that the Army Working Capital Fund financial management systems cannot provide adequate evidence supporting various material amounts on the financial statements. Therefore, we did not conduct audit work related to the previously identified deficiencies.

In addition, we did not perform audit work related to the following selected provisions of laws and regulations.

- Antideficiency Act
- Provisions Governing Claims of the United States Government
- Federal Credit Reform Act of 1990
- Pay and Allowance System for Civilian Employees
- Prompt Payment Act

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance because previous audit reports contained recommendations for corrective actions.

Civil Works Fund

The Civil Works' mission is constantly evolving to keep pace with the changing needs of the Nation. Today, those missions fall in four broad areas: water infrastructure, environmental management and restoration, emergency response and assistance, and engineering support and technical services.

Civil Works Fund – Management's Discussion & Analysis

Overview

Mission

The civil works mission is to contribute to the national welfare and serve the public by providing the nation and the Army with quality, responsive development and management of the nation's water resources; protection, restoration, and management of the environment; disaster response and recovery; and engineering and technical services. The mission will be accomplished in an environmentally sustainable, economic, and technically sound manner through partnerships with other governmental agencies and nongovernmental organizations.

Developing and Managing Water Resources

The original civil works mission, as it related to developing and managing water resources, was to support navigation by maintaining and improving water channels. In 1824, legislation authorized the U.S. Army Corps of Engineers (Corps of Engineers, the Corps) to improve safety on the Ohio and Mississippi Rivers. The Rivers and Harbors Act of 1909 authorized the consideration of various water uses—including hydroelectric power generation—in the planning, design, and construction of water resource development projects. The 1917 Flood Control Act established a role for the civil works program in flood damage reduction, and in 1936 a flood control act gave the program the responsibility for providing flood protection for the entire country.

Recreational facilities at reservoirs were added to the portfolio by the Flood Control Act of 1944. The 1962 River and Harbor Flood Control Act expanded the recreation mission, providing authority to build, where feasible, recreational facilities as part of all water resource development projects. Another aspect of water resources management is that of water supply.

The changing role of the civil works mission in water supply has been directed by a series of water resources development acts. The Water Supply Act of 1958 gave the civil works program the authority to include water storage in both new and existing reservoir projects for municipal and industrial uses at 100 percent nonfederal cost.

Protecting, Restoring, and Managing the Environment

The Rivers and Harbors Act of 1899 required the Corps to prevent the obstruction of navigable waterways. As concern over the environment grew in the late 20th century, the Clean Water Act of 1972 greatly broadened the Corps' responsibility by providing authority over the dredging and filling in of United States' waters, including the country's wetlands. The civil works program's environmental responsibilities were further broadened by new legislation introduced in 1986 that expanded the Corps' traditional environmental mitigation activities to include the enhancement and restoration of the natural environment at Corps' projects and in areas not directly tied to those projects. This legislation made the provision of environmental protection one of the primary missions of the Corps' water resource development activities.

Responding and Assisting in Disaster Relief

Throughout the Corps' history, America has relied on the civil works program for help in times of national disaster. This help is now provided under two basic authorities: the Flood Control and Coastal Emergency Act (P.L. 84-99, as amended), and the Robert T. Stafford Disaster and Emergency Assistance Act. Under P.L. 84-99, the program has direct authority to provide emergency assistance during or following flooding events to protect lives, public facilities, and

U.S. Army Corps of Engineers deployable tactical operations system (DTOS) trailers assist in hurricane recovery effort.

infrastructure. Under the Stafford Act, the program supports the Federal Emergency Management Agency (FEMA) in carrying out the Federal Response Plan, which calls upon 26 federal departments and agencies to provide coordinated disaster relief and recovery operations. The primary role of the civil works program in emergency relief and recovery operations is to provide public works and engineering support.

Providing Engineering Support and Technical Services

In Titles 10 and 33 of the U.S. Code, Congress expresses its intent that the Corps provide services on a reimbursable basis to other federal entities; state, local, and tribal governments; private firms; and international organizations. Additional authorities to provide services that are applicable to all federal agencies are provided in Titles 15, 22, and 31. These authorities include providing services to friendly foreign governments.

Civil Works Programs

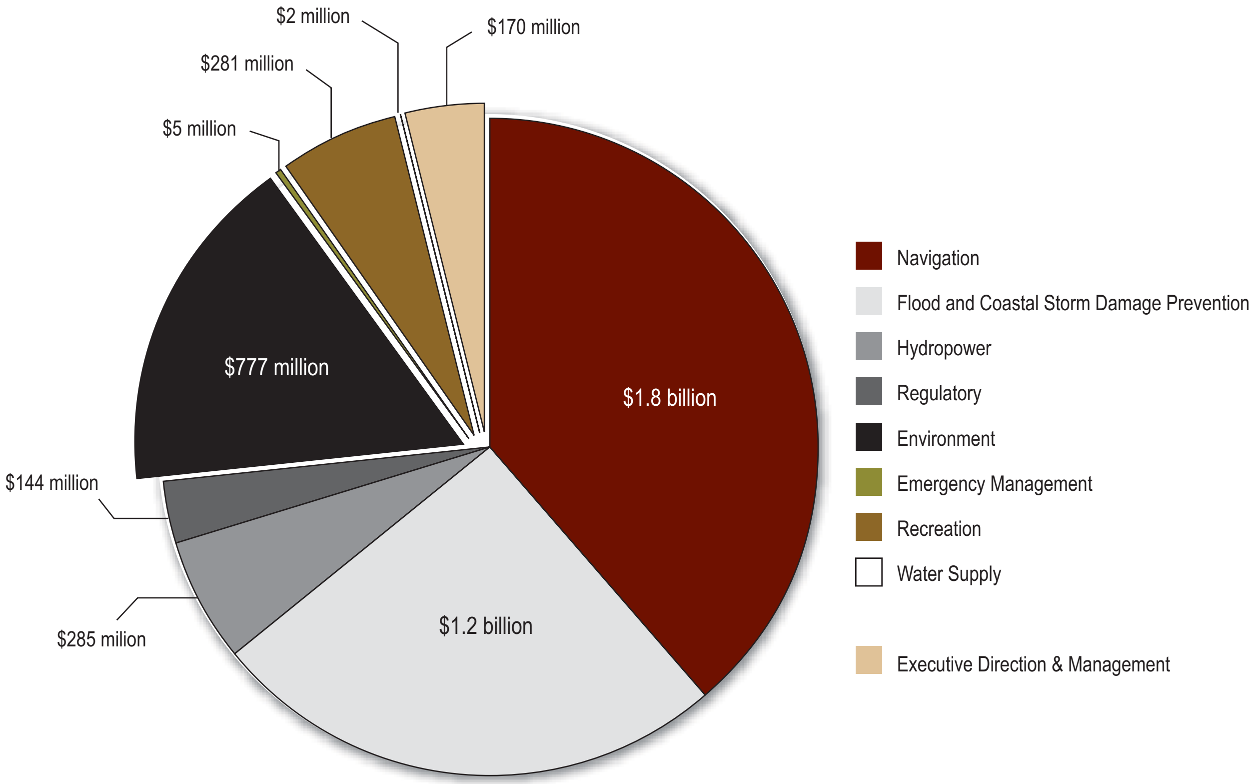
The Corps utilizes nine programs to accomplish the four components of its mission. Figure 19 lists the eight programs that receive direct appropriations; further it shows the funds used for executive direction and management for those programs. The ninth program, support for others, is conducted on a reimbursable basis. Each program specifically addresses a single mission component, but all nine programs may also contribute to one or more of the other missions.

Navigation

The navigation program is responsible for providing safe, reliable, efficient, and environmentally sustainable waterborne transportation systems for the movement of commercial goods and for national security needs. The program seeks to meet this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The navigation program is vital to the nation's economic prosperity: 95 percent of America's overseas international trade moves through its ports.

Our nation's marine transportation system (MTS) encompasses a network of navigable channels, waterways, and infrastructure maintained by the Corps, as well as publicly and privately owned vessels, marine terminals, inter-modal connections,

Figure 19. FY 2005 Civil Works Initial Appropriation by Program



shipyards, and repair facilities. The MTS consists of approximately 12,000 miles of inland and intracoastal waterways; 926 coastal, Great Lakes, and inland harbors; and channel projects that are maintained by the Corps.

America's inland waterways provide a highly fuel-efficient mode of transportation, with waterborne shipping able to move freight at more than 530 ton-miles per gallon of fuel, compared to the approximately 420 ton-miles per gallon that rail transportation achieves. Use of waterways rather than rail or other modes translates to an annual savings of $7 billion in transportation costs. The U.S. marine transportation industry supports nearly $1 trillion in commerce, accounting for 28 percent of the nation's gross domestic product, and creates employment for 13 million people.

Major Commodities Moved on Inland Waterways in Calendar Year (CY) 2004	
Crude Oil	613 million tons
Petroleum Products	501 million tons
Coal	306 million tons
Food and Farm Products	271 million tons

NOTE: Statistics are compiled on a calendar year basis. CY 2005 statistics not available at time of printing.

The MTS is nearing capacity, but it is projected that

A container vessel navigates the Kill Van Kull channel as it passes under the Bayonne Bridge, N.J. The Corps has deepened this channel to accommodate modern shipping vessels.

the demand on it will grow substantially: the volume of domestic and international marine trade is expected to double by 2020. The containership of choice is rapidly becoming a vessel requiring 45 to 50 feet of depth. Few U.S. ports have a 50-foot depth, but many international ports do. Global competitiveness requires ready ports, which in turn requires maintaining adequate channels. The deepening and widening of channels will produce greater quantities of dredged material; therefore, stressing both the physical capacity of the U.S. dredging fleet and the ability to dispose of the dredged material economically and in an environmentally acceptable manner. Managing sediment materials raises environmental issues on the inland system. Sustainable approaches that can reduce dredging and disposal needs include innovative and environmentally acceptable upstream sediment control and best management practices. Nonstructural solutions include more reliance on traffic management planning on inland waterways with the aid of new technologies for traffic control and lock operations that are compatible with aquatic ecosystems, and more efficient use of multi-modal transportation systems.

In FY 2005, this $1.81 billion navigation program accounted for almost 39 percent of civil works appropriations.

Flood and Coastal Storm Damage Reduction Program

This program is aimed at saving lives and reducing property damage in the event of floods and coastal storms. The civil works program has constructed 8,500 miles of levees and dikes, 383 reservoirs, and more than 90 shore protection projects along 240 miles of the nation's 2,700 miles of shoreline. With the exception of the reservoirs, most of the infrastructure constructed under this program is owned and operated by the sponsoring cities, towns, and agricultural districts.

Average Annual Damage Results for Period 1995 – 2004	
Damaged Suffered	$5.4 billion
Damage Prevented	$22.9 billon

The flood and coastal storm damage reduction program has compiled an impressive record of performance. In the period 1995–2004, floods in unprotected areas caused the United States an average of $5.4 billion yearly in property damage. In the same period, Corps projects in protected areas prevented $22.9 billion in average annual damages. Through FY 2000, the nation had invested $43.6 billion ($122 billion, adjusted for inflation) in flood damage reduction projects, preventing an estimated $419 billion ($709 billion, adjusted for inflation) of flood damage. Adjusted for inflation, these figures show a return on investment of more than $6.36 in damage prevented for each dollar spent. The program also has helped reduce the number of lives lost annually due to floods from an average of 179 in the decade 1972–1981 to 89 in the period 1991–2000.

As an increasingly mobile society moves toward

America's coastal regions, protecting the coastline is a matter of rising federal concern. The flood and coastal storm damage reduction program seeks the most economical and environmentally sound solutions to provide flood and coastal protection. Most shore protection projects are carried out at the request of local sponsors and are authorized and funded by Congress. The costs of these projects are shared with the state and local governments within whose jurisdiction the project falls. Projects are performed only on publicly accessible beaches and only after thorough studies have determined that there exists a positive benefit-to-cost ratio.

For example, the Corps recently completed a seven-year project that will protect millions of Americans in Los Angeles County. In the early 1990s, the 2,000-square-mile Los Angeles County drainage area was only partially protected from floods. Enormous population growth in the area rendered the existing flood control system inadequate, to the extent that FEMA required residents to hold mandatory flood insurance. Initiated in 1996 at an estimated cost of more than $450 million, the Los Angeles County Drainage Area Project was completed for roughly $200 million, of which the civil works program paid $150 million. The project built 21 miles of parapet walls, reinforced the back slopes of levees, and modified or raised 26 bridges. One result of these improvements was FEMA removing the requirement for flood insurance.

In FY 2005, this $1.19 billion flood and coastal storm damage reduction program accounted for more than 25 percent of civil works appropriations.

Environmental Protection, Restoration, and Management

This evolving and growing business program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development. Responding to the growing national demand for restoration and protection, the program's work takes many forms, ranging from: monitoring water quality at dam sites, to operating fish hatcheries with the states, to restoring the environment at the sites of earlier projects. Since 1998 the Corps has added more than 120,000 acres of aquatic, wetland, and floodplain ecosystems to America's natural habitats.

One example is the Corps' continuing work on the Kissimmee River Project in Florida. This civil works project will restore 52 miles of the river and 27,000 acres of wetlands, improving water quality and restoring the natural habitat for more than 300 species of fish and wildlife.

Kissimme River C-38 Restoration Project, FL.

Ducks, geese and other waterfowl are protected on more than 85,200 acres of Army Corps of Engineers land devoted to wildlife management.

In another example, the Corps and the Nature Conservancy are collaborating on the Sustainable Rivers Project, an effort to improve the management of dams on nine rivers. The project seeks to improve dam operations, helping to restore and protect the health of rivers and surrounding natural areas, while continuing to meet human needs for services such as flood damage reduction and power generation. The collaborative effort is initially examining the potential to improve operations at 13 dams on nine rivers in nine states.

In 1997, the civil works program took over from the Department of Energy the Formerly Utilized Sites Remedial Action Program, which mandates the cleanup of former Manhattan Project and Atomic Energy Commission sites. The transfer of this program to civil works capitalizes on the Corps' experience gained in cleaning up former military sites and hazardous waste sites under the Environmental Protection Agency's Superfund Program.

In FY 2005, this $777 million environmental protection, restoration, and management program accounted for over 16 percent of civil works appropriations.

Regulation of Wetlands and Waterways

In accordance with the Rivers and Harbors Act of 1899 (Sec. 10) and the Clean Water Act of 1972 (Sec. 404), as amended, the Army Civil Works Regulatory Program regulates the discharge of dredged and fill material into waters of the United States, including wetlands. Section 10 applies to navigable waters, while section 404 applies more broadly to waters of the United States, which include navigable waters, their tributaries, and wetlands.

Throughout the permit evaluation process, the Corps must comply with the National Environmental Policy Act and other applicable environmental and historic preservation laws. The objective of the program is to protect America's aquatic resources while allowing reasonable use of private property for important economic or infrastructure development on both private and public lands.

The Corps must consider the views of other federal, tribal, state, and local governments and agencies; interest groups; and the general public when rendering its final permit decisions. The regulatory program seeks to balance the reasonably foreseeable benefits and detriments of proposed projects with the goal of making permit decisions that recognize the essential values of aquatic ecosystems to the general public and national security.

The Corps must make final permit decisions that are not contrary to the public interest; therefore, the Corps authorizes only projects that represent the least environmentally damaging practical alternative. The Corps works with project proponents first and foremost to avoid and minimize impacts to the aquatic environment. Unavoidable adverse impacts to the aquatic environment must be offset by the implementation of compensatory mitigation projects that are designed to restore, enhance, establish, or protect and maintain aquatic functions and values. A critical objective for the Corps is that it make efficient and timely permit decisions that result in regulatory consistency and predictability for all interested parties.

In FY 2005, this $144 million regulation of wetlands and waterways program accounted for three percent of civil works appropriations.

Emergency Management

Emergency management is an increasingly important part of the civil works program. The Corps responds to more than 30 presidential disaster declarations in a typical year, and its highly trained workforce is prepared to deal with both man-made and natural disasters. In 2005 the Corps publicly demonstrated its value and versatility in its response to Hurricanes Dennis and Katrina, removing water from New Orleans, restoring levees, removing debris, opening waterways, and delivering valuable supplies. It also performed lower-profile but equally important work during the St Georges, UT, wildfires; in its response to the four hurricanes that hit Florida in 2004; and in numerous other emergency support operations..

The southeastern United States was hit by three major hurricanes within a 13-week period at the end of FY 2005:.

- Hurricane Dennis – Category 3 – July 1, 2005
- Hurricane Katrina – Category 4 – August 29, 2005
- Hurricane Rita – Category 3 – September 24, 2005

In its September 1, 2005, tropical weather summary, the National Weather Service wrote:

> Katrina will likely be recorded as the worst natural disaster in the history of the United States ... producing catastrophic damage and untold casualties in the New Orleans area and along the Mississippi Gulf Coast ... and additional casualties in South Florida. The extent of the physical and human devastation from this hurricane cannot yet be estimated.

On September 26, 2005, the death toll from Hurricane Katrina was raised to 1,069; on September 19, 2005, property damage was estimated to be between $100 and $200 billion, making Katrina the most expensive natural disaster in U.S. history. Aggravating the situation, Hurricane Rita, following closely behind Hurricane Katrina, prompted the evacuation of almost three million people. Four divisions of the Corps - South Atlantic, Mississippi River, Great Lakes and Ohio River, and Southwestern Divisions - were directly affected by these hurricanes, and every Corps organization contributed to the post-Katrina recovery effort. More than 3,000 Corps employees were directly assigned to the relief effort.

In addition to the contribution the Corps makes to domestic emergency management efforts, it also plays a major role on the international stage through its participation in the civil military emergency preparedness program. In support of DoD, the Corps shares emergency management knowledge and expertise with U.S. Allies and partners in the former Soviet republics and Eastern Europe. This valuable program brings together key leaders and builds relationships between nations in direct support of the National Defense Strategy.

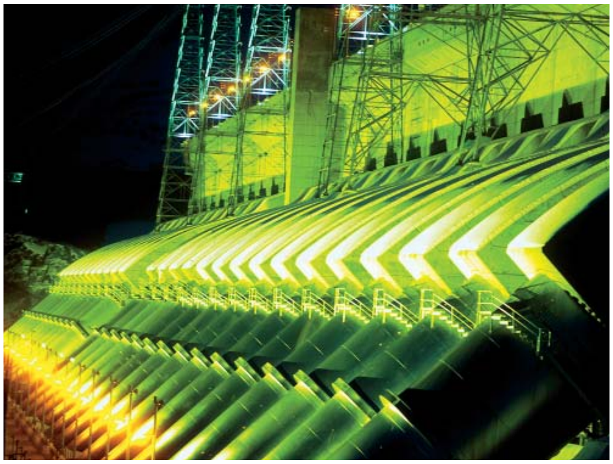
In FY 2005, this emergency management program received new budget authority of $5 million, accounting for less than one percent of civil works' new appropriation authority.

Hydropower

The Corps' multi-purpose authorities afford hydroelectric power as an additional benefit of projects built for navigation and flood control. The Corps is the largest owner/operator of hydroelectric power

Two barge loads of pumping equipment and their support crew from the Corps of Engineers Little Rock District pass through the Inner Harbor Navigation Canal Lock. The equipment was unloaded in New Orleans to help pump the water out of the lower Ninth Ward.

U.S. Army Corps of Engineers New Orleans District Project Manager Stuart Waits watches as workers hook up cables to an Army National Guard CH-47 Chinook helicopter to lift 5,000 pound sandbags for transport to the Industrial Canal in New Orleans.



Penstocks feeding Columbia River water to hydropower generating units at the Chief Joseph Dam, Washington.

plants in the United States and one of the largest in the world. The Corps operates 345 generating units at 75 multipurpose reservoirs, mostly in the Pacific Northwest, accounting for about 24 percent of America's hydroelectric power and about three percent of the country's total electric generating capacity. Its hydroelectric plants produce nearly 100 billion kilowatt-hours each year, sufficient to serve about 10 million households – equal to ten cities the size of Seattle, Washington. Hydropower is a renewable source of energy and one of the least environmentally disruptive sources of electric power, producing none of the airborne emissions that contribute to acid rain or the greenhouse effect. Hydroelectricity is distributed by federal power marketing agencies. Currently, the Bonneville Power Administration directly finances the operation and maintenance costs at Corps hydroelectric projects in the Pacific Northwest. The Corps is working with the Southeastern, Southwestern, and Western Power Administrations on a legislative proposal to authorize a similar direct financing arrangement for Corps hydropower facilities in those regions as well.

At the end of every fiscal year, the Corps is required to develop a statement of its hydropower expenses broken down into plant, district, and region. These expenses are monitored through regional alliance meetings where Corps customers and stakeholders, including the power marketing administrators (PMAs), are represented. Once completed, the expense statement is audited by an outside contractor and passed on to the PMAs. The PMAs in turn use this information to update and adjust their power repayment study, which analyzes rates and revenues for current and future years. The PMAs collect power receipts (revenues) throughout the year and return the receipts to the U.S. Treasury. The actual summary total of receipts deposited to the treasury in any given year is reported back to the Corps for inclusion in the annual financial report.

In FY 2005, this $285 million hydropower program accounted for just over six percent of civil works appropriations.

Water Supply

Careful management of the nation's water supply is critical to limiting water shortages and lessening the impact of droughts. The Corps has an important role in ensuring that homes, businesses, and farms nationwide have enough water to meet their needs. The Corps has the authority for water supply as part of projects that serve navigation, flood protection, and hydroelectric purposes. There are over 9.5 million acre-feet of municipal and industrial storage space – equal to 3.1 trillion gallons of water – in 177 Corps reservoirs in 24 states and Puerto Rico. At a rate of 750 gallons per day, this is enough water to fulfill every American's water needs for 17 days.

In FY 2005, this $2 million water supply program accounted for less than one percent of civil works appropriations.

Recreation

The Corps is an important provider of outdoor recreation as an ancillary benefit of flood prevention and navigation projects. The Corps manages recreation areas on 12 million acres, representing two percent of federal lands. An additional 600 state parks, 600 local government parks, and 420 quasi-public areas on Corps land are managed by other organizations. The Corps operates more than 4,300 recreation sites at 463 projects, mostly lakes, and hosts more than 370 million visits a year at its facilities. The Corps currently collects about $34 million in recreation user fees annually. This program has significant economic impact in that its recreation projects provide 500,000 full- or part-time jobs, generating $15 billion annually in visitor spending. In an average year, visitors to Corps' lakes spend just over $6 billion in the local communities for gas, food, and lodging.

This $281 million recreation program accounted for six percent of the civil works' budget in FY 2005. More than ten percent of the U.S. population visits at least one Corps project each year to swim, fish, boat, hike, or camp out.

Organizational Structure

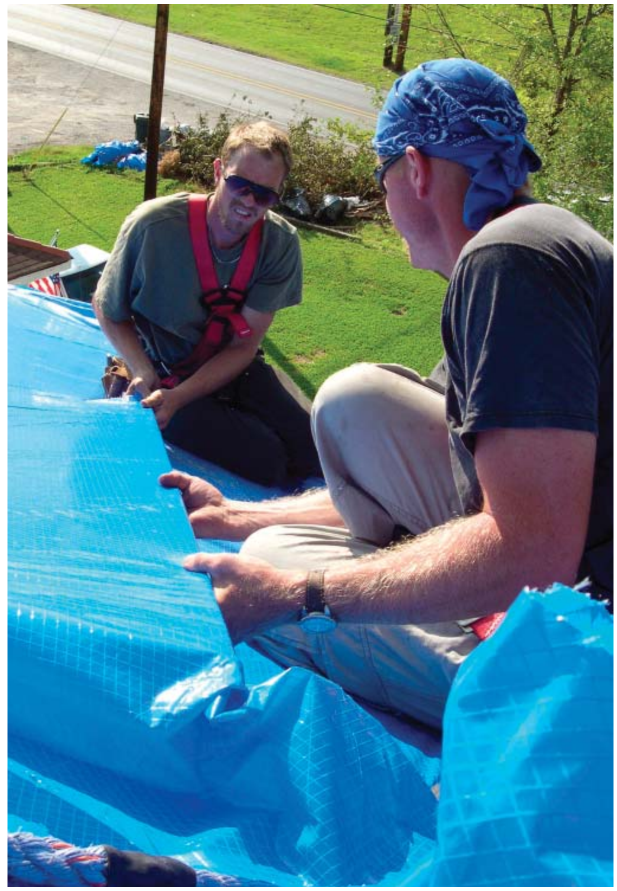
The Workforce

The civil works program employs more than 34,000 people, including 650 military officers and 24,800 civilians, who perform civil works duties. It is funded through the energy and water development appropriation and executes programs through eight regional divisions and 38 of the 45 districts of the Corps of Engineers – the remaining seven districts have only military related missions.

Figure 20 shows the division boundaries. Rather than being demarcated by state boundaries, these are defined by watersheds and drainage basins, reflecting the water resources nature of the civil works mission.

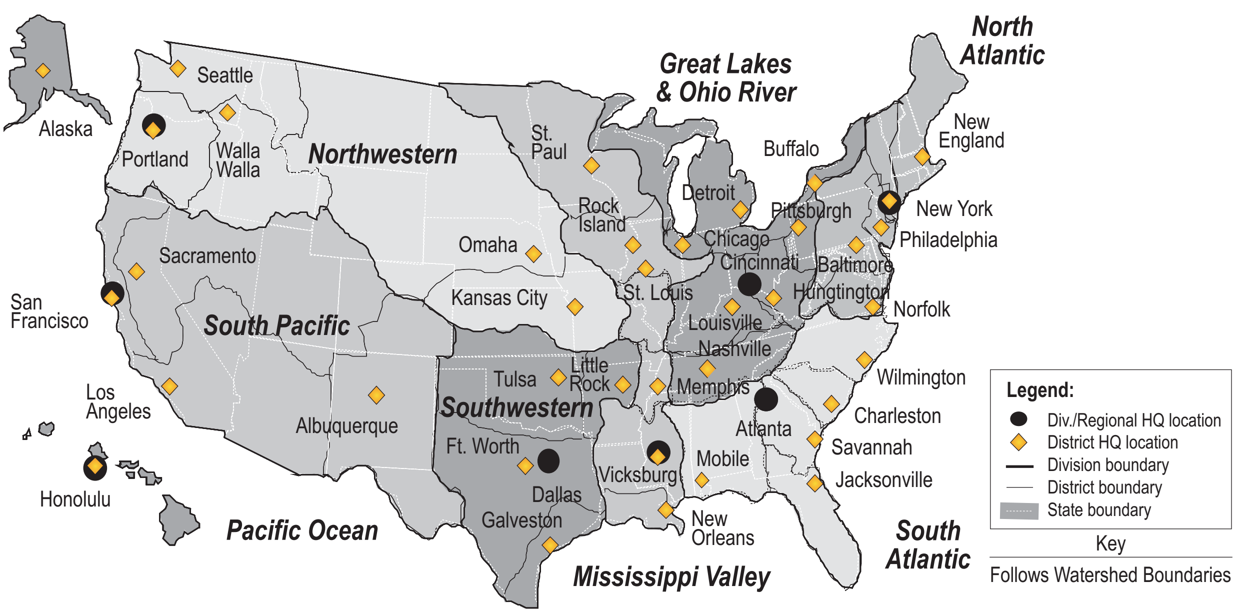
The distribution of civil works employees similarly highlights the customer focus of the program: 95 percent of employees work at the district level, reflecting the fact that project management is performed at the district level.

The civil works program contracts out to civilian companies all of its construction and approximately 50 percent of its design work. As many as 150,000 people are indirectly employed in support of civil works projects. These contractual arrangements have served the nation well in times of emergency.



Corps of Engineers contractors install a blue roof on a house in eastern Jefferson Parish, Louisiana in support of Hurricane Katrina recovery efforts.

Figure 20. Civil Works Boundaries



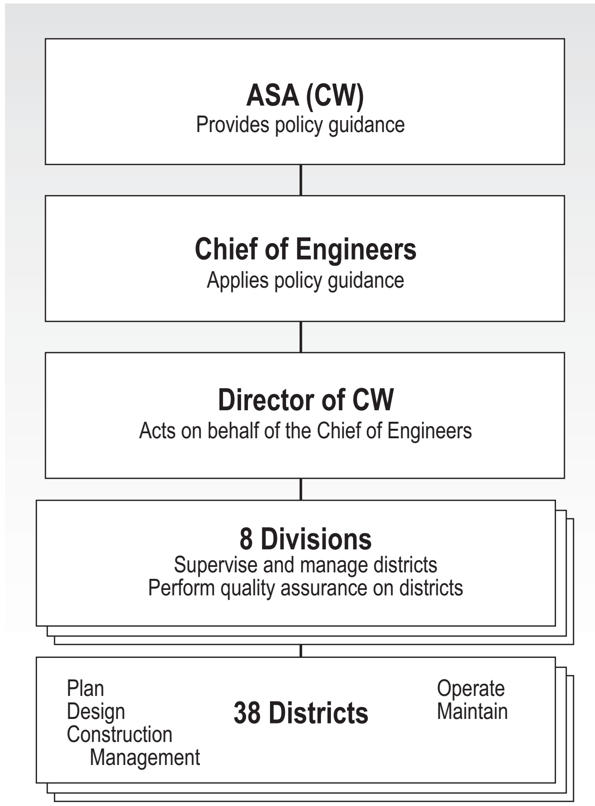
The Leadership

Oversight of civil works is provided through four levels of authority. As shown in Figure 21, the Assistant Secretary of the Army for Civil Works (ASA (CW)) is appointed by the President and is responsible for civil works policy. The military Chief of Engineers, who reports to the ASA (CW) and is responsible for mission accomplishment, delegates most of his responsibilities for managing the various programs to the Director of Civil Works. The Chief of Engineers, through the Director of Civil Works, is responsible for the leadership and management of the civil works program and for ensuring that policies established by the ASA (CW) are applied to all phases of the civil works mission.

The divisions, commanded by division engineers, are regional offices responsible for the supervision and management of their subordinate districts, including the monitoring and quality assurance of district work.

The districts are the foundation of the civil works mission, managing water resource development over a project's life cycle. They conduct planning studies, perform project design, oversee construction by contractors, and manage completed facilities. The districts also develop decision documents, prepare reports and cost estimates, negotiate agreements, and perform all the day-to-day activities that get the job done. They are the program's face to the nation.

Figure 21. Civil Works Levels of Authority



Civil Works Fund Performance Results

Civil works directly impacts America's prosperity, competitiveness, quality of life, and environmental stability. In March 2004 the civil works leaders published a strategic plan to identify and answer the nation's water resource needs, recognizing authorities and funding. Research findings and input from the public, gained through listening sessions, have led the Corps to identify the following five issues as the main water resource challenges facing the nation:

- Balancing demands for water resource development in terms of access to and use of those resources and of the preservation of environmental quality;
- Repairing damage to the nation's environment from past development;
- Addressing the performance and safety implications of an aging water resources infrastructure;
- Ensuring the capability to respond to natural disasters; and
- Minimizing the impact of institutional inhibitors on decision-making and management of water resources.

To address these challenges, the Corps developed the following five strategic goals. Specific objectives associated with each goal enable the measurement of annual performance toward achievement of the goal:

- Provide sustainable development and integrated management of the nation's water resources;
- Repair past environmental degradation and prevent future environmental losses;
- Ensure that projects perform to meet authorized purposes and evolving conditions;
- Reduce vulnerabilities and losses to the nation and the Army from natural and man-made disasters, including terrorism; and
- Obtain recognition as a world-class public engineering organization.

The Corps is in the process of implementing the Civil Works Strategic Plan and has developed the performance measures that are to be used for the goals and objectives. Many of these measures are not yet fully in place, but will be reported in future annual reports as they are implemented and performance data are collected. The performance data included in this report relate to measures that are supportive of the Corps' strategic goals and that were in place prior to the publication of the current plan. They allow for comparison over multiple years.

Strategic Goals

Strategic Goal 1: Provide Sustainable Development and Integrated Management of the Nation's Water Resources

The Corps will facilitate and collaborate in a systems approach to integrated water resources management for the nation. The Corps will work in concert with Native American tribes; federal, state, and local entities; nongovernmental organizations; and the private sector to design shared visions of water solutions that better balance economic, environmental, and social objectives. The Corps will lead the response to valid navigation, flood damage reduction, and environmental demands when it has the responsibility to do so, and will aim to foster and implement more integrated and sustainable solutions. The Corps' staff will seek to create a portfolio of projects that achieve integrated solutions in a watershed or geographic region, including navigation and flood damage reduction projects. Regardless of whether or not the Corps is the lead agency in implementing water solutions, Corps personnel will be cognizant of the impacts projects have on the objectives of others in the region and will work to find mutually acceptable outcomes. The Corps will recommend funding those projects that offer the greatest economic and environmental benefits.

Performance Measure 1: For investments in navigation projects, the benefit-to-cost ratio at the completion of project construction should at least equal the benefit-to-cost ratio at the time of initial project funding. The performance target for FY 2005 was to achieve a benefit-to-cost ratio at completion that is within 10 percent of the initial benefit-to-cost ratio.

Performance Result 1: In FY 2005, one navigation project was budgeted for completion, the deepening of the Los Angeles, California, harbor's main channel. The project was completed with a benefit-to-cost ratio of 4.4, which was within 10 percent of the initial benefit-to-cost estimate of 4.7 used to justify initial project construction funding.

Performance Measure 2: For investments in flood and coastal storm damage reduction projects, the benefit-to-cost ratio at the completion of project construction should at least equal the estimated benefit-to-cost ratio at the time of initial project funding. The performance target for FY 2005 was to achieve a benefit-to-cost ratio at completion within 10 percent of the initial benefit-to-cost ratio.

Performance Result 2: In FY 2005, five flood and coastal storm projects were budgeted for completion. Three of the five projects met the performance target with a benefit-to-cost ratio equaling or exceeding the benefit-to-cost estimate used to justify initial project construction funding. The other two projects failed to meet the 10 percent performance target; but nonetheless were completed with a positive benefit-to-cost ratio, thereby still validating the initial project investment decision.

Strategic Goal 2: Repair Past Environmental Degradation and Prevent Future Environmental Losses

To accomplish the second strategic goal, civil works must anticipate, identify, and address the nation's needs for environmental restoration and water resource enhancement. Civil works will work with its partners, including other federal and state agencies, nongovernmental organizations, and Native American tribes, to develop creative solutions that are both effective and efficient.

Civil works is pursuing the restoration of environmental damages and losses that resulted from past actions. It will exercise its authority to the fullest extent in support of the ecosystem restoration portion of the civil works program. In addition, it will support the national commitment to wetlands – embodied in the Clean Water Action Plan – by adding to the nation's environmental resource base through restoration and enhancement projects. It is working to ensure that there is no further net loss of wetlands due to unwise development.

The environmental program also includes a significant environmental stewardship focus at Corps-operated projects. Strategic goal three focuses on ensuring projects perform to meet authorized purposes and evolving conditions. One important aspect of ensuring that projects perform includes assuring that the Corps is a good environmental steward. Accordingly, an environmental program objective under the third strategic goal is to "ensure healthy and sustainable lands and waters and associated natural resources on Corps lands held in public trust to support multiple purposes."

In addition, the Corps has been given responsibility to execute an environmental clean-up program of contaminated sites under the Formerly Utilized Sites Remedial Action Program. Accomplishment of the clean-up program will result in the elimination of potential risks to health and the environment at these high-priority sites.

Success in pursuit of this strategic goal is demonstrated through the performance measures that have been developed for the environmental and regulatory programs.

Environmental Restoration and Management

This program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development, which is reflected in the inter-related program objectives in the March 2004 Civil Works Strategic Plan. The work undertaken within this program takes many forms, reflecting the growing national demand for restoration, stewardship, remediation, and protection.

The performance data in this section measure the restoration, stewardship, and remediation program objectives of the strategic plan. The next section will cover protecting the environment under the regulatory program. To support restoration the Corps will invest in mitigation and restoration projects or features that make a positive, cost-effective contribution to the nation's environmental resources. The Corps will meet its stewardship objectives by ensuring the health and sustainability of lands, waters, and associated natural resources that it holds in public trust. When authorized or requested by others, the Corps will assist in the cleanup of contaminated, hazardous, toxic, and radioactive waste sites to meet its remediation program objectives.

Performance Measure 1: Program-administered mitigation land complying with the requirements of applicable legislation and Corps decision documents should meet or exceed the annual target, which for FY 2005 was 85 percent. This measure is calculated as a percentage of all designated program-administered mitigation lands that meet mitigation requirements.

Performance Result 1: Table 27 shows mitigation requirements were met for 92 percent of civil works administered mitigation land in FY 2004. Performance results for FY 2005 were not available at the time of publication.

Table 27. Civil Works-Administered Mitigation Land

	FY 2002	FY 2003	FY 2004
Total acreage designated as civil works-administered mitigation land	713,909	625,291	626,373
Mitigation land for which requirements were met (acres)	564,025	566,016	578,076
Percentage of civil works-administered mitigation lands for which mitigation requirements were met	79%	91%	92%

Note: FY 2005 data were not available at time of printing.

Performance Measure 2: This is the percentage in which civil works stewardship should be engaged in opportunities to participate in recovery plan efforts for federally listed species. The performance target of 95 percent was continued in FY 2005 based upon experience gained with baseline performance measurement and the level of funding.

Performance Result 2: Table 28 shows that during FY 2004, the Corps participated in 533 separate opportunities, out of 543 presented, to help in the recovery of federally listed species or their habitat. This signifies a performance result of 98 percent. Performance results for FY 2005 were not available at the time of publication.

Table 28. Recovery Plan Projects

	FY 2002	FY 2003	FY 2004
Number of opportunities to participate in recovery of federally listed species	509	515	543
Number of opportunities taken	496	504	533
Percentage of opportunities taken to assist in the recovery of federally listed species	97%	98%	98%

Note: FY 2005 data were not available at time of printing.

Performance Measure 3: The Corps' goal is to correct 100 percent of all significant findings and 70 percent of all major findings annually at Corps' projects. A significant finding is a determination that the Corps is not meeting an environmental requirement and that the condition poses, or has a high likelihood of posing, a direct and immediate threat to human health, safety, the environment, or the civil works mission. A major finding is a determination that the Corps is not meeting an environmental requirement and that the condition may pose a direct and immediate threat to human health, safety, the environment, or the civil works mission. The success rate of correcting significant and major findings is calculated annually.

Performance Result 3: Although the performance target was not met for significant or major findings in FY 2004, the Corps corrected 9 of 10, or 90 percent (see Table 29), of significant findings. In FY 2005, the Corps corrected the one significant finding remaining at the end of FY 2004. Performance results for FY 2005 were not available at the time of publication. The Corps continues to place a high priority on achieving both performance goals in FY 2006.

Table 29. Correction of Significant and Major Environmental Findings

	FY 2002	FY 2003	FY 2004
Number of significant findings	10	5	10
Percentage corrected	70%	60%	90%
Number of major findings	502	471	795
Percentage corrected	57%	72%	57%

Note: FY 2005 data were not available at time of printing.

Environmental Protection (Regulatory)

The Corps operates a comprehensive regulatory program to protect the aquatic environment from overdevelopment and to protect the navigability of waterways. Management of this program has a related objective of minimizing the time taken to process decisions on requests for permits to work in the waters of the United States.

Performance Measure 1: This measures the Corps' objective to administer the regulatory program in a manner that protects the aquatic environment. The performance target of the civil works program is to realize no net loss of wetlands.

Performance Result 1: Table 30 shows that during FY 2004, 47,243 acres of wetlands were restored, created, enhanced, or preserved, offsetting the 22,102 acres that were lost to permitted development.

Table 30. Development and Mitigation of Wetlands

	FY 2002	FY 2003	FY 2004
Wetland acres permitted for development	24,651	21,330	22,102
Wetland acres mitigated	57,821	43,379	47,243

Note: FY 2005 data were not available at time of printing.

Performance measures two and three address the Corps' objective of enabling efficient decision making by rendering fair and efficient decisions in a timely manner. The ability to respond to permit requests in a timely manner is indicative of an efficient decision making process, which is another of the Corps' objectives.

Performance Measure 2: The number of permit decisions completed within 60 days, expressed as a percentage of all permit decisions, is an indicator of the timeliness of the process. The target is to complete 85 to 95 percent of all actions within 60 days.

Performance Result 2: Table 31 shows that during FY 2004, 82,114 permit actions, or 88 percent of all permit actions, were completed in 60 days or less. While this figure exceeds the performance target of 85 percent, it remained unchanged from the FY 2003 performance. The districts have concentrated on getting nationwide and general permits authorized, which has helped to stabilize overall processing times, but has resulted in a downward trend in enforcement and compliance efforts since FY 2001.

Table 31. Permit Actions Completed within 60 Days

	FY 2002	FY 2003	FY 2004
Number of permit actions completed within 60 days	71,652	75,771	82,114
Percentage of actions completed within 60 days	88%	88%	88%

Note: FY 2005 data were not available at time of printing.

Performance Measure 3: This measures the number of standard permit decisions completed within 120 days, expressed as a percentage of all standard permit decisions. Standard permits are those for larger projects that require extensive review. The performance target is to complete 70 to 80 percent of decisions on standard permits within 120 days.

Performance Result 3: During FY 2004, 57 percent of all standard permit actions were completed in less than 120 days, comparable to the FY 2003 rate. Permit applications are significantly more complex than in past years and, as a result, they involve lengthy analysis to assess their potential environmental impacts. Issues related to endangered species, historic properties, water quality, and coastal resources also add to permit delays.

Table 32. Standard Permit Actions Completed Within 120 Days

	FY 2002	FY 2003	FY 2004
Number of standard permit actions completed within 120 days	2,536	2,446	2,325
Percentage of actions completed within 120 days	61%	56%	57%

Note: FY 2005 data were not available at time of printing.

Strategic Goal 3: Ensure that Projects Perform to Meet Authorized Purposes and Evolving Conditions

Civil works customers, partners, and stakeholders expect delivery of the level of service that is designed into a project and expect the high quality of service to continue even with changing demands on the project. This third strategic goal was developed to ensure that civil works programs continue to meet customer expectations. This requires that civil works personnel pay particular attention to the quality and performance of Corps projects, recognize and analyze problems as soon as they occur, and identify cost-effective ways to prevent, lessen, or correct any deficiencies.

In addition, civil works personnel recognize that they must provide facilities that meet the needs of diverse and changing user groups. For projects to deliver the requisite performance and service levels, they must serve the needs of their users. Projects typically are designed to accomplish a particular purpose for a specified lifespan.

The performance of several programs reflects the overall success of the civil works mission in achieving this strategic goal. These programs and the performance of each are outlined in the following sections.

Navigation

Performance Indicator 1: Monitor the volume of commerce and the operational cost of the fuel-taxed waterways component of the navigation system.

Performance Result 1: The volume of commerce and the operational cost of the fuel-taxed waterways, shown in Table 33, remained essentially constant from calendar year (CY) 2002 through CY 2004 with less than one percent movement from year-to-year. At the time of printing, the calendar year had not ended, so volume and cost data for CY 2005 are not available.

Table 33. Volume of Commerce and Operational Cost

	CY 2002	CY 2003	CY 2004
Ton-miles of commerce carried (billions)[1]	266.9	250	233.2
Cost per ton-mile	$0.00206	$0.00195	$0.00220

Note 1 Ton-mile data are reported on a calendar basis. Costs are reported on a fiscal-year basis.

Note: CY 2005 data were not available at the time of printing.

Performance Indicator 2: The need for dredging of harbors and channels is largely dependent upon acts of nature and factors beyond the control of man. No performance target for the volume of material to be dredged therefore has been established. The depth of material to be dredged and the disposal of that material are the two main factors influencing the cost of dredging.

Performance Result 2: Preliminary information indicates that in FY 2004 the amount of maintenance dredging increased by 19.9 percent and dredging unit costs decreased by 11.5 percent (see Table 34). Performance data for FY 2005 were not available at the time of printing.

Table 34. Volume and Cost of Material Dredged

	FY 2002	FY 2003	FY 2004
Cubic yards removed (millions)	204	191[1]	229
Cost per cubic yard[1]	$2.73	$3.13[1]	$2.77

Note 1: Values reported are for maintenance dredging only. Dredging data related to project construction activity are not covered.

Note: FY 2005 data were not available at the time of printing.

Flood and Coastal Storm Damage Reduction

There are primarily two ways to reduce flood damage. The first calls for the use of large-scale engineering projects to prevent floodwaters from inundating property, and the second for the modification of property susceptible to flooding, to minimize the risk of damage. Civil works projects usually use a combination of both approaches. The program objective is to operate and maintain existing federal infrastructure to ensure that designed levels of protection are realized. A single measure is used to gauge performance in this respect.

Performance Indicator: The performance of civil works facilities in reducing damage where flooding otherwise would have been experienced.

Performance Result: Table 35 shows that during FY 2004, the Corps prevented $22.9 billion in flood damages. This can be compared to $21.7 billion, the 10-year moving average that is used to smooth out the significant fluctuations in year-to-year flood damages prevented that are associated with variations in meteorological events.

Table 35. Flood Damages Prevented

(Dollars in billions)	FY 2002	FY 2003	FY 2004
Flood damage prevented	$23.1	$15.7	$22.9
10-year rolling average	$21.7	$19.6	$21.7

Hydropower

The civil works program operates 345 hydroelectric power-generating units at 75 multipurpose reservoirs, providing nearly a quarter of the nation's total hydropower needs; enough energy to serve about ten million households. Hydropower units can start quickly and adjust rapidly allowing them to serve a primary role in meeting peak energy demands and energy reserve needs to protect the national power system's reliability and stability. The electricity produced is distributed by federal power marketing agencies. To ensure that the Corps continues to serve this role, it has established an overall program objective to maintain reliable hydroelectric generation reliability at its multi-purpose reservoir projects.

Performance Measure: Maintain high reliability of hydroelectric power generated at multipurpose reservoir projects. The program goal is to keep the forced (unplanned) outage rate at less than 2.3 percent in keeping with industry standards. A lower forced outage rate implies more reliable and less expensive electricity service being provided to hydropower customers.

Performance Result: Preliminary data through August 2005 indicate that the Corps experienced a forced outage rate of 4.6 percent for FY 2005. This is a slight increase from the outage rates shown for the prior two fiscal years and greater than the target rate of 2.3 percent. Aging equipment and funding levels are two factors that will impact the degree of hydropower reliability in the future. Data by fiscal year is provided in Table 36.

Table 36. Hydroelectric Power Reliability

	FY 2002	FY 2003	FY 2004	FY 2005[1]
Performance Target (% outage)	4.5	2.3	2.3	2.3
Actual reliability (% outage)	3.7	4.7	3.5	4.6

Note 1: Preliminary performance data available through August 2005.

Value to the Nation Performance Indicators: In addition to measuring system reliability, the program also tracks operation system indicators that provide valuable information and trends on system performance. The following indicators are monitored: (1) kilowatt-hours generated to measure total power generation and (2) cost per kilowatt-hour to measure generating efficiency. Annual goals are not set for these indicators because power production is largely dependent upon hydrologic conditions that cannot be managed.

Performance Result: During FY 2005, preliminary data indicate that Corps hydropower facilities produced almost 65 billion kilowatt-hours of energy through August 2005 at a cost of $0.0027 per kilowatt-hour as shown in Table 37. Energy produced from existing Corps facilities continues to be one of the least expensive sources of electric power.

Table 37. Kilowatt Hours Generated

	FY 2002	FY 2003	FY 2004	FY 2005[1]
Kilowatt-hours generated (billions)	69.4	70.0	67.1	64.6
Cost per kilowatt-hour	$0.0033	$0.0035	$0.0027	$0.0027

Note 1: Preliminary performance data available through August 2005.

Recreation

Most federal lakes were built with a single primary purpose. Public needs and values have changed; therefore, the program has sought to serve the evolving public interest by adapting reservoirs for multiple uses, provided there is sufficient legislative authority to do so. The program's objective is to provide outdoor recreation opportunities in an effective and efficient manner to meet the needs of present and future generations.

Performance Indicator: This indicator measures the cost per visitor-day of providing outdoor recreation facilities. The cost per visitor-day is determined by a number of variables. While civil works is able to manage the cost of providing recreation facilities, the number of visitors who use these facilities is governed in large part by external factors, such as the weather and prevailing economic conditions. Historically, no management performance target has therefore been specified.

Performance Result: The FY 2005 performance data in Table 38 reflect a continued upward trend in visitor-day usage. The cost per visitor-day rose in FY 2005, but remained within a six-year range of between $1.19 and $1.37. (FY 2000 and FY 2001 were each $1.24 per visitor-day.)

Table 38. Recreation Usage

	FY 2002	FY 2003	FY 2004	FY 2005
Visitor-days (millions)	210	212	216	220
Cost per visitor-day	$1.37	$1.20	$1.19	$1.28

Strategic Goal 4: Reduce Vulnerabilities and Losses to the Nation and the Army from Natural and Man-Made Disasters, Including Terrorism

The purpose of this goal is to manage the risks associated with all types of hazards and to increase the responsiveness to disasters of the civil works emergency management program within the Corps' Office of Homeland Security in support of federal, state, and local emergency management efforts. Disaster preparedness and response capabilities are not limited to water-related disasters, but draw on the engineering skills and management capabilities of the Corps to encompass a broad range of natural disasters and national emergencies. Emergency readiness contributes to national security. The current objectives for this goal are to prepare and provide for rapid, efficient, and effective all-hazards response and recovery, and to improve the safety and security of critical water resources infrastructure. Data to measure the Corps' performance toward meeting these objectives has not yet been fully compiled.

Strategic Goal 5: Be a World-Class Public Engineering Organization

The focus of this goal is to ensure that the civil works mission is performed in a technically skilled manner so as to build respect and confidence in the products and services the Corps delivers today and into the future. Building trust will come from the integrity of the Corps' engineering and scientific evaluations and recommendations, the soundness of its management decisions, the transparency of its decision-making process, the reliability and effectiveness of its business processes, and the contributions it makes within and across its core technical disciplines.

If the Corps is to achieve its goal to obtain recognition as a world-class public engineering organization, its personnel must pay attention to people, processes, fiscal responsibility, efficiencies, and technology. The President's management agenda helps the Corps focus on major organizational effectiveness aspects central to being a world-class organization: human talent, financial integrity, sound business practices, and the advantages that technology offers, especially in bringing government closer to citizens. The Corps' leadership has set three objectives to accomplish this goal: be a world-class technical leader, improve budgeting and financial performance, and become a more efficient and effective organization through technology. The Corps will draw upon the ongoing plans its staff has drafted in support of the President's management initiatives to make headway toward these objectives. Data to measure the Corps' performance toward meeting these objectives is not yet fully compiled.

Management Integrity

One management control weakness was identified as a new weakness in FY 2004 and three management control weaknesses that were identified prior to FY 2004 remain weaknesses going forward to FY 2006. The following is a summary of the Corps' material weaknesses:

Open material weaknesses as of September 30, 2004	**4**
Plus: New material weaknesses identified in FY 2005	**0**
Less: Material weaknesses corrected in FY 2005	**0**
Open material weaknesses as of September 30, 2005	**4**

Previously Reported Weaknesses

Three of the weaknesses reported last year were expected to close during FY 2005. Various circumstances prevented this from happening. The fourth weakness that remained open at the end of FY 2005 was not expected to close until FY 2006 per last year's report. The following sections provide a brief description of each weakness and the revised target date for correction.

Information Systems Security—Computer System Controls

In October 2000, the Government Accountability Office (GAO) identified a number of systems control weaknesses at the Corps' data processing centers. These weaknesses could allow either hackers or authorized users to improperly modify, disclose, or destroy financial data. Corrective actions to support the assurance of data security, including the reorganization of the Corps and funding increases, have been taken to correct these deficiencies. The targeted correction date in last year's statement of assurance was the fourth quarter, FY 2005. The follow-up to a GAO audit and other review and validation actions by the DoD Inspector General (DoDIG) were delayed, and the targeted correction date was not met.

The revised target date for successful correction of this weakness is the fourth quarter, FY 2006.

Subcontracting Plans for Small Business

Procedures for evaluating and negotiating subcontracting plans and for evaluating subcontractor performance are not wholly in compliance with the law as it pertains to small business subcontracting. In August 2002, the civil works program accepted a web-based pilot system to track outlays to small businesses under approved subcontracting plans and to track the actual execution of those plans. The system, as designed, would have enabled subcontractors to enter payments received from their prime contractors monthly and enable independent validation by the government. Because the system was web-based, any civil works office could have reviewed or generated reports on compliance. The system was tested in FY 2003, but full compliance was delayed due to a lack of funds. During May 2005, plans to complete the automated system were withdrawn due to the inability to secure funding for testing and implementation. The internal review to validate field corrective actions was not completed before the end of FY 2005, as was requested.

The revised target date for successful correction of this weakness is 1st quarter, FY 2006.

Information Technology Capital Planning and Investment Decision Process

Weaknesses in this process were identified for the selection, control, and evaluation of Corps information technology (IT) investments in FY 2001. The Clinger-Cohen Act of 1996 and Army Regulation 25-1, Army Information Management, require that federal agencies institutionalize a Corps IT capital planning and investment decision process. This process integrates the programming and budgeting for IT investments through policies, guidance, and committees that monitor and track these investments through the Corps' IT investment portfolio. Currently, the process is fragmented, and senior-level approval continues to be given to high-visibility projects that have not been through the process. This weakness impacts corporate decisions on the ranking and prioritization of IT investments and their contribution to the Corps mission. A number of corrective actions have been completed or partially met while others have been delayed due to ongoing staffing problems.

The target date for successful correction of this weakness is the first quarter, FY 2006.

CFO Property, Plant, and Equipment Issues

Construction in Progress (CIP): During FY 2002 and FY 2003 audit work, the DoDIG projected that the beginning balance for FY 2003 was overstated by $7.8 billion due to erroneous capitalization of expense-type events, including bank stabilization work, beach nourishment, dredging, fish mitigation work, and reimbursements to sponsors; untimely transfers to completed projects; erroneous capitalization of nonfederal cost-share projects; CIP costs that could not be reconciled to source data; and $41 million in negative CIP balances. An updated CIP information paper was provided to the field in June 2005 to clarify certain audit issues. During FY 2005, the Corps continued to analyze the CIP accounts to remove expense-type events, cost share projects. and completed projects, and to track down all supporting documentation for CIP balances.

Real Property: During FY 2002 and FY 2003 audit work, the DoDIG identified seven major issues: placed in service dates; useful life; physical existence, impairment and usefulness of assets; bank stabilization; nonfederal lease classifications for building and other structures; supporting documentation; and classification of assets. During FY 2005, the Corps continued to work through corrective actions relating to these issues.

The target date for correction of this weakness is the first quarter, FY 2006.

Future Effects of Existing Conditions

The Marine Transportation System

The MTS consists of 1,000 harbor channels; 25,000 miles of inland, intracoastal, and coastal waterways; and 235 lock chambers. Work done to improve the inland waterways is estimated to yield $5.5 billion in cost savings per year, and improvements to the deep-draft navigation system are estimated to save a further $1.5 billion in transportation costs annually.

The MTS is nearing capacity, however, and projections are for a doubling of cargo by 2020, to more than four billion tons annually. This will put great pressure on the system. It also should be noted that few American ports provide the 45-50 feet of depth needed by the latest containerships. Many international ports, including Halifax and Vancouver, Canada and Freeport, Bahamas, already can accommodate such ships, and it is essential that America match them. In preparing the necessary deep-draft channels, civil works has dredged an average of 275 million cubic yards of material per year over the past decade. This work creates the additional challenge of how to dispose of the dredged material in an economically and environmentally acceptable manner.

Aging Infrastructure

More than 44 percent of America's locks and dams are at least 50 years old, and many locks are now too small to accommodate modern commercial barges comfortably. These locks are already carrying more tonnage than they were designed to handle, and traffic is forecast to increase 30 percent by 2020. Delays attributable to aged locks already amount to 550,000 hours annually, representing $385 million in increased operating costs. This is eroding America's share of international markets; American farmers already have lost 30 percent of their share of the European market for soybeans to Brazil and Argentina, both of which have invested heavily in inland waterways to reduce costs.

A lock modernization program has been underway since 1986, with $1.7 billion invested to date and an additional $3.4 billion programmed for construction. This, however, is insufficient to support optimum construction schedules; completion dates for these projects have been set back by between one and five years, considerably increasing costs.

These increasing costs come at a time when investment in water resources is in sharp decline. In 1960, investment in all public infrastructure was four percent of the federal budget. Today, that figure is 2.6 percent. Furthermore, in 1960 water resources received slightly more than one percent of all public infrastructure investment; today, they receive less than 0.5 percent. This failure to invest adequately in water infrastructure could pose a serious constraint to America's economic development and competitive advantage in international trade.

Responding to Terrorist Threats

The events of September 11, 2001, changed the thinking about threat management. Everything from drinking water sources to reservoirs and dams is now viewed as a potential target for terrorists. Since the attacks on New York and Washington, D.C., civil works remains at a heightened state of alert in an effort to protect the nation's critical resources of water, waterborne commerce, and electric power generation.

Ensuring the security of these resources will require investment in warning and alert systems, systems to detect and respond to chemical and biological agents, intelligence-gathering and counter-terrorism measures, and emergency management systems. Investment in both technology and people is necessary, and current estimates are that these measures will cost $267 million for immediate improvements in the first year and $65 million annually thereafter.

Advancing the President's Management Agenda

Strategic Management of Human Capital

The Corps recognizes that its people are its greatest asset, and it has developed a Corps-wide comprehensive human capital strategy that is aligned with both its mission and broad corporate goals. It has sought to fill all mission-essential occupations with qualified employees, both through sustainment and training of its current workforce and through recruitment activities.

The direction for human capital planning is set out in the Corps Strategic Campaign Plan published in June 2005. The Corps' continuing human capital initiatives focus on enhancement of the Corps as a learning organization, leadership development, attracting and retaining a world-class workforce, and knowledge management. The initiatives are sponsored by diverse organizational and functional teams, and include working with stakeholders and other agencies, such as the U.S. Office of Personnel Management.

As a result of this strategy, the Corps has become more citizen-centered and has reduced layers within the organization. Since 1989 the number of supervisors has been reduced by over 50 percent, the entire Corps workforce reduced by 38 percent, and the blue-collar workforce reduced by 26.5 percent. Ninety-five percent of the workforce is now in direct customer service field positions. Concurrently, the occupational mix has changed to reflect the changing missions of the Corps.

Additionally, the performance of Corps employees has become more strongly linked to its missions and strategic goals through the use of the automated training management program. This program automates the linkage between mission requirements, performance objectives, and individual development plans; for the first time, it enables management to measure and prioritize training and development systems, providing a good foundation for implementation of the National Security Personnel System.

The Corps responded to surges in deployment to Afghanistan and Iraq, while at the same time supporting an unprecedented hurricane season in 2005. More than 1,550 Corps employees voluntarily deployed in FY 2005, with many deploying more than once. As of September 30, 2005, more than 3,000 Corps employees had volunteered to perform Federal Emergency Management Agency and Corps missions associated with Hurricanes Katrina and Rita.

Competitive Sourcing

In 2002 the Corps identified 7,500 positions to be opened to competition over a five-year period. Of these, 5,700, or 76 percent, are funded by civil works. In FYs 2004-2005, more than 1,100 civil works-funded positions in the information management and information technology, public works, and finance center functions were announced for competition. By the end of this year, plans are to announce the competition of an additional 2,000 civil works-funded positions performing the operation and maintenance of navigation locks and dams function, bringing the total number of competed civil works positions to more than 3,000.

Improved Financial Performance

A recognized leader within the Department of Army (DA), the Corps has committed an extensive amount of resources toward obtaining a favorable opinion for the civil works financial statements. At the inception of the President's management agenda, the Corps had just completed deployment of the Corps of Engineers Financial Management System (CEFMS) and consolidation of all finance and accounting operations to the Corps Finance Center in Millington, TN. These two important initiatives are the cornerstones of the Corps' ability to provide timely and reliable financial management information at reduced costs to the taxpayer. The Corps, working with the DoDIG, and the comptroller offices from the DoD and the DA, are not only progressing toward their goal of obtaining the Army's first favorable opinion, but also are paving the way for other DoD and DA agencies. Lessons learned from previous DoDIG audits have been put to use in preparation for future audits. Although the Corps was not able to move forward with a FY 2005 civil works financial statement audit, the Corps is hopeful that a FY 2006 audit and favorable opinion are within reach.

Through the CEFMS, the Corps has made progress toward ensuring timely and reliable financial information, thereby assisting its leadership and stakeholders in making critical business decisions. The CEFMS was designed and built by the Corps with the aid of external contractors, and it delivers a broad range of functionality. It is a single-entry, real-time system, so financial information is instantaneous.

The CEFMS integrates financial management business processes with internal program and project management processes while also providing automated linkages to the DA, the DoD, and the Office of Management and Budget. The Corps continues to upgrade the CEFMS and other related tools in order to assist the field with identified audit deficiencies and to improve the system.

The Corps invested approximately $76 million in development of the CEFMS, and the system has gained acceptance and has proven successful. The system now serves as a measuring stick for future DoD financial management systems.

Expand Electronic Government

Expanded electronic government is a Corps-wide initiative that aims to make it easier for the public to access information about civil works services and programs, and to improve civil works internal and external communications. Due to the adoption of a wide array of web-based services, civil works has become an active proponent of the government's drive to reach out to the public via the internet through interagency initiatives such as Recreation One-Stop and Geospatial Information One-Stop. Access to the rules governing use of civil works lands and waterways has been simplified through elimination of all hard-copy directives and publications by placing the information online in formats suitable for viewing, downloading, and printing.

Civil works also is working to make it easier to do business with the federal government. Civil works is a full participant in the web-based Tri-Service Solicitation Network and sponsors the electronic contract solicitations system, a web-based process for advertising and distributing contract solicitation documents that has linkages to the Army Single Face to Industry Acquisition Business and FedBizOpps web sites. Civil works is the DoD's executive agent for the architect-engineer contractor administrative support system and the construction contractor appraisal support system.

The sharing of information among federal, state, local, and tribal governments and the full integration of that information will contribute to better government for all Americans.

Budget and Performance Integration

The Corps' separate accountability for performance and budget integration is limited to the civil works mission. The following information pertains only to the civil works budget.

The civil works budget and performance integration initiative focuses on developing formal linkages between program performance planning and budget decision-making. In order to accomplish this, the Corps is pursuing two actions: developing and continually refining clear results-oriented program objectives through the civil works strategic planning process, and developing and measuring the accomplishment of program performance targets as part of budget development.

Performance-based budgeting improves the quality of budget decisions and enables the Corps to perform more effectively its civil works mission with the funds available. Performance-based budgeting will deliver more program results for dollars expended in future years, a fact that is especially important when funding is constrained and difficult choices must be made. The Corps continues to work on improving the performance-based budget screening criteria for future civil works budget development.

Photo Credits

Civil Works Fund Opening Photo

Port Mayaca Lock and Spillway, Florida.

Principal Financial Statements, Notes, and Supplementary Information

LIMITATIONS

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the department is unable to implement all elements of the standards due to financial management systems limitations. The department continues to implement system improvements to address these limitations. There are other instances when the department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

Department of Defense - US Army Corps of Engineers

CONSOLIDATED BALANCE SHEET

As of September 30, 2005 and 2004 ($ in Thousands)

		2005 Consolidated		2004 Consolidated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)				
Entity	$	3,138,201	$	2,378,442
Non-Entity Seized Iraqi Cash		0		0
Non-Entity-Other		7,849		8,245
Investments (Note 4)		3,127,832		2,741,917
Accounts Receivable (Note 5)		613,904		520,123
Other Assets (Note 6)		0		0
Total Intragovernmental Assets	$	6,887,786	$	5,648,727
Cash and Other Monetary Assets (Note 7)	$	1,147	$	1,039
Accounts Receivable (Note 5)		1,750,925		1,906,435
Loans Receivable (Note 8)		0		0
Inventory and Related Property (Note 9)		117,384		61,815
General Property, Plant and Equipment (Note 10)		26,780,102		28,448,517
Investments (Note 4)		0		0
Other Assets (Note 6)		0		0
TOTAL ASSETS	$	35,537,344	$	36,066,533
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	87,230	$	103,498
Debt (Note 13)		14,600		15,367
Other Liabilities (Note 15 & Note 16)		1,956,895		2,058,627
Total Intragovernmental Liabilities	$	2,058,725	$	2,177,492
Accounts Payable (Note 12)	$	535,882	$	570,255
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)		0		0
Environmental Liabilities (Note 14)		529,617		0
Loan Guarantee Liability (Note 8)		0		0
Other Liabilities (Note 15 and Note 16)		600,880		646,125
TOTAL LIABILITIES	$	3,725,104	$	3,393,872
NET POSITION				
Unexpended Appropriations	$	1,005,843	$	396,362
Cumulative Results of Operations		30,806,397		32,276,299
TOTAL NET POSITION	$	31,812,240	$	32,672,661
TOTAL LIABILITIES AND NET POSITION	$	35,537,344	$	36,066,533

The accompanying notes are an integral part of these financial statements.

Department of Defense - US Army Corps of Engineers

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2005 and 2004 ($ in Thousands)

	2005 Consolidated	2004 Consolidated
Program Costs		
Intragovernmental Gross Costs	$ 1,378,785	$ 1,020,767
(Less: Intragovernmental Earned Revenue)	(2,152,799)	(1,234,805)
Intragovernmental Net Costs	$ (774,014)	$ (214,038)
Gross Costs With the Public	$ 8,882,498	$ 8,658,737
(Less: Earned Revenue From the Public)	(428,778)	(367,963)
Net Costs With the Public	$ 8,453,720	$ 8,290,774
Total Net Cost	$ 7,679,706	$ 8,076,736
Cost Not Assigned to Programs	0	0
(Less:Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	$ 7,679,706	$ 8,076,736

The accompanying notes are an integral part of these financial statements.

Department of Defense - US Army Corps of Engineers

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005 and 2004 ($ in Thousands)

	2005 Consolidated	2004 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 32,276,299	$ 34,289,488
Prior Period Adjustments (+/-)		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
Beginning Balances, as adjusted	$ 32,276,299	$ 34,289,488
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	4,009,707	4,079,023
Nonexchange revenue	1,632,662	1,434,495
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	326,390	315,045
Other budgetary financing sources (+/-)	274	(3,945)
Other Financing Sources:		
Donations and forfeitures of property	1,490	435
Transfers-in/out without reimbursement (+/-)	(3,048)	(1,632)
Imputed financing from costs absorbed by others	241,581	239,548
Other (+/-)	748	578
Total Financing Sources	$ 6,209,804	$ 6,063,547
Net Cost of Operations (+/-)	7,679,706	8,076,736
Net Change	$ (1,469,902)	$ (2,013,189)
Ending Balance	$ 30,806,397	$ 32,276,299
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 396,362	$ 636,846
Prior period adjustments (+/-)		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
Beginning Balances, as adjusted	$ 396,362	$ 636,846
Budgetary Financing Sources:		
Appropriations received	4,629,502	3,854,081
Appropriations transferred-in/out (+/-)	27,602	18,394
Other adjustments (rescissions, etc) (+/-)	(37,916)	(33,936)
Appropriations used	(4,009,707)	(4,079,023)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	$ 609,481	$ (240,484)
Net Cost of Operations (+/-)		
Net Change	609,481	(240,484)
Ending Balance	$ 1,005,843	$ 396,362

The accompanying notes are an integral part of these financial statements.

Department of Defense - US Army Corps of Engineers

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Budgetary Financing Accounts		Non-Budgetary Financing Accounts	
	2005 Combined	2004 Combined	2005 Combined	2004 Combined
BUDGETARY RESOURCES				
Budget Authority:				
Appropriations received	$ 5,987,913	$ 5,141,166	$ 0	$ 0
Borrowing authority	0	135	0	0
Contract authority	0	0	0	0
Net transfers (+/-)	264,998	206,924	0	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	1,693,278	1,850,226	0	0
Net transfers, actual (+/-)	(7,606)	28,495	0	0
Anticipated Transfers Balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	6,471,705	5,212,085	0	0
Receivable from Federal sources	11,130	64,104	0	0
Change in unfilled customer orders	0	0	0	0
Advance received	(34,324)	29,660	0	0
Without advance from Federal sources	3,306,341	272,555	0	0
Anticipated for the rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Transfers for trust funds	0	0	0	0
Subtotal	9,754,852	5,578,404	0	0
Recoveries of prior year obligations	$ 0	$ 0	$ 0	$ 0
Temporarily not available pursuant to Public Law	(10,000)	(10,000)	0	0
Permanently not available	(38,390)	(29,076)	0	0
Total Budgetary Resources	$ 17,645,045	$ 12,766,274	$ 0	$ 0
STATUS OF BUDGETARY RESOURCES				
Obligations incurred:				
Direct	$ 5,739,464	$ 5,615,179	$ 0	$ 0
Reimbursable	6,902,397	5,457,815	0	0
Subtotal	$ 12,641,861	$ 11,072,994	$ 0	$ 0
Unobligated balance:				
Apportioned	4,421,128	1,234,139	0	0
Exempt from apportionment	581,999	459,076	0	0
Other available	(1)	(1)	0	0
Unobligated Balances Not Available	58	66	0	0
Total, Status of Budgetary Resources	$ 17,645,045	$ 12,766,274	$ 0	$ 0
Relationship of Obligations to Outlays:				
Obligated Balance, Net - beginning of period	$ 1,038,676	$ 1,007,621	$ 0	$ 0
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(235,835)	(224,704)	0	0
Unfilled customer order from Federal sources	(5,214,150)	(1,907,809)	0	0
Undelivered orders	2,862,371	2,022,902	0	0
Accounts payable	1,083,001	1,148,287	0	0
Outlays:				
Disbursements	11,867,676	10,705,281	0	0
Collections	(6,437,381)	(5,241,746)	0	0
Subtotal	$ 5,430,295	$ 5,463,535	$ 0	$ 0
Less: Offsetting receipts	(1,744,668)	(1,592,297)	0	0
Net Outlays	$ 3,685,627	$ 3,871,238	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

Department of Defense - US Army Corps of Engineers

CONSOLIDATED STATEMENT OF FINANCING

As of September 30, 2005 and 2004 ($ in Thousands)

	2005 Combined	2004 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 12,641,861	$ 11,072,994
Less: Spending authority from offsetting collections and recoveries (-)	(9,754,852)	(5,578,404)
Obligations net of offsetting collections and recoveries	$ 2,887,009	$ 5,494,590
Less: Offsetting receipts (-)	(1,744,668)	(1,592,297)
Net obligations	$ 1,142,341	$ 3,902,293
Other Resources		
Donations and forfeitures of property	1,490	435
Transfers in/out without reimbursement (+/-)	(3,048)	(1,632)
Imputed financing from costs absorbed by others	241,581	239,548
Other (+/-)	748	579
Net other resources used to finance activities	$ 240,771	$ 238,930
Total resources used to finance activities	$ 1,383,112	$ 4,141,223
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	$ (839,097)	$ (400,175)
Unfilled Customer Orders	3,272,017	302,216
Resources that fund expenses recognized in prior periods	(25,840)	(55,278)
Budgetary offsetting collections and receipts that do not affect net cost of operations	1,744,668	1,592,297
Resources that finance the acquisition of assets	(13,136)	(1,684,000)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	(10,000)	(10,000)
Other (+/-)	1,560	1,636
Total resources used to finance items not part of the net cost of operations	$ 4,130,172	$ (253,304)
Total resources used to finance the net cost of operations	$ 5,513,284	$ 3,887,919
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period		
Increase in annual leave liability	$ 0	$ 0
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the the public (-)	(34)	0
Other (+/-)	540,581	50,966
Total components of Net Cost of Operations that will require or generate resources in future periods	$ 540,547	$ 50,966
Components not Requiring or Generating Resources:		
Depreciation and amortization	1,195,609	2,373,460
Revaluation of assets or liabilities (+/-)	1,046,654	(822,198)
Other (+/-)		
Trust Fund Exchange Revenue	0	0
Cost of Goods Sold	2,764	0
Operating Material & Supplies Used	0	0
Other	(619,152)	2,586,589
Total components of Net Cost of Operations that will not require or generate resources	$ 1,625,875	$ 4,137,851
Total components of net cost of operations that will not require or generate resources in the current period	$ 2,166,422	$ 4,188,817
Net Cost of Operations	$ 7,679,706	$ 8,076,736

The accompanying notes are an integral part of these financial statements.

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers (USACE) Civil Works, as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the USACE in accordance with the "Department of Defense Financial Management Regulation (DoDFMR)," the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and, to the extent possible, generally accepted accounting principles (Federal GAAP). The USACE's financial statements are in addition to the financial reports also prepared by the USACE pursuant to OMB directives that are used to monitor and control the USACE's use of budgetary resources.

The USACE financial statements are prepared from the consolidation of general ledger financial data reported from the Corps of Engineers Financial System (CEFMS) to the Corps of Engineers Enterprise Management Information System (CEEMIS).

A more detailed explanation of these financial statements elements is provided in the applicable footnote.

1.B. Mission of the Reporting Entity

Some of the missions of the USACE include maintaining navigation channels, reducing flooding, assisting during natural disasters and other emergencies, and making waterways passable. The financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards.

The asset accounts used to prepare the principal financial statements are categorized as entity/non-entity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

Entity Accounts:

General Funds

96X3112	Flood Control, Mississippi River and Tributaries
96X3121	General Investigations
96 3121	General Investigations (fiscal year)
96X3122	Construction, General
96X3123	Operation and Maintenance, General
96X3124	General Expenses
96X3125	Flood Control and Coastal Emergencies
96X3126	Regulatory Program
96X3128	Washington Aqueduct Capital Improvements
96 3129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year)
96X3130	FUSRAP
96 3132	Office of Assistant Secretary of the Army (Civil Works)
96X6094	Advances from the District of Columbia

Revolving Funds

96X4902	Revolving Fund

Special Funds

96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris

96X5090 Payments to States, Flood Control Act of 1954
96X5125 Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5493 Fund for Non-Federal Use of Disposal Facilities

Trust Funds
96X8217 South Dakota Terrestrial Wildlife habitat Restoration Trust Fund
96X8333 Coastal Wetlands Restoration Trust Fund
96 20X8861 Inland Waterways Trust Fund
96X8862 Rivers and Harbors Contributed and Advance Funds
96 20X8863 Harbor Maintenance Trust Fund

Transfer Funds
96 12X1105 State and Private Forestry, Forest Service
96 13X2050 Economic Development Administration
96 14X1039 Construction National Park Service
96 14X5035 Land Acquisition and State Assistance, National Park Service
96 21X2020 OMA, American Samoa Projects
96 69X8083 Federal Aid Highways
96 89X4045 Bonneville Power Administration
96 72 99/00 1021 Development Assistance, Agency for International Development

Non-Entity:

Deposit Funds
96X6500 Advances without Orders from Non-Federal Sources
96X6501 Small Escrow Amounts

Clearing Accounts
96F3875 Budget Clearing Account
96F3880 Unavailable Check Cancellations and Overpayments
96F3885 Undistributed Intergovernmental Payments

Receipt Accounts
96 0891 Miscellaneous fees for regulatory and judicial services, not otherwise classified
96 1060 Forfeitures of Unclaimed Money and Property
96 1099 Fines, Penalties, and Forfeitures Not Otherwise Classified
96 1299 Gifts to the United States, Not Otherwise Classified
96 1435 General Fund Proprietary Interest, Not Otherwise Classified
96 3220 General Fund Proprietary Receipts, Not Otherwise Classified, All Other
96 5005 Land and Water Conservation Fund
96 5007 Special Recreation Use Fees
96 5066 Hydraulic Mining in California
96 5090 Receipts from leases of lands acquired for flood control, navigation, and allied purposes
96 5125 Licenses under Federal Power Act, Improvements of navigable water, maintenance and operation of dams, etc., (50%)
96 5493 User Fees, Fund for Non-Federal Use of Disposal Facilities

Obsolete Accounts:

96 13X1450	96 67X0204	96X6134	96F3879	96 1210
96 14X2301	96 89X0224	96X6145	96F3886	96 1499
96 19 00 1082	96 20X8145	96X6275	96 0199	96 2413
96 46X0200	96X3930	96X6302	96 0869	96 2814

96 47X4542	96X6050	96X6999	96 1030	96 3102
96 72 00/01 1021	96X6075	96X8868	96 1040	96 3124

1.C. Appropriations and Funds

The UFACE Civil Works Program receives Federal funding through annual Energy and Water Development Appropriations Acts. Program funding also comes from non-Federal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Supports for Others Program, which is conducted under reimbursable agreements with Federal agencies.

The USACE Civil Works appropriations and funds are divided into the general, revolving, 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 USACE 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. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

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 receipts of the government that are earmarked for a specific purpose.

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

In 1997, the USACE received borrowing authority from the Department of the Treasury for the three years 1997 through 1999 to finance capital improvements to the Washington Aqueduct. Appropriation 96X3128 was established to record financial transactions for these capital improvements.

1.D. Basis of Accounting

The USACE's transactions are generally recorded on an accrual accounting basis and a budgetary basis as is required by Federal GAAP. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds.

A policy change was effective March 2005 to report transfer appropriation Funds Balance with Treasury (FBWT) as non-entity funds. These funds had previously been reported as appropriated entity funds. Special Funds have also been distinguished from appropriated funds effective in December 2004.

CEFMS is used at all divisions, districts, centers, laboratories, and field offices. CEFMS is a fully integrated, automated, and comprehensive financial management system that simplifies the management of all aspects of the USACE's business, including civil, military, revolving funds, and reimbursable activity. The general ledger chart of accounts in CEFMS is substantially compliant with the U.S. Government Standard General Ledger. In addition, the USACE identifies programs based upon the major appropriation groups provided by Congress.

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 USACE 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.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses in the USACE 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 the net position.

Certain expenses, such as annual and military leave earned but not taken, are financed in the period when earned.

1.G. Accounting for Intragovernmental Activities

The USACE, 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 USACE as though the agency were a stand alone entity.

The USACE's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The USACE's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

The USACE civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (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 USACE funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The USACE recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the 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.

The Department of Defense reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the DoD Agency wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. The USACE is responsible for eliminating transactions between components and activities.

The Department of the Treasury, Financial Management Service (FMS), is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the Department of the Treasury, FMS, issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The USACE implemented the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. In addition, the USACE implemented the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," issued October 2002 for reconciling intragovernmental transactions. These transactions pertain to investments in Federal securities, borrowings from the Department of the Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provision of the "Arms Export Control Act of 1976." Under the provision of the Act, the Department 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 USACE's financial resources are maintained in the Department of the Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS), Military Services, the USACE Finance Center (UFC) disbursing station, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports which provide information to the Department of the Treasury on check issues, electronic transfers, interagency transfers, and deposits.

In addition, the DFAS centers and the UFC 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 FBWT account maintained in the Department of the Treasury's system. Differences between the USACE's recorded balance in the FBWT accounts and the Department of the Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and the Department of the Treasury's FBWT accounts are disclosed at Note 3, 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 USACE conducts operations overseas. Foreign Currency fluctuations require adjustment 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 statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at Note 5.

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

Inventories are reported at approximate historical cost based on a moving weighted average that is based on actual cost divided by quantity. A perpetual record of inventory is maintained in CEFMS to allow for recomputation of the average unit cost as new receipts are recorded.

The related property portion of the amount reported on the Inventory and Related Property line includes operating materials and supplies (OM&S). The OM&S are valued at standard purchase price. For the most part, the Department is using the consumption method of accounting for OM&S, as defined in the SFFAS No. 3, "Accounting for Inventory and Related Property", as material that has not been issued to the end user. Once OM&S is issued, the material is expensed. Material disclosures related to inventory and related property is provided at Note 9.

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

Investments in the Department of the Treasury securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The USACE's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities, because in the majority of cases, they are held to maturity. Amounts reported reflect the value of investments in the South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Fund accounts, which are managed by the Department of the Treasury. Material disclosures are provided at Note 4.

1.O. General Property, Plant and Equipment

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost is greater than $25,000, with the exception of all buildings and structures related to hydro-power purpose which are capitalized (to include joint cost) regardless of cost. Starting in FY 2004, all Civil Works Buildings and Structures under $25,000 are expensed except for hydro-power assets.

All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

In FY 2004, the USACE, Office of the Secretary of Defense Comptroller, and Department of Defense Inspector General (DoDIG) reached an agreement on supporting documentation for land values to include administrative costs. The USACE is in the process of gathering the necessary supporting documentation in accordance with the Memorandum of Agreement signed on June 9, 2004.

When it is in the best interest of the government, the USACE provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the USACE, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the USACE Balance Sheet. The Department of Defense completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the USACE currently reports only government property in the possession of contractors that is maintained in the USACE property systems.

To bring the USACE into compliance with federal accounting standards, the Department 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 are provided at Note 10.

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 equipment, space, and 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 USACE records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The capitalization threshold for civil works assets is $25,000. The USACE records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding that portion of the payments representing executory costs paid to the lessor) or the asset's fair market value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease term.

1.R. Other Assets

The USACE 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 USACE provides financing payments. One type of financing payment that the USACE makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction-in-process and are reported on the General PP&E line and at Note 10, General PP&E, Net.

In addition, based on the provision of the Federal Acquisition Regulation (FAR), the USACE makes financing payments under fixed price contracts that are not based on a percentage of completion. The USACE reports these financing payments as advances or prepayments in the "Other Assets" line item. The USACE treats these payments as advances or prepayments because the USACE 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 USACE is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the USACE for the full amount of the advance.

DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." DoD concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

1.S. Contingencies and Other Liabilities

The 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 USACE. 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 there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The USACE's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as ship and vehicle accidents, property or environmental damages, and contract disputes.

1.T. Accrued Leave

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

1.U. Net Position

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

Cumulative results of operations represent the difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, 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 USACE has no existing treaties for use of foreign bases

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY 2005. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between FY 2004 and FY 2005 are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The USACE records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

1.Y. Undistributed Disbursements and Collections

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

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. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The USACE does not follow this procedure.

All unposted disbursements and collections for the USACE are unrecorded Intragovernmental Payment and Collection (IPAC) transactions. These transactions are all Federal.

Note 2. Nonentity Assets

As of September 30	2005	2004
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 7,849	$ 8,245
B. Investments	0	0
C. Accounts Receivable	0	0
D. Other Assets	0	0
E. Total Intragovernmental Assets	$ 7,849	$ 8,245
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 1,147	$ 1,039
B. Accounts Receivable	1,722,336	1,843,102
C. Loans Receivable	0	0
D. Inventory & Related Property	0	0
E. General PP&E	0	0
F. Investments	0	0
G. Other Assets	0	0
H. Total Nonfederal Assets	$ 1,723,483	$ 1,844,141
3. Total Nonentity Assets	$ 1,731,332	$ 1,852,386
4. Total Entity Assets	$ 33,806,012	$ 34,214,147
5. Total Assets	$ 35,537,344	$ 36,066,533

Asset accounts are categorized either as entity or nonentity. Entity accounts consist of resources that the agency has authority to use, or when management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets that are held by an entity, but are not available for use in the operations of the entity.

Composition of Other Nonentity Assets

Intragovernmental Nonentity Fund Balance with Treasury consists of amounts collected into deposit and suspense accounts.

Cash and Other Monetary Assets is comprised of $4 thousand in change funds for recreation cashiers, $552 thousand in Disbursing Officer's cash, and $591 thousand in foreign currency, as listed at Note 7.

Non-federal nonentity accounts receivable represents all current and non-current receivables due from non-federal sources. Nonentity receivables include $835.9 million in long-term receivables due from state and local municipalities for water storage contracts, $33.9 million in current receivables due from state and local municipalities for water storage, $852.8 million in accrued interest receivable, $2.3 million in penalties, fines and administrative fees receivable, $1.3 million in long-term receivables for hydraulic mining, and $1.5 million for other miscellaneous receivables. An additional $476.2 thousand represents the amount due from the leasing of land acquired for flood control purposes. Nonentity receivables are recorded in unavailable receipt accounts and funds will be returned to the U.S. Treasury when collected. The allowance for doubtful accounts totals $5.8 million for nonentity receivables.

Fluctuations

Line 2A. Cash and Other Monetary Assets increased by approximately $107.8 thousand (10 percent) due to an increase of foreign currency maintained for disbursements and exchange transactions at the Japan, Europe and Far East Districts. There was an increase in the balance in Japanese yen, Euro dollars and Korean won used to pay local vendors and contractors.

Note Reference

For Additional Line Item discussion, see:
Note 3, Funds Balance with Treasury
Note 4, Investments
Note 5, Accounts Receivable
Note 7, Cash and Other Monetary Assets
Note 9, Inventory and Related Property
Note 10, General PP&E, Net

Note 3. Fund Balance with Treasury

As of September 30	2005	2004
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 1,600,628	$ 970,538
B. Revolving Funds	965,552	902,212
C. Trust Funds	86,885	72,121
D. Special Funds	1,920	0
E. Other Fund Types	491,065	441,816
F. Total Fund Balances	$ 3,146,050	$ 2,386,687
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 3,180,160	$ 2,906,916
B. Fund Balance per USACE	3,146,050	2,386,687
3. Reconciling Amount	$ 34,110	$ 520,229

The Reconciling Amount for Fund Balances per the U. S. Army Corps of Engineers (USACE) includes $83.8 million in cash reported by the Department of the Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the USACE is identified as the lead agency for reporting. Fund Balance per USACE does not include $117.9 million in receipt accounts. The USACE closed receipt accounts according to the Treasury Financial Management Transmittal Letter, transaction code F124, but they were included on the Financial Management Service (FMS) 6655: Receipt Account Trial Balance at September 30, 2005. These collections were processed in October 2005.

Other Information Related to Fund Balance with Treasury

Fund Balance per Treasury and Fund Balance per USACE include $13.7 million in transfer appropriations. Transfers are from the Department of Energy, the Department of Transportation, and the Department of Commerce. According to the Treasury Financial Manual, Part 2, Chapter 4000, *Federal Agencies' Centralized Trial-Balance System*, paragraph 4030.60, if an appropriation transfer is material to the receiving agency's financial statements, the receiving agency should report the activity relating to the appropriation transfers in its financial statements.

Appropriated Funds includes net disbursements for undistributed IPAC transactions of ($12.2) million. These were distributed to the appropriate funds during October 2005.

Other Fund Types (nonentity) consist of $7.8 million in deposit, suspense, and clearing accounts that are not available to finance the USACE activities. Other Fund Types (entity) consists of $2 thousand in borrowing authority, $467.2 million in contributed funds, and $16 million in the suspense account established to finance Washington Aqueduct operations and are available to finance the USACE activities.

Entity accounts consist of resources that the agency has the authority to use, or when management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity, but are not available for use in the operation of the entity.

There are no restrictions for future use of unobligated balances.

The Fund Balance with Treasury (FBWT) line does not include any amounts for which the Department of the Treasury is willing to accept corrections to cancelled appropriation accounts, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities."

Fluctuations

Appropriated Funds. Appropriated Funds increased by $630.1 million (65 percent). Due to an unprecedented hurricane season in the fall of 2004 and during 2005, the USACE has received over $548 million in appropriated funds to perform numerous missions to support those affected by the hurricanes. The USACE is the Federal Emergency Management Agency's (FEMA) Emergency Support Function for Engineering.

Trust Funds. Trust Funds increased by $14.8 million (20 percent). The increase is from the Bureau of Public Debt's financial statements for the Harbor Maintenance and Inland Waterways Trust Funds. The USACE incorporates the Bureau of Public Debt's financial statement into its financial statements. The USACE is the lead agency for reporting these Trust Funds. The Bureau of Public Debt performs the investment activity for these Trust Funds. They had not invested all available cash as of the end of 4th Quarter, FY 2005.

Special Funds. Special Funds increased by $1.9 million (100 percent). This category is new in FY 2005. Special Funds were previously reported as Appropriated Funds.

Other Fund Types. Other Fund Types increased by $49.2 million (11 percent). The increase is due to cost share projects at the USACE Jacksonville District.

Reconciling Amount. The Reconciling Amount decreased $486.1 million (93 percent). The decrease is a result of the exclusion of receipts for Contributed Funds which are rolled to the expenditure fund by the Department of the Treasury. In FY 2004, the USACE included these receipts in Line 1.A. Funds Balance per Treasury, which resulted in duplication.

Note Reference

Note Disclosure 1.I. Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the Department of the Treasury.

Note 2 for Entity/Nonentity Accounts

Status of Fund Balance with Treasury

As of September 30	2005	2004
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 5,003,127	$ 1,693,215
B. Unavailable	58	66
2. Obligated Balance not yet Disbursed	$ 6,622,332	$ 5,493,293
3. Non-Budgetary FBWT	$ (3,734)	$ 8,245
4. Non-FBWT Budgetary Accounts	$ (8,475,925)	$ (4,830,335)
5. Total	$ 3,145,858	$ 2,364,484

Status of Funds Balance uses the formula of the Treasury FMS 2108: Yearend Closing Statement. The unobligated and obligated not yet disbursed amounts in the budgetary accounts should agree to the balance at the Department of the Treasury.

The Bureau of Public Debt Financial Statements for the Inland Waterways, Harbor Maintenance and South Dakota Terrestrial Wildlife Habitat Restoration Trust Funds are incorporated into the USACE's financial statements. The Department of the Treasury does not recognize budgetary resources for premium and amortization of premium on U. S. Treasury Securities for $83.8 million.

According to the Statement of Federal Financial Accounting Standards No. 1, an entity's Fund Balance with Treasury does not include contract obligation authority or unused authority to borrow. Contract authority is a statutory authority under which contracts or other obligations may be entered into prior to receiving an appropriation or cash transfer for the payment of obligations. The later enacted appropriation provides cash to liquidate obligations. Thus, contract authority merely permits a federal entity to incur certain obligations but does not, in itself, add funds to the agency's accounts with the Department of the Treasury. The USACE's available balance includes $45.9 million in contract obligation authority for transfer appropriations from the Department of Transportation and the Department of Energy.

Fluctuations

Unobligated Balance Available. The Unobligated Balance Available increased $3.3 billion (196 percent). Due to an unprecedented hurricane season in the fall of 2004 and during 2005, the USACE received an increase in appropriated funds and customer orders to perform numerous missions to support those affected by the hurricanes. The USACE is the Federal Emergency Management Agency's (FEMA) Emergency Support Function for Engineering.

Unobligated Balance Unavailable. The Unobligated Balance Unavailable decreased $7.6 thousand (12 percent). The decrease is due to the return of Transfer Funds to the Agency for International Development.

Obligated Balance not yet Disbursed. The Obligated Balance not yet Disbursed increased $1.1 billion (21 percent). Due to an unprecedented hurricane season in the fall of 2004 and during 2005, the USACE received an increase in appropriated funds and customer orders to perform numerous missions to support those affected by the hurricanes. The USACE is the Federal Emergency Management Agency's (FEMA) Emergency Support Function for Engineering. The fluctuation is also due to an increase in interest on investments and taxes on imports and foreign trade for Trust Funds.

Non-Budgetary FBWT. The Non-Budgetary FBWT decreased $11.9 million (145 percent). The decrease is a result of transfers of funds in the Suspense and Budget Clearing Accounts to the appropriate funds.

Non-FBWT Budgetary Accounts. The Non-FBWT Budgetary Accounts increased $3.7 billion (77 percent). Due to an unprecedented hurricane season in the fall of 2004 and during 2005, the USACE received an increase in appropriated funds and customer orders to perform numerous missions to support those affected by the hurricanes. The USACE is the Federal Emergency Management Agency's (FEMA) Emergency Support Function for Engineering. The fluctuation is also due to an increase in interest on investments and taxes on imports and foreign trade for Trust Funds.

Disclosures Related to Suspense/Budget Clearing Accounts

As of September 30	2003	2004	2005	(Decrease)/ Increase from FY2004 - 2005
(Amounts in thousands)				
Account				
F3875	$ 850	$ 113	$ 632	$ 519
F3880	0	(0)	0	0
F3882	0	0	0	0
F3885	0	0	(12,215)	(12,215)
F3886	0	0	0	0
Total	$ 850	$ 113	$ (11,583)	$ (11,696)

During FY 2004 balances in Budget Clearing Account 96F3875 and 96F3885 were closed into the Suspense Account 96X6500 according to Defense Finance Accounting Service guidance. That guidance has been rescinded. The Budget Clearing Accounts were reestablished at the beginning of FY 2005. Since there is no requirement from the Department of the Treasury to close budget clearing accounts, the guidance was rescinded for yearend FY 2005.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

Not applicable.

Note 4. Investments and Related Interest

As of September 30	2005 Par Value/Cost	2005 Amortization Method	2005 Unamortized (Premium/ Discount)	2005 Investments, Net	2005 Market Value Disclosure	2004 Investments, Net
(Amounts in thousands)						
1. Intragovernmental Securities						
A. Non-Marketable, Market-Based	$ 3,032,895	Level Yield Calculation	$ 78,829	$ 3,111,724	$ 3,105,672	$ 2,728,131
B. Accrued Interest	16,108			16,108	16,108	13,786
C. Total Intragovernmental Securities	$ 3,049,003		$ 78,829	$ 3,127,832	$ 3,121,780	$ 2,741,917
2. Other Investments	$ 0		0	$ 0	N/A	$ 0

Investments for the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration Trust Funds are reported by the Department of the Treasury and are included in the U.S. Army Corps of Engineers' financial statements. Investments include $262.5 million in one-day certificates and $2.8 billion in bonds and notes. Total investment amounts include $347.1 million in Inland Waterways, $2.7 billion in Harbor Maintenance, and $76.1 million in the South Dakota Terrestrial Wildlife Habitat Restoration account.

Investments are held until maturity. As funds are needed to sustain operations, withdrawals are made from the one-day certificate investment account for Inland Waterways and Harbor Maintenance Trust Funds. The investment policy changed for South Dakota Trust Funds in February 2005. Funds are no longer invested in one-day certificates, but are invested in notes and bonds. Provisions are not made for unrealized gains or losses on these securities. The Trust Funds use the same method that conforms to the prevailing practice in the financial community to determine the amortized book value of investments currently held and the related effective interest yield on investments. These calculated yields agree with yields published in the security tables of the Department of the Treasury securities. These types of investments are recorded at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. Investment decisions for these funds are made by the managing entity, in this case, the Department of the Treasury.

The Department of the Treasury also provides the investment market value based on the bid price provided by the Federal Reserve Bank of New York on September 30, 2005.

Note Reference

See Note Disclosure 1.N., Investments in the Department of the Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.

Fluctuations

Line 1A. Non-Marketable, Market Based Securities: The overall increase of $384 million (14 percent) in Non-Marketable, Market Based Securities is due to several factors. There is an increase in tax revenues in Harbor Maintenance and Inland Waterways Trust Funds and an increase in interest on investments (cash) for Harbor

Maintenance, Inland Waterways and South Dakota Trust Funds. Tax revenues are from imports, exports, domestics, excise, foreign trade and passengers. The tax revenues are invested by the Department of the Treasury and reported on Bureau of Public Debt's financial statements for Harbor Maintenance and Inland Waterways Trust Funds. Harbor Maintenance reports an increase in investments of $400 million compared to the 4th Quarter, FY2004. The increase in investments is due to an increase in volume for taxes on imports and foreign trade. South Dakota is reporting an $11.9 million increase in investments for the 4th Quarter, FY 2005, compared to the 4th Quarter, FY 2004. The increase is due to the Department of the Treasury investing the funds collected in notes and bonds instead of one-day certificates. Inland Waterways reports a decrease in investments of $27.9 million for the 4th Quarter, FY 2005. The decrease is caused by budget authority transferred by the Department of the Treasury to the Inland Waterways expenditure account. The funds are transferred from invested balances and are based upon weekly estimates needed to cover expenditures. As funds are withdrawn, investment accounts decrease.

Line 1B. Accrued Interest: The increase of $2.3 million (17 percent) in accrued interest on investments is due to an increase in investments through tax collections on imports and foreign trade from the Harbor Maintenance Trust Funds. Harbor Maintenance has an increase of $2.4 million and South Dakota is reporting an increase of $478 thousand. The increase in the South Dakota account is due to a policy change where the Department of the Treasury invests its funds in notes and bonds instead of one-day certificates. Inland Waterways is reporting a decrease of $571 thousand in their interest income receivable. Funds are withdrawn to transfer budget authority in order to cover expenditures. Withdrawals result in fewer investments available to accrue interest in the Inland Waterways Trust Fund.

Line 1C. Total Intragovernmental Securities: Total Intragovernmental Securities has a net increase of $386 million (14 percent) in investments and interest, as of September 30, 2005, compared to September of 2004. The increase is a result of tax revenues collected and invested until funds are needed for support of operations.

Note 5. Accounts Receivable

As of September 30	2005			2004
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
1. Intragovernmental Receivables	$ 613,904	N/A	$ 613,904	$ 520,123
2. Nonfederal Receivables (From the Public)	$ 1,756,698	$ (5,773)	$ 1,750,925	$ 1,906,435
3. Total Accounts Receivable	$ 2,370,602	$ (5,773)	$ 2,364,829	$ 2,426,558

Allowance method:

The method of calculating the allowance for estimated uncollectibles is based on the cumulative balance of delinquent public receivables aged in accordance with current USACE policy. The calculation is performed automatically in the Corps of Engineers Financial Management System.

The Code of Federal Regulations (4CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables.

Elimination Adjustments

The USACE was able to compare its accounts receivable balances with the accounts payable balances of its intragovernmental trading partners. No material differences were identified.

Receivables with Other Federal Agencies (Non-Defense)

Receivables with Department of Homeland Security increased by $53.8 million as a result of reimbursable work performed for Federal Emergency Management Agency (FEMA), primarily attributable to hurricane relief efforts. Some activities previously identified under other agencies are now reported under Department of Homeland

Security. Receivables for amounts to be transferred from the Aquatic Resources Trust Fund (Department of Interior) for currently invested balances to the USACE Coastal Wetlands Trust Fund is $16.3 million more than at this time last year. This is for coastal wetland projects in the New Orleans District. Additionally, receivables for Inland Waterways are $7.9 million more than this time last year because of amounts to be transferred to the USACE from the Inland Waterways Trust Fund for inland waterway navigation projects.

Intragovernmental Receivables Over 180 Days

The amount of intragovernmental receivables over 180 days old is $37.6 million versus $9.6 million this time last year, with $36.5 million belonging to FEMA.

Public Receivables Over 180 Days

The amount of public receivables over 180 days old is $78.6 million. Receivables with the public include $56.8 million in accrued interest on receivables over 180 days old associated with long-term water storage contracts. Of the total receivables over 180 days old, $41.1 million is owed by the Commonwealth of Puerto Rico on a 50 year contract for the Cerrillos Dam water storage.

Nonfederal Refunds Receivable

The amount of public receivables includes $1.2 million in refunds receivable, (95 percent) of which are current refunds receivable largely attributed to refunds due for liquidated damages, refunds due from U.S Bank on credit cards and condemnation cases.

Other Disclosures

Public receivables include $33.9 million in current and $835.9 million in long-term accounts receivable (principal) associated with water storage contracts, $852.8 million in accrued interest receivable, and $2.4 million in penalties, fines, and administrative fees receivable. Public receivables also include $1.3 million in long-term receivables for hydraulic mining and $426.2 thousand due from the leasing of land acquired for flood control purposes, and $24.0 million due from the D.C. Public Schools and Department of Housing. The remainder is for various other accounts receivables.

The amount of Public Receivables on the Treasury Report on Receivables Due from the Public is $5.7 million greater than the balance of public receivables reported on the balance sheet. The difference is attributed to the amount of work-in-progress for $53.3 thousand less the allowance for estimated uncollectibles of $5.8 million not reported on the Treasury Report on Receivables.

Total trust fund receivables for currently invested balances are $386.7 million. The breakdown between funds follows. Trust fund receivables for currently invested balances include $368.8 million for the Coastal Wetlands Restoration Trust Fund, and $17.9 million for the Inland Waterways Trust Fund. To accommodate cash management practices, funds will remain invested until needed for disbursement. The budget authority is realized and obligations may be incurred before the actual transfer of funds.

Fluctuations

Intragovernmental Receivables. The increase in intragovernmental receivables is attributed to the increase of $53.8 million in reimbursable work performed for FEMA in support of hurricane relief efforts in Florida. Receivables for amounts to be transferred from the Aquatic Resources Trust Fund (Department of Interior) for currently invested balances to the USACE are $16.3 million more than at this time last year. This is for coastal wetland projects in the New Orleans District. Additionally, receivables for Inland Waterways are $7.9 million more than at this time last year because of amounts to be transferred to the USACE from the Inland Waterways Trust Fund for inland waterway navigation projects. Receivables for amounts to be transferred to the USACE from the Department of Energy are $10.2 million more than at this time last year.

Note 6. Other Assets

Not applicable.

Note 7. Cash and Other Monetary Assets

As of September 30	2005	2004
(Amounts in thousands)		
1. Cash	$ 556	$ 571
2. Foreign Currency (non-purchased)	591	468
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,147	$ 1,039

Definitions

Cash – The total of cash resources under the control of the USACE, which includes coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include 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 (formerly called FT accounts).

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.

Other USACE Disclosures

Cash consists of $552 thousand in Disbursing Officer's Cash and $4 thousand in change funds for recreation cashiers.

The USACE translates foreign currency to U.S. dollars utilizing the Department of the 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. The USACE maintains a balance of Japanese yen, Euro dollars, and Korean won for disbursements made at Japan, Europe, and Far-East Districts.

Fluctuations

The increase in foreign currency is from the balances maintained in Japanese yen, Euro dollars, and Korean won, which are used to pay local vendors and contractors. The increase, expressed in US dollars, is $29.6 thousand in Japanese yen, $24 thousand in Euro dollars, and $69 thousand in Korean won. The fluctuation is due to increased volume of work. The balance fluctuates daily as new funds are obtained and disbursements are made.

Note Reference

See Note Disclosure 1. J.- Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

Note 8. Direct Loan and/or Loan Guarantee Programs

Not applicable

Note 9. Inventory and Related Property

As of September 30	2005	2004
(Amounts in thousands)		
1. Inventory, Net	$ 117,237	$ 61,671
2. Operating Materials & Supplies, Net	147	144
3. Stockpile Materials, Net	0	0
4. Total	$ 117,384	$ 61,815

Inventory, Net

As of September 30	2005 Inventory, Gross Value	2005 Revaluation Allowance	2005 Inventory, Net	2004 Inventory, Net	Valuation Method
(Amounts in thousands)					
1. Inventory Categories					
A. Available and Purchased for Resale	$ 95,011	$ (15)	94,996	$ 41,718	O
B. Held for Repair	0	0	0	0	O
C. Excess, Obsolete, and Unserviceable	0	0	0	0	O
D. Raw Materials	0	0	0	0	O
E. Work in Process	22,241	0	22,241	19,953	O
F. Total	$ 117,252	$ (15)	117,237	$ 61,671	

Legend for Valuation Methods:

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

Inventory 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 U.S. President.

Definitions

Inventory Available and Purchased for Resale includes consumable spare and repair parts and repairable items owned and managed by the Department. Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies.

Inventory Held for Repair is damaged inventory that requires repair to make suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because the Department often relies on weapon systems and machinery no longer in production, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

Excess, Obsolete, and Unserviceable inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. Potentially reusable material, presented in previous years as “Excess, Obsolete and Unserviceable,” is included in “Held for Use” or “Held for Repair” categories according to its condition.

Work-in-Process (WIP) balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. WIP also includes the value of finished products or completed services pending the submission of bills to the customer. The WIP designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end-items of material ordered, but not delivered.

General Composition of Inventory

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. "Inventory held for Current Sale" is that expected to be sold in the normal course of operations. "Excess Inventory" is that which exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale. "Obsolete Inventory" is that which no longer is needed due to changes in technology, laws, customs or operations. "Unserviceable Inventory" is damaged inventory that is more economical to dispose of than to repair. WIP includes associated labor, applied overhead and supplies used in the delivery of services.

The inventory data reported on the financial statements is derived from the Corps of Engineers Financial Management System (CEFMS). CEFMS is a comprehensive system that is designed to capture and maintain historical cost data necessary to fully comply with the Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property."

The inventory valuation method is based on a moving weighted average based on actual cost divided by quantity. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost as new receipts are recorded.

For regulatory discussion on Inventory, Net, see Department of Defense Federal Management Regulation, Volume 6B, Chapter 10, paragraph 1011.

Fluctuations

Available and Purchased for Resale. Available and Purchased for Resale increased $53.3 million (127.7 percent). The increase is attributed to corrections made to the value of the Warehouse Stock Found on Works account in the amount of $47.1 million. As a result of CEFMS incorrect general ledger correlations, this account had previously been understated. The Inventory Allowance account was incorrect because Found on works items were increasing the Inventory account and at the same time begin offset in the Allowance account. This resulted in no increase to the overall inventory. Found on Works items are now recorded as a gain, which results in an increase to the overall inventory. The system correction was made in 2nd Quarter FY 2005. The increase is also attributed to a $6.2 million transfer of materials for river bank stabilization revetment projects on the Mississippi River by Memphis District from WIP to Available and Purchased for Resale.

Work-in-Process. Work-in-Process increased $2.3 million (11 percent). The net increase is due to an increase of $8.5 million at Vicksburg District for casting concrete mattresses and a decrease of $6.2 million at Memphis District that was transferred to Available and Purchased for Resale.

Note Reference

See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and Department of Defense (DoD) policies governing Inventory and Related Property.

Operating Materials and Supplies, Net

As of September 30	2005 OM&S Gross Value	2005 Revaluation Allowance	2005 OM&S, Net	2004 OM&S, Net	Valuation Method
(Amounts in thousands)					
1. OM&S Categories					
A. Held for Use	$ 147	$ 0	$ 147	$ 144	O
B. Held for Repair	0	0	0	0	O
C. Excess, Obsolete, and Unserviceable	0	0	0	0	O
D. Total	$ 147	$ 0	$ 147	$ 144	

Legend for Valuation Methods:

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

There are no restrictions on operating materials and supplies (OM&S). The valuation method is based on a moving weighted average based on actual cost divided by quantity.

For regulatory discussion on OM&S, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101108.

Fluctuations

None.

Note Reference

See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

Stockpile Materials, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30	2005 Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	2004 Prior FY Net Book Value
(Amounts in thousands)						
1. Major Asset Classes						
A. Land	N/A	N/A	$ 8,900,815	N/A	$ 8,900,815	$ 8,583,779
B. Buildings, Structures, and Facilities	S/L	20 - 100	27,124,179	$ (12,608,026)	14,516,153	16,128,806
C. Leasehold Improvements	S/L	lease term	26,719	(14,158)	12,561	14,800
D. Software	S/L	2 - 5	82,711	(45,848)	36,863	26,466
E. General Equipment	S/L	5 - 100	1,263,312	(619,736)	643,576	632,840
F. Military Equipment	S/L	Various	0	0	0	0
G. Assets Under Capital Lease	S/L	lease term	0	0	0	0
H. Construction-in- Progress	N/A	N/A	2,642,702	N/A	2,642,702	3,018,921
I. Other			27,432	(0)	27,432	42,905
2. Total General PP&E			$ 40,067,870	$ (13,287,768)	$ 26,780,102	$ 28,448,517

[1] Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

General PP&E – Significant Amount of Assets

A cumulative total of $2.6 billion of intangible assets has been reclassified as land. These costs increased by $315 million in FY 2005. These assets are comprised of historical costs associated with the acquisition of land in conjunction with power projects. Costs were originally classified as intangible assets in order to comply with Federal Energy Regulatory Commission (FERC) guidelines on cost recovery. However, the decision was made that these costs were improperly classified in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," as they were part of the initial acquisitions cost of the land and should have been classified as such. We have also made a reversing entry for current year amortization in our statements to properly reflect the effect of the transfer into land (category 00) where accumulated depreciation is inappropriate. Supporting documentation for $17.3 billion of the $26.8 billion recorded in the Property, Plant, and Equipment (PP&E) line is being supported by alternate methods as agreed upon by the Inspector General, Department of Defense and the U.S. Army Corps of Engineers (USACE) in a June 9, 2004 Memorandum of Agreement.

The service life for the USACE's multiple purpose project assets is derived from guidance provided by the FERC based on industry standards. The Power Marketing Administration (PMA) related assets make up $7.6 billion of the book value of the USACE's PP&E.

The USACE currently operates and maintains 75 hydroelectric power plants, generating about 24 percent of America's hydroelectric power. All power generated by these 75 hydroelectric power plants is transmitted to PMA for distribution to customers across the region. Each fiscal year, the USACE prepares a "Statement of Expenses" broken down by plant, district, and region and provides this information to the PMAs to assist in their Power Repayment Study. The PMAs then collect power receipts (revenues) from customers and return the receipts to the Department of the Treasury.

The USACE's policy requires all capital improvements to real property, occupied but not owned by the USACE, with a useful life of two or more years and cost of $25 thousand to be capitalized as leasehold improvements.

In the USACE's FY 2005 Construction-in-Progress (CIP) account, $151 million of the $2.6 billion (5 percent) is attributable to a dormant project formally known as the "Elk Creek Lake Project" located at the U. S. Army Corps of Engineers Portland District. The project, which was authorized by the 1962 Flood Control Act, was originally authorized to perform the purpose of Flood Control. In 1971, construction began on the project but after completing only 33 percent of its design height, the project was shut down due to a court-ordered injunction. Additional analysis under National Environmental Policy Act (NEPA) is required to remove the injunction. To date, the environmental concerns have not been resolved and the project is sitting in a hold status until such time these issues are resolved. Therefore, the USACE will continue to carry the construction costs of the "Elk Creek Lake Project" in the CIP account until a final decision is made concerning the outcome of the project.

Due to the USACE's significant involvement in debris removal, flood control and repair work on the breached levees in the Hurricane Katrina affected areas, effort has not been focused at this time on identifying the potential losses to the USACE assets or liabilities associated with environmental damages. Many areas where the potentially affected assets exist are still inaccessible due to flooding. The USACE plans to perform a full assessment of potential damages and liabilities in FY 2006.

For regulatory discussion on General PP&E, Net, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1012.

Fluctuations

Line1A – The USACE recorded an increase of $315 million in intangible assets reclassified to land associated with the power projects in FY 2005 which accounts for most of the $317 million (3 percent) variance.

Line 1B – The decrease of $1.6 billion (10 percent) in Buildings and Structure is partly due to the result of ongoing corrective actions by the USACE. A large portion of river bank stabilization assets should have been expensed and the USACE has taken appropriate actions to remove these assets. Bank stabilization expenses totaled $59 million for FY 2005. Other major factors include the retirement of channels, canals, and various assets at Vicksburg District for $635 million and various assets transferred to retirements at Wilmington District for $94 million; Memphis District for $80 million; New York District for $58 million; Seattle District for $37 million; Louisville District for $47 million; Nashville District for $44 million; Mobile District for $45 million; Savannah District for $43 million; and Ft. Worth District for $57 million.

Line 1C – The decrease of $2.2 million (15 percent) in net book value of Leasehold Improvements is due to depreciation expense for Government Accountability Office (GAO) Building Construction at Humphrey's Engineering Center Support Activity (HECSA).

Line 1D – The majority of the increase of $10.4 million (39 percent) in net book value of software is due to the acquisition of P2 Project Management System for $15.7 million at Headquarters USACE (HQUSACE) and the normal depreciation expense of $5 million for software at HECSA and HQUSACE.

Line 1H - The decrease of $376 million (12 percent) in CIP is due to a change in accounting policy in FY 2004 requiring the write-off of non-federal cost share projects as costs are incurred. The HQUSACE issued policy to reflect the proper accounting treatment of non-Federal CIP for cost shared projects. The proper accounting treatment is to remove the non-Federal portion from the CIP, based on SFFAS No 8, Supplementary Stewardship Reporting.

In the past, costs for non-federal cost share projects were capitalized and then transferred to the public at completion by recording a loss.

Line 1I - Other: Other assets consist of assets awaiting disposal. The decrease of $15 million (36 percent) is due to the disposal of retired assets at various districts.

Note Reference

See Note Disclosure 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

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2005	2004
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	14,251	15,000
C. Other	1,930,884	262,233
D. Total Intragovernmental Liabilities	$ 1,945,135	$ 277,233
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	0
C. Environmental Liabilities	529,617	0
D. Loan Guarantee Liability	0	0
E. Other Liabilities	26,055	50,353
F. Total Nonfederal Liabilities	$ 555,672	$ 50,353
3. Total Liabilities Not Covered by Budgetary Resources	$ 2,500,807	$ 327,586
4. Total Liabilities Covered by Budgetary Resources	$ 1,224,297	$ 3,066,286
5. Total Liabilities	$ 3,725,104	$ 3,393,872

Definitions

Liabilities Not Covered by Budgetary Resources

Liabilities that are not considered covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass the following:

- New budget authority.
- Spending authority from offsetting collections (credited to an appropriation or fund account).
- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations.
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year.
- Borrowing authority or permanent indefinite appropriations, which have been enacted and signed into law as of the Balance Sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

Intragovernmental Liabilities – Other includes Workmen's Compensation liabilities under the Federal Employees Compensation Act (FECA) totaling $46.9 million, offsetting custodial liability to accounts receivable totaling $1.7 billion, and Judgment Fund liabilities-Contract Disputes Act (CDA) totaling $162.6 million. The custodial liability is for amounts that will be deposited in the General Fund of the Department of the Treasury when collected and are primarily related to water storage contracts.

The Actuarial Liability for FECA is not included. The Department of Labor is unable to furnish a figure for FECA actuarial liability specific to the United States Army Corps of Engineers (USACE) Civil Works.

Non-federal Liabilities – Other includes $26 million for contracts with continuation clauses.

Total Liabilities Covered by Budgetary Resources: Intragovernmental - Accounts Payable, $91.2 million; and Other

(FECA, Unearned Revenue-Advances, Deposit Fund and Clearing Accounts), $26 million. Non-federal – Accounts Payable, $532 million; and Other (Contract Holdbacks, FECA, Unearned Revenue-Advances, Deposit Fund, Clearing Account and Contingent Liabilities resulting from casualty losses), $574.8 million.

Fluctuations

Intragovernmental Liabilities - Other: This amount increased $1.7 billion (636 percent). Uncollected Custodial Liability increased $1.6 billion because it is reported with Liabilities Not Covered by Budgetary Resources in the 4th Quarter, FY 2005. It was reported with Liabilities Covered by Budgetary Resources in the 4th Quarter, FY 2004. Prior to the 1st Quarter, FY 2005, the USACE could not use US Standard General Ledger (USSGL) 2980 and recorded the offsetting custodial liability to accounts receivable in USSGL 2990. DFAS-Arlington provided guidance to the USACE to use USSGL 2980 instead of USSGL 2990 for the 1st Quarter, FY 2005 reporting period, which results in the liability being properly reported as Not Covered by Budgetary Resources. Also, there was an increase of $9.3 million in Unfunded Judgment Fund liability under the Contract Disputes Act and an increase of $3.1 million in Unfunded FECA liability.

Non-federal Liabilities – Environmental Liabilities: The increase of $529.6 million (100 percent) is attributed to the recognition of future contingent liabilities for the Formerly Utilized Sites Remedial Action Program. The liability amounts were not known prior to the 4th Quarter, FY 2005.

Non-federal Liabilities – Other Liabilities: The decrease of $24.3 million (48 percent) is attributed to unfunded liabilities for contracts with continuation clauses. The amount for the unfunded liability is recorded in the general ledger when a receiving report is entered in the Corps of Engineers Financial Management System (CEFMS), but the obligation is not recorded at this time. When funds become available, the actual receiving report and obligation are entered in the CEFMS and the initial receiving report with no obligation is reversed. More contracts with continuation clauses were recorded in the 4th Quarter, FY 2004 than the 4th Quarter, FY 2005. The USACE implemented a policy change this year requiring approval from Headquarters before awarding a contract with continuation clauses which resulted in a decrease in these contracts and related liability of $24.3 million.

Note Reference

For additional line item discussion, see:
Note 8, Direct Loans 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 12. Accounts Payable

	2005			2004
As of September 30	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in thousands)				
1. Intragovernmental Payables	$ 87,230	$ N/A	$ 87,230	$ 103,498
2. Non-Federal Payables (to the Public)	535,882	0	535,882	570,255
3. Total	$ 623,112	$ 0	$ 623,112	$ 673,753

Other Information

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

The United States Army Corps of Engineers (USACE) has no known delinquent accounts payable; therefore, no amount is reported for interest, penalties and administrative fees. For the period ending September 30, 2005, the USACE paid $855.8 thousand in interest from Civil Works appropriations on payments subject to the Prompt Payment Act.

The USACE was able to compare its accounts payable balance with the accounts receivable balances of its intra-departmental (Department of Defense) trading partners. No material reconciling differences were identified.

Fluctuations

Intragovernmental Payables: This amount decreased $16.3 million (16 percent). Payables with the General Services Administration (GSA) decreased $13.4 million as a result of more efficient billing by the GSA. Payables with the Department of Commerce National Marine Fisheries decreased $5.5 million primarily due to a decrease in the USACE work in the conservation of fisheries and waters.

Note Reference:

See Note Disclosure 1.G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

Note 13. Debt

As of September 30	2005			2004
(Amounts in thousands)	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
1. Agency Debt				
A. Debt to the Treasury	$ 15,367	$ (767)	$ 14,600	$ 15,367
B. Debt to the Federal Financing Bank	0	0	0	0
C. Total Agency Debt	$ 15,367	$ (767)	$ 14,600	$ 15,367
2. Total Debt	$ 15,367	$ (767)	$ 14,600	$ 15,367

During fiscal years 1997, 1998, and 1999, the USACE executed three promissory notes totaling $75 million with the Department of the Treasury. Funds provided were used for capital improvements to the Washington Aqueduct. Arlington County, the city of Falls Church, Virginia, and the District of Columbia provide funding to repay the debt. The District of Columbia repaid the remaining portion of their debt in FY 2004. Cumulative actual drawdown of the funds has been made from the Department of the Treasury in the amount of $74.9 million. There were no drawdowns of funds from the Department of the Treasury for the 4th Quarter, FY 2005.

Accrued Interest Payable as of September 30, 2005	+	Principle Repayments FY05	=	Net Borrowings FY05
$19 thousand		$748 thousand		$767 thousand

Total cumulative principal repayments as of September 30, 2005, are $61.8 million.

The difference between the FY 2004 and FY 2005 ending balance represents FY 2005's principle repayment plus the accrued interest payable amount as of September 30, 2005.

Note Reference

See Note Disclosure 1.G., – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounting for Intragovernmental Activities, Public Debt.

See Note 20 for further discussion on the Washington Aqueduct project.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2005 Current Liability	2005 Noncurrent Liability	2005 Total	2004 Total
(Amounts in thousands)				
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	$ 0	$ 0	$ 0	$ 0
2. Active Installations--ER for Closed Ranges	0	0	0	0
3. Formerly Used Defense Sites (FUDS) -- ER	0	0	0	0
4. FUDS--ER for Transferred Ranges	0	0	0	0
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	0	0	0	0
2. Active Installations--Environmental Closure Requirements	0	0	0	0
3. Active Installations--Environ.Response at Active Ranges	0	0	0	0
4. Other	0	529,617	529,617	0
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	0	0	0	0
2. BRAC Installations--ER for Transferring Ranges	0	0	0	0
3. BRAC Installations--Environmental Corrective Action	0	0	0	0
4. Other	0	0	0	0
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0	0	0	0
2. Nuclear Powered Submarines	0	0	0	0
3. Other Nuclear Powered Ships	0	0	0	0
4. Other National Defense Weapons Systems	0	0	0	0
5. Chemical Weapons Disposal Program	0	0	0	0
6. Other	0	0	0	0
2. Total Environmental Liabilities:	$ 0	$ 529,617	$ 529,617	$ 0

The USACE is responsible for the Formerly Utilized Sites Remedial Action Program (FUSRAP), which was established to respond to radiological contamination from early U.S. atomic energy and weapons program. This program is funded through Civil Works appropriations.

Future liabilities for the FUSRAP Program are $529.6 million, where studies and final Records of Decision documenting the cleanup requirements have been completed at the following sites: St. Louis Downtown Site Accessible Soils, St. Louis Airport Site, Latty Avenue Site, St. Louis Airport Vicinity Properties Site, Maywood Site Soils, Middlesex Sampling Plant Soils, Shpack Landfill Site, W. R. Grace Building 23 Site, Luckey Site, and the Linde Air Products Site.

The USACE recognizes future liabilities related to this program but the liability amounts are currently unknown.

The project sites are: St. Louis Downtown Site Inaccessible Soils, Iowa Army Ammunition Plant FUSRAP site, Colonie Site, Maywood Site Groundwater, Middlesex Sampling Plant Site Groundwater, Combustion Engineering Site, DuPont Chambers Works Site, W. R. Grace Radioactive Waste Disposal Area Site, Seaway Industrial Park Site, Niagara Falls Storage Site, Shallow Land Disposal Area Site, Former Harshaw Chemical Company Site, Guterl Specialty Steel Site, and Painesville Site.

Due to the USACE's significant involvement in debris removal, flood control and repair work on the breached levees in the Hurricane Katrina affected areas, effort has not been focused at this time on identifying the potential losses to the USACE assets or liabilities associated with environmental damages. Many areas where the potentially affected assets exist are still inaccessible due to flooding. The USACE plans to perform a full assessment of potential damages and liabilities in FY 2006.

Fluctuations

Line 1B4. Other Accrued Environmental Costs (Non-DERP funds) increased by $529.6 million (100 percent) due to the fact that the amount of liability for future contingent liabilities for the Formerly Utilized Sites Remedial Action Program was unknown until 4th quarter, FY 2005.

Note 15. Other Liabilities

As of September 30	2005 Current Liability	2005 Noncurrent Liability	2005 Total	2004 Total
(Amounts in thousands)				
1. Intragovernmental				
A. Advances from Others	$ 11,247	$ 0	$ 11,247	$ 10,853
B. Deposit Funds and Suspense Account Liabilities	594	0	594	472
C. Disbursing Officer Cash	552	0	552	567
D. Judgment Fund Liabilities	162,645	0	162,645	153,309
E. FECA Reimbursement to the Department of Labor	20,172	26,679	46,851	43,745
F. Other Liabilities	133,570	1,601,436	1,735,006	1,849,681
G. Total Intragovernmental Other Liabilities	$ 328,780	$ 1,628,115	$ 1,956,895	$ 2,058,627
(Amounts in thousands)				
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 376,600	$ 0	$ 376,600	$ 358,538
B. Advances from Others	104,775	0	104,775	139,121
C. Deferred Credits	0	0	0	0
D. Deposit Funds and Suspense Accounts	(2,742)	0	(2,742)	9,272
E. Temporary Early Retirement Authority	0	0	0	0
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0	0
H. Capital Lease Liability	0	0	0	0
I. Other Liabilities	122,247	0	122,247	139,194
J. Total Nonfederal Other Liabilities	$ 600,880	$ 0	$ 600,880	$ 646,125
3. Total Other Liabilities	$ 929,660	$ 1,628,115	$ 2,557,775	$ 2,704,752

Line 1.D. The Corps of Engineers Civil Works Directorate has recognized 36 unfunded liabilities arising from Judgment Fund Contract Disputes Act settlements in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgment Fund Transactions. Claims totaling $71.4 million date back to FY 2001 to FY 1992. Claims totaling $32.3 million were incurred from FY 1995 through FY 1997. The remaining claims for $58.9 million were incurred during FY 2000 and thereafter. The USACE cannot fund the Judgment Fund Contract Disputes Act claims since it is funded by project and funding does not include an allowance for this type of claim. Therefore, the USACE sought a supplemental appropriation in FY 2000 which was not approved. The USACE has again requested funds in the FY 2006 Civil Works budget to pay the outstanding claims. If the entire amount is not approved, the USACE plans to pay the oldest claims first and work forward until all claims are paid.

Line 1.E. Federal Employees' Workman's Compensation costs reflect cost incurred for income lost and medical costs for federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The costs are paid as authorized in the Federal Employees' Compensation Act (FECA) by the Department of Labor. The USACE reimburses the Department of Labor for the costs. The USACE records a liability until the reimbursement to the Department of Labor is accomplished. Fiscal year 2006 and beyond costs of $26.7 million are reflected as a noncurrent liability.

Other Liabilities

Intragovernmental

Line 1.F. Intragovernmental other liabilities (current) includes $13.6 million for employer contributions and payroll taxes and $120 million to offset interest and accounts receivables which, when collected, will be returned to Treasury. Intragovernmental other liabilities (noncurrent) represent future revenue of $1.6 billion from long-term water storage contracts and $1.3 million from hydraulic mining contracts.

Non-federal

Line 2.I. Non-federal other liabilities include $39.6 million to fund contingent liabilities arising from casualty losses. The amount also includes $56.6 million in contract holdbacks on construction-in-progress payments and $26 million for unfunded liabilities for contracts with continuation clauses. The continuation clause allows contractors to continue work without funds being obligated. The amount of the unfunded payable is recorded in the general ledger when a receiving report is entered in the Corps of Engineers Financial Management System (CEFMS), but no obligation is recorded at this time. When funds become available, the actual receiving report and obligation are entered in CEFMS and the initial receiving report with no obligation is reversed.

Intragovernmental Reconciliations for Fiduciary Transactions

With respect to the major fiduciary balances with the Office of Personnel Management (OPM) and the Department of Labor (DOL), the USACE was able to reconcile with the OPM and the DOL. There were no variances.

Fluctuations

Line 1.B. Deposit Funds and Suspense Accounts increased this year by $122 thousand (26 percent) due to an increase in foreign currency.

Line 2.B. Non-federal Advances from Others decreased by $34.3 million (25 percent) due to completion of work on projects related to the advances and, in some cases, the return of funds to the customer generally due to a change in the original project plans. Significant reductions in advances occurred in the Kansas City, Sacramento and Honolulu Districts as work was completed on projects. The New York and Honolulu Districts returned $12.1 million to customers.

Line 2.D. Deposit Funds and Suspense Accounts decreased by $12 million (130 percent) due to the reporting of unposted intergovernmental collections and disbursements (net) of ($12.2) million in a budget clearing suspense account in FY 2005. The balance of unposted intragovernmental disbursements and collections (net) of ($25.6) million was reported as Disbursements in Transit in FY 2004. Unposted disbursements exceeded collections resulting in an abnormal balance for this budget clearing suspense account in FY 2005.

Line 2.I. Other Non-federal liabilities decreased by $16.9 million (12 percent) due to two factors. There was a decrease of $24.3 million in the liability recorded for contracts with continuation clauses. The USACE implemented a policy change this year requiring approval from Headquarters before awarding a contract with continuation clauses which resulted in a decrease in these contracts and related liability. There was also an increase of $7.8 million in contract holdbacks in the Flood Control and Coastal Emergencies appropriation, the Construction General appropriation, and the Rivers and Harbors Contributed and Advance Funds.

Note Reference

See Note Disclosure 1.S.-Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Proprietary contingencies are commonly referred to as contingent liabilities. The USACE has 81 cases pending litigation, 66 claims pending in contract claims and appeals, and 341 tort claims in which the relief requested is $2.7 million or more. The USACE Legal Counsel is of the opinion that it is "remote" that the outcome of the litigation will result in a loss.

Since these cases fail to satisfy the criteria to record a contingent liability in accordance with the Statement of Federal Financial Accounting Standard No. 5, Accounting for Liabilities of the Federal Government, no amount is included in our financial statements.

Note Reference

See Note Disclosure 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

Not applicable.

Note 18. Disclosures Related to the Statement of Net Cost

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost (SoNC) 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 SoNC are based on obligations, disbursements, and accruals. The United States Army Corps of Engineers (USACE) records transactions on an accrual basis as required by generally accepted accounting principles.

Fluctuations

Intragovernmental Gross Costs: The increase of $358 million (35 percent) includes $288.5 million in activity with the Department of the Army. The activity was primarily in the USACE Gulf Region Division for the Iraqi relief and reconstruction effort in the Persian Gulf area. The remaining variance includes increases in judgment fund claims, employee benefit expense and imputed costs for health benefits, life insurance and retirement.

Intragovernmental Earned Revenue: This amount increased $918 million (74 percent). Reimbursable work performed for the Federal Emergency Management Agency (FEMA) on the hurricane relief effort in Florida totaled $740.7 million. The USACE received $848.0 million in funding authority from FEMA to perform numerous missions to support those affected by the four hurricanes that struck Florida in the fall of 2004. Work continues on that effort. There was an increase of $241.7 million for reimbursable labor cost for work performed in Iraq for the Department of the Army.

Earned Revenue From the Public: This amount increased $60.8 million (17 percent). An increase of $92.4 million is due to programming changes made in the Corps of Engineers Financial Management System (CEFMS) general ledger correlations for the Revolving Fund. Public revenue was understated in the 4th Quarter, FY 2004 because the CEFMS did not properly update all relevant general ledger accounts. There was a decrease of $34.2 million attributed to the decrease in reimbursable activity for the District of Columbia (DC) Public Schools.

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

As of September 30	2005 Cumulative Results of Operations	2005 Unexpended Appropriations	2004 Cumulative Results of Operations	2004 Unexpended Appropriations
(Amounts in thousands)				
1. Prior Period Adjustments Increases (Decreases) to Net Position				
A. Changes in Accounting Standards	$ 0	$ 0	$ 0	$ 0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	0	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	$ 0	$ 0	$ 0	$ 0
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 97,212	$ 0	$ 102,108	$ 0
B. Civilian Health	134,320	0	125,990	0
C. Civilian Life Insurance	397	0	392	0
D. Judgment Fund	9,652	0	11,058	0
E. Intra-Entity	0	0	0	0
F. Total Imputed Financing	$ 241,581	$ 0	$ 239,548	$ 0

Other USACE Disclosures

Taxes and Other Nonexchange Revenue include $1.1 billion in tax collections and $84.7 million in interest income deposited into the trust fund accounts. Excise taxes totaling $91.3 million have been deposited into the Inland Waterways Trust Fund. Taxes totaling $1 billion have been collected and deposited into the Harbor Maintenance Trust Fund. These taxes are derived from:

Tax on Exports	$18.2 thousand
Tax on Foreign Trade	$138 million
Tax on Imports	$842 million
Tax on Passengers	$8.4 million
Tax on Domestics	$60 million

Transfers-in include: $10 million transferred into the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund; $687.2 million in budget authority transferred into the Harbor Maintenance Trust Fund from the Department of the Treasury; $58 million in budget authority transferred into the Coastal Wetlands Restoration Trust Fund from the Aquatic Resource Trust Fund; and $136.3 million in budget authority transferred into the Inland Waterways Trust Fund from the Department of the Treasury.

Transfers-out to other governmental agencies total $19 million. This includes $15.7 million transferred to the Saint Lawrence Seaway Development Corporation from the Harbor Maintenance Trust Fund. Additional transfers from the General Fund were transferred as follows: $20 thousand was transferred to the U.S. Department of Interior, Bureau of Indian Affairs; $3.2 million was transferred to the U.S. Fish and Wildlife; and $7.7 thousand was transferred to the U.S. Geological Survey.

Transfers-out to Non-USACE total $34.2 thousand, which is a transfer to the 425th Engineering Detachment.

Fluctuations

Footnotes:

Line 2D. Imputed Financing – Judgment Fund: The amount of Judgment Fund claims, paid by the Department of the Treasury, decreased by $1.4 million (13 percent) for the 4th Quarter, FY 2005.

Statement of Changes in Net Position

Cumulative Results of Operations:

Line 4E. Budgetary Financing Sources – Nonexchange revenue: The overall $198.2 million (14 percent) increase in Budgetary Financing Sources – nonexchange revenue is due to fluctuation in taxes for Harbor Maintenance and Inland Waterways Trust Funds and interest for Harbor Maintenance, Inland Waterways, and South Dakota Trust Funds. The USACE is the lead agency for reporting Inland Waterways, Harbor Maintenance, and South Dakota Trust Funds. Interest on investments (cash) increased 4th Quarter, FY 2005, by a total of $24.4 million, for all three trust funds. Tax revenue collected from Harbor Maintenance and Inland Waterways Trust Funds has increased by $178.6 million. South Dakota does not have tax revenue.

Line 4H. Budgetary Financing Sources – Other budgetary financing sources: The decrease of $4.2 million (107 percent) in other budgetary financing sources is due to a change in reporting procedures for General, Revolving, and Transfer Funds. General and Revolving Funds now record USSGL accounts 7190 and 7290, Other Gains and Losses, on the Statement of Financing instead of the Statement of Changes in Net Position. Also, transfer appropriations are no longer treated as appropriations received. They are treated as transfers.

Line 5A. Other Financing Sources – Donations and forfeitures of property: There is an overall $1.1 million (243 percent) increase in donations and forfeitures of property for the 4th Quarter, FY 2005. General Funds has the largest increase, with the Wilmington District reporting a $664 thousand increase in donated land tracts and a $259 thousand increase in donated property with the Omaha District. The increase was caused by tracts of land which were acquired in prior years by the donation method and reflected nominal or zero costs. The USACE obtained fair market value for the donated land tracts and updated its financial records for the 4th Quarter, 2005.

Line 5B. Other Financing Sources – Transfers-in/out without reimbursement: Transfers-in/out without reimbursement has a $1.4 million (87 percent) difference between the 4th Quarter, FY 2005, and the 4th Quarter, FY 2004. This is due primarily to the fact that there have been no material transfers-in this fiscal year. Last year the USACE received a transfer-in of $2.1 million from the Western Area Power Administration which offset the transfers-out. Therefore, transfers-in have decreased by $1.9 million.

Line 5D. Other Financing Sources – Other: The overall $169 thousand (30 percent) increase to Other Financing Sources – Other, has been caused by several factors. General Funds is now recording USSGL accounts 5900 and 5909 to distributed offsetting receipts, which updates line 4 on the Net Position, instead of line 5. In the 4th Quarter, FY 2004, the net amount of other revenue was $1.4 million. The amount is zero for the 4th Quarter, 2005, in General Funds. There is a $1.2 million decrease in Borrowing Authority due to the District of Columbia, Water and Sewer Authority electing to prepay their debt. Therefore, all their remaining Treasury borrowing was repaid in the 2nd Quarter, FY 2004. This created a larger than normal principal repayment.

Unexpended Appropriations:
Lines 1, 2B & 3. Beginning Balances and Prior period adjustments: The overall $240.5 million (38 percent) decrease in the beginning balance is due to General and Transfer Funds reporting some funds transferred-in as finances from other sources rather than appropriated funds. This change began in 4th Quarter, FY 2004. Finances from other sources do not update the USSGL 3100 series, Unexpended Appropriations.

Line 4A. Budgetary Financing Sources – Appropriations received: The $775.4 million (20 percent) increase in Appropriations Received is due to an increase in funding from the Energy and Water Development Appropriations Act. General Funds has an increase of $750.4 million and Formerly Utilized Sites Remedial Action Program (FUSRAP) has an increase of $25 million.

Line 4B. Budgetary Financing Sources – Appropriations transferred-in/out: Appropriations transferred-in/out has a net $9.2 million (50 percent) increase. Transfer Funds has received $9.7 million more in transfers-in/out from the Department of Interior for the 4th Quarter, FY 2005, compared to the 4th Quarter, FY 2004. The Jacksonville District received the increased funding for construction from the Department of Interior, National Park Service.

Line 4C. Budgetary Financing Sources – Other adjustments (rescissions, etc): The $4 million (12 percent) increase to Budgetary Financing Sources - Other adjustments is due to several factors. General Funds and Formerly Utilized Sites Remedial Action Program (FUSRAP) are reporting increases in rescission amounts for the 4th Quarter, 2005. General Funds has an increase of $11 million and FUSRAP has an increase of $494 thousand. There is a decrease of $7.1 million in Transfer funds for the 4th Quarter, FY 2005. In the 4th Quarter, 2004, USSGL account 3106 was used to adjust the beginning balance in Transfer Funds of appropriations receiving "funding from other sources".

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.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2005	2004
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 2,419,101	$ 1,628,052
2. Available Borrowing and Contract Authority at the End of the Period	0	30,445

Other Information:
Intraentity Transactions
The Statement of Budgetary Resources (SBR) does not include intraentity transactions because the statements are presented as combined and combining.

Apportionment Categories
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A in the SBR includes: $5.7 billion for direct; $29 million for direct obligations exempt from apportionment; $6.9 billion for reimbursable obligations; and $1 million for reimbursable obligations exempt from apportionment. The U.S. Army Corps of Engineers (USACE) has no apportionments under Category B.

Undelivered Orders
Undelivered Orders presented in the SBR include Undelivered Orders-Unpaid for both direct and reimbursable funds.

Borrowing Authority
Borrowing authority is for capital improvements to the Washington Aqueduct. Funding to repay the debt is provided by Arlington County, Virginia, and Falls Church, Virginia.

Fluctuations

Note 20, Line 1 – The vast majority of the $791 million (48 percent) variance is due to $744 million of undelivered orders in General Funds, of which $587 million is in the Flood Control and Coastal Emergencies appropriation. Revolving Fund has $31 million in undelivered orders and Transfers Funds has $12 million.

Note 20, Line 2 – The $30 million (100 percent) variance is due to receipt in full of borrowing authority.

SBR Fluctuations

Appropriations received - The majority of the increase of $846.7 million (16 percent) is due to General Funds receiving $717 million more in appropriated funds in FY 2005 than FY 2004. The Flood Control and Coastal Emergencies appropriation alone received an increase of $343 million for hurricane relief efforts on the Gulf Coast. There was also an increase of $74 million in the Department of the Treasury's receipts unavailable for obligation in FY 2005. The USACE records the Department of the Treasury's portion of funds in the Defense Departmental Reporting System (DDRS). There was an increase of $25 million to the USACE Pollution Control & Abatement appropriation and a $1 million increase in Special Funds.

Borrowing authority - Reflects a variance of $135 thousand (100 percent) due to receipt in full of borrowing authority.

Net transfers – The variance of $58 million (28 percent) is due to a change in the recording of nonexpenditure transfers (SF ll51's) in General Funds. In FY 2004, $41 million was recorded in the U.S. Standard General Ledger (USSGL) 4119 vice 4175 for transfers-in from Special Funds. Also in FY 2005, Transfer Funds received $19 million more than in FY 2004 and Special Funds $2 million less.

Unobligated balance: Net transfers, actual (+/-) – The decrease of $36 million (126 percent) is due to transactions recorded in the Transfer Funds. Receivables valued at $35.6 million were recorded at year-end FY 2004 from the Department of Transportation (DOT) and the Department of Energy (DOE). At the beginning of FY 2005, DOT and DOE reapportioned excess prior year money and recorded as new authority. In FY 2005, the USACE transferred out the receivable of prior year budget authority and recorded as current year budget authority to reconcile with DOT and DOE.

Spending authority from offsetting collections – The increase in collections of $1.3 million (24 percent) and decrease in receivable of $53 million (82 percent) is due to collections and receivables in the Flood Control and Coastal Emergencies appropriation for hurricane relief efforts and operations in the Gulf Region Division in Iraq. Collections increased $846 million in General Funds and $416 million in Revolving Fund. Receivables decreased $71 million in General Funds and increased $18.6 million in Revolving fund.

Change in unfilled customer orders – Unfilled customer orders with advance decreased by $63.9 million (215 percent) in FY 2005 due to an increase in General Funds of $64.3 million and an increase in Revolving Fund of $11.3 million. Unfilled customer orders without advance from Federal sources increased by $3 billion (1,113 percent) in General Funds primarily in the Flood Control and Coastal Emergencies appropriation due to the hurricane relief work.

Permanently not available – The variance of $9.2 million (32 percent) is due to an increase of budget authority rescission of $10 million in General Funds and $500 thousand in Formerly Utilized Sites Remedial Action Program (FUSRAP) appropriation. Also, repayment of debt in Borrowing Authority decreased by $1.2 million.

Obligations incurred, Reimbursable – The increase of $1.4 billion (26 percent) is primarily in General and Revolving

Funds. The increase in General Funds of $1.1 billion is due to the activity in the South Atlantic region for hurricane relief efforts. The increase in Revolving Fund of $319 million is associated with the Gulf Region Division in Iraq.

Unobligated balance apportioned – The variance of $3.2 billion (258 percent) is an increase in the unobligated balance in the Flood Control and Coastal Emergencies appropriation.

Unobligated balance exempt from apportionment – The variance of $123 thousand (27 percent) is due to an increase in the Civil Work, Operation and Maintenance appropriation for $45 million from Bonneville Power Administration; Revolving Fund for $34 million; and Trust Funds for $34 million.

Unobligated balances not available – The decrease of $8 thousand (12 percent) is the result of the return of expired funds to the Agency for International Development.

Obligated balance, net–end of period - The increase of $3.3 billion (173 percent) in unfilled customer orders from Federal sources and the increase of $839 thousand (41 percent) in undelivered orders is in the Flood Control and Coastal Emergencies appropriation. This increase is due to recovery work performed in the New Orleans and Vicksburg Districts in support of the hurricane relief effort.

Outlays – The increase in disbursements of $1.2 billion (11 percent) and the increase in collections of $1.2 billion (23 percent) is due to an increase of disbursements in General Funds of $839 million and in Revolving Fund of $263 million; and an increase of collections in General Fund of $784 million and Revolving Fund of $414 million. The increase in activity is due to the hurricane relief effort in the Gulf Coast and operations in the Gulf Region Division in Iraq.

Note 21. Disclosures Related to the Statement of Financing

Intra-entity transactions have not been eliminated because the Statement of Financing is presented as combined and combining.

Resources Used to Finance Activities:

Obligations incurred: Obligations incurred increased by $1.6 billion (14 percent). The increase in obligations occurred in the General and Revolving Funds. The increase in the General Fund is due to an increase in obligations in the Flood Control and Coastal Emergencies appropriation for hurricanes in the Louisiana, Mississippi and Texas Gulf Coast in 2005. The increase in the Revolving Fund is associated with the Gulf Region Division in Iraq.

Less: Spending authority from offsetting collections: This amount increased by $4.2 billion (75 percent) due primarily to an increase in collections and receivables in the Flood Control and Coastal Emergencies appropriation. Again, this increase is related to recovery work for hurricane damage in 2004 and the most recent hurricanes in 2005. Customer orders increased by $3.2 billion for work related to the hurricanes. Collections increased by $915.7 million related to 2004 hurricane recovery work.

Other Resources

Donations and forfeitures of property: Donations and forfeitures of property increased by $1 million (243 percent) due primarily to corrections to the fair market value of land tracts donated in prior years. The land tracts were initially recorded with no or nominal value rather than fair market value. The Wilmington and Omaha Districts made corrections for $664 thousand and $258.9 thousand respectively.

Transfers in/out without reimbursement: Net transfers in and out increased by $1.4 million (87 percent) due primarily to a decrease in the amount of transfers-in. Transfers- in decreased by $1.9 million. Last year the U.S. Army Corps of Engineers (USACE) received a transfer-in of $2.1 million from the Western Area Power Administration. There were no material transfers-in this fiscal year.

Other: Other resources increased by $169 thousand (29 percent). Undistributed offsetting receipts net of the contra account, collections for others, were previously reported as other resources on the Statement of Financing but are now only reported on the Statement of Changes in Net Position. In addition, there was a decrease of $1.2 million in the amount of collections for repayment of the debt for repairs to the Washington Aqueduct.

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

Undelivered Orders: The change in undelivered orders increased by $438.4 million (110 percent) due to three factors. There was an increase in undelivered orders in the Flood Control and Coastal Emergencies appropriation due to recovery work for hurricane damage to the Louisiana, Mississippi, and Texas Gulf Coast in 2005. Undelivered orders also increased in the Construction General appropriation due to a variety of projects. There was also a change in undelivered orders in the Coastal Wetlands Restoration Trust Fund related to environmental projects in the New Orleans District.

Unfilled Customer Orders: The change in unfilled customer orders increased by $3 billion (983 percent) due to an increase in unfilled customer orders in the Flood Control and Coastal Emergencies appropriation for hurricane damage that occurred to the Louisiana, Mississippi, and Texas Gulf Coast in 2005.

Resources that fund expenses recognized in prior periods: Resources that fund expenses recognized in prior period decreased by $29.4 million (53 percent) and is mostly attributed to the decrease in future funded expense for contracts with continuation clauses. The amount of future funded expense associated with the liability for contracts with continuation clauses decreased by $24.3 million in FY 2005. The USACE implemented a policy change this year requiring approval from Headquarters before awarding contracts with continuation clauses which resulted in a decrease in these contracts and related liabilities. The change also reflects the payment of judgment fund claims in FY 2005 for $1.8 million.

Resources that finance the acquisition of assets: Resources that finance the acquisition of assets decreased by $1.7 billion (99 percent) due to a change in the methodology by the USACE to record current year purchases of capitalized assets to comply with the Office of Management and Budget Bulletin 01-09, Form and Content and Treasury's Cost Capitalization Offset, policy and procedures. The major change for reporting on this line this fiscal year is to exclude costs associated with construction-in-process (CIP) accounts as current year purchases of capitalized assets. These costs are now recognized as part of the Cost Capitalization Offset account.

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

Increase in exchange revenue receivable from the public: The exchange revenue receivable from the public changed by $34 thousand (100 percent). This amount was identified and reported due to programming changes in the Revolving Fund in FY 2005. This amount was not reported in the past.

Other: Other components requiring resources in future periods increased by $489.9 million (961 percent) due to the recognition of future contingent liabilities for the Formerly Utilized Sites Remedial Action Program for $529.6 million. This amount was offset by a reduction in the amount of future funded expense associated with the liability for contracts with continuation clauses. The amount of the liability for contracts with continuation clauses reported for FY 2004 was $50.3 million but decreased by $24.3 million in FY 2005 to $26 million. The USACE implemented a policy change this year requiring approval from Headquarters before awarding contracts with continuation clauses which resulted in a decrease in these contracts and related liabilities. The USACE also recorded new judgment fund claims for $11.1 million in FY 2005.

Components not Requiring or Generating Resources:

Depreciation and amortization: Depreciation expense decreased by $1.2 billion (50 percent). Depreciation expense decreased by $1.7 billion in the Flood Control, Mississippi River Tributaries appropriation, but was offset by an increase in depreciation expense of $512.5 million in the Construction, General, and Operation and Maintenance appropriations. The New Orleans, Vicksburg and St. Louis Districts adjusted depreciation expense to fully depreciate all revetments already placed in service by the end of FY 2004 in the Flood Control, Mississippi River

Tributaries appropriation. The increase in depreciation expense for the Construction, General, and Operations and Maintenance appropriations is due primarily to depreciation adjustments. Adjustments were made to change the service life years of real property assets, to change the placed-in-service dates for some assets and to adjust for errors in depreciation for Additions and Betterments.

Revaluation of assets or liabilities: The revaluation of assets increased by $1.9 billion (227 percent) due to several factors. Losses on the disposition of assets and capital investments increased by approximately $969 million in FY 2005. The USACE made large adjustments to write-off bank stabilization projects and revetments that were improperly capitalized. Losses in the Vicksburg District alone increased by $530.4 million due to the write-off of the bank stabilization projects and revetments. The USACE also recognized losses for land, buildings and other structures that were leased for non-monetary or nominal amounts to non-Federal entities for public parks, recreation areas and fish and wildlife management areas. The USACE treated the leases as "operating leases" and maintained the assets on its financial records. Because the lease periods equaled or exceeded the useful lives of the assets, the assets are now considered donations and were written-off. These losses were offset by a gain of $47.1 million for a found-on-works inventory adjustment made in FY 2005. Found-on-works inventory was previously recorded as an inventory allowance account in error. A reversing entry was made for $981.7 million in FY 2004 for the write-off of non-federal cost share projects recognized in FY 2003. In the past, non-federal cost share projects were recorded as construction-in-process. When the projects were completed, they were transferred to the public and a loss was recorded. Due to a policy change implemented in FY 2004, costs associated with non-federal cost share projects are reported as expenses rather than losses.

Other – Costs of Goods Sold: Costs of goods sold increased by $2.8 million (100 percent) and is associated with the sale of assets in the revolving fund. This was not reported in the prior fiscal year.

Other: Other components not requiring or generating resources decreased by $3.2 billion (124 percent). The decrease is due primarily to other expenses not requiring budgetary resources. In FY 2004 the USACE recognized expenses not requiring budgetary resources to write-off non-federal cost share projects for $909.8 million. In addition, current year expenses for construction-in-process accounts for $1.7 billion were reclassified to other expenses not requiring budgetary resources. In FY 2005 other expenses not requiring budgetary resources decreased due to the reversal of the prior year entry of $909.8 million for the write-off of non-federal cost share projects. This expense was recognized in the Defense Departmental Reporting System but not in the Corps of Engineers Financial Management System (CEFMS) in FY 2004. The expense has since been recorded in CEFMS as an operating expense or to the Cost Capitalization Offset account. The USACE expensed an additional $97 million in FY 2005 to write-off non-federal cost share projects. Other expenses not requiring budgetary resources has an abnormal balance due to the reversal of the prior year expense of $909.8 million. Current year net expenses related to construction-in-process (CIP) accounts decreased significantly from $1.7 billion to $169.7 million. The accounting treatment also changed in FY 2005 to record costs associated with the CIP accounts to the Cost Capitalization Offset account. The Cost Capitalization Offset account has an abnormal balance due to the large amount of costs moved from CIP to this account.

Note 22. Disclosures Related to the Statement of Custodial Activity

Not applicable.

Note 23. Other Disclosures

Not applicable.

During FY 2005, the USACE received $72.9 million in direct appropriations from the Power Marketing Administration.

Department of Defense - US Army Corps of Engineers

CONSOLIDATING BALANCE SHEET

As of September 30, 2005 and 2004 ($ in Thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)				
Entity	$ 1,920	$ 86,885	$ 38,123	$ 2
Non-Entity Seized Iraqi Cash	0	0	0	0
Non-Entity-Other	0	0	0	0
Investments (Note 4)	0	3,127,832	0	0
Accounts Receivable (Note 5)	0	386,683	45,919	0
Other Assets (Note 6)	0	0	0	0
Total Intragovernmental Assets	$ 1,920	$ 3,601,400	$ 84,042	$ 2
Cash and Other Monetary Assets (Note 7)	$ 0	$ 0	$ 0	$ 0
Accounts Receivable (Note 5)	1,870	0	0	0
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	0	0	352	0
General Property, Plant and Equipment (Note 10)	1,465	754,862	329,931	0
Investments (Note 4)	0	0	0	0
Other Assets (Note 6)	0	0	0	0
TOTAL ASSETS	$ 5,255	$ 4,356,262	$ 414,325	$ 2
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$ 2	$ 18,136	$ 939	$ 0
Debt (Note 13)	0	0	0	14,600
Other Liabilities (Note 15 & Note 16)	1,870	6,000	0	0
Total Intragovernmental Liabilities	$ 1,872	$ 24,136	$ 939	$ 14,600
Accounts Payable (Note 12)	$ 1,112	$ 6,671	$ 12,354	$ 0
Military Retirement Benefits and Other Employment-Related	0	0	0	0
Actuarial Liabilities (Note 17)				
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	26	574	3,154	0
TOTAL LIABILITIES	$ 3,010	$ 31,381	$ 16,447	$ 14,600
NET POSITION				
Unexpended Appropriations	$ 0	$ 0	$ 23,142	$ 0
Cumulative Results of Operations	2,245	4,324,881	374,736	(14,598)
TOTAL NET POSITION	$ 2,245	$ 4,324,881	$ 397,878	$ (14,598)
TOTAL LIABILITIES AND NET POSITION	$ 5,255	$ 4,356,262	$ 414,325	$ 2

Revolving Funds	Contributed Funds	General Funds	FUSRAP	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
$ 965,552	$ 467,176	$ 1,536,365	$ 42,178	$ 3,138,201	$ 0	$ 3,138,201	$ 2,378,442
0	0	0	0	0	0	0	0
0	0	7,849	0	7,849	0	7,849	8,245
0	0	0	0	3,127,832	0	3,127,832	2,741,917
18,080	0	163,676	0	614,358	454	613,904	520,123
0	0	0	0	0	0	0	0
$ 983,632	$ 467,176	$ 1,707,890	$ 42,178	$ 6,888,240	$ 454	$ 6,887,786	$ 5,648,727
$ 0	$ 0	$ 1,147	$ 0	$ 1,147	$ 0	$ 1,147	$ 1,039
1,348	22	1,747,683	2	1,750,925	0	1,750,925	1,906,435
0	0	0	0	0	0	0	0
87,808	0	29,224	0	117,384	0	117,384	61,815
837,296	13,176	24,843,372	0	26,780,102	0	26,780,102	28,448,517
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
$ 1,910,084	$ 480,374	$ 28,329,316	$ 42,180	$ 35,537,798	$ 454	$ 35,537,344	$ 36,066,533
$ 38,337	$ 184	$ 29,937	$ 149	$ 87,684	$ 454	$ 87,230	$ 103,498
0	0	0	0	14,600	0	14,600	15,367
13,821	3,886	1,931,318	0	1,956,895	0	1,956,895	2,058,627
$ 52,158	$ 4,070	$ 1,961,255	$ 149	$ 2,059,179	$ 454	$ 2,058,725	$ 2,177,492
$ 74,043	$ 15,753	$ 394,223	$ 31,726	$ 535,882	$ 0	$ 535,882	$ 570,255
0	0	0	0	0	0	0	0
0	0	0	529,617	529,617	0	529,617	0
0	0	0	0	0	0	0	0
455,175	6,133	135,788	30	600,880	0	600,880	646,125
$ 581,376	$ 25,956	$ 2,491,266	$ 561,522	$ 3,725,558	$ 454	$ 3,725,104	$ 3,393,872
$ 0	$ 0	$ 972,428	$ 10,273	$ 1,005,843	$ 0	$ 1,005,843	$ 396,362
1,328,708	454,418	24,865,622	(529,615)	30,806,397	0	30,806,397	32,276,299
$ 1,328,708	$ 454,418	$ 25,838,050	$ (519,342)	$ 31,812,240	$ 0	$ 31,812,240	$ 32,672,661
$ 1,910,084	$ 480,374	$ 28,329,316	$ 42,180	$ 35,537,798	$ 454	$ 35,537,344	$ 36,066,533

Department of Defense - US Army Corps of Engineers

CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2005 and 2004 ($ in Thousands)

	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
Program Costs				
A. Borrowing Authority				
Intragovernmental Gross Costs	$ 467	$ 0	$ 467	$ 241
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$ 467	$ 0	$ 467	$ 241
Gross Costs With the Public	$ 725	$ 0	$ 725	$ 2,110
(Less: Earned Revenue From the Public)	(1,187)	0	(1,187)	(2,261)
Net Costs With the Public	$ (462)	$ 0	$ (462)	$ (151)
Total Net Cost	$ 5	$ 0	$ 5	$ 90
B. Contributed Funds				
Intragovernmental Gross Costs	$ 34,625	$ 25,460	$ 9,165	$ 10,983
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$ 34,625	$ 25,460	$ 9,165	$ 10,983
Gross Costs With the Public	$ 306,977	$ 0	$ 306,977	$ 336,036
(Less: Earned Revenue From the Public)	0	0	0	(1)
Net Costs With the Public	$ 306,977	$ 0	$ 306,977	$ 336,035
Total Net Cost	$ 341,602	$ 25,460	$ 316,142	$ 347,018
C. FUSRAP				
Intragovernmental Gross Costs	$ 16,558	$ 14,049	$ 2,509	$ 2,510
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$ 16,558	$ 14,049	$ 2,509	$ 2,510
Gross Costs With the Public	$ 670,837	$ 0	$ 670,837	$ 122,458
(Less: Earned Revenue From the Public)	0	0	0	0
Net Costs With the Public	$ 670,837	$ 0	$ 670,837	$ 122,458
Total Net Cost	$ 687,395	$ 14,049	$ 673,346	$ 124,968
D. General Funds				
Intragovernmental Gross Costs	$ 1,294,689	$ 997,330	$ 297,359	$ 297,547
(Less: Intragovernmental Earned Revenue)	(1,331,070)	(27,752)	(1,303,318)	(609,393)
Intragovernmental Net Costs	$ (36,381)	$ 969,578	$ (1,005,959)	$ (311,846)
Gross Costs With the Public	$ 5,917,921	$ 0	$ 5,917,921	$ 6,063,017
(Less: Earned Revenue From the Public)	(226,448)	0	(226,448)	(281,571)
Net Costs With the Public	$ 5,691,473	$ 0	$ 5,691,473	$ 5,781,446
Total Net Cost	$ 5,655,092	$ 969,578	$ 4,685,514	$ 5,469,600
E. Revolving Funds				
Intragovernmental Gross Costs	$ 1,027,687	$ 500	$ 1,027,187	$ 680,145
(Less: Intragovernmental Earned Revenue)	(1,903,491)	(1,054,010)	(849,481)	(625,412)
Intragovernmental Net Costs	$ (875,804)	$ (1,053,510)	$ 177,706	$ 54,733
Gross Costs With the Public	$ 1,175,470	$ 0	$ 1,175,470	$ 1,392,422
(Less: Earned Revenue From the Public)	(193,475)	0	(193,475)	(78,520)
Net Costs With the Public	$ 981,995	$ 0	$ 981,995	$ 1,313,902
Total Net Cost	$ 106,191	$ (1,053,510)	$ 1,159,701	$ 1,368,635

	Combined Total	Eliminations	2005 Consolidated	2004 Consolidated
F. Special Funds				
Intragovernmental Gross Costs	$ 2,529	$ 2,004	$ 525	$ 314
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$ 2,529	$ 2,004	$ 525	$ 314
Gross Costs With the Public	$ 13,714	$ 0	$ 13,714	$ 12,850
(Less: Earned Revenue From the Public)	0	0	0	0
Net Costs With the Public	$ 13,714	$ 0	$ 13,714	$ 12,850
Total Net Cost	$ 16,243	$ 2,004	$ 14,239	$ 13,164
G. Transfer Funds				
Intragovernmental Gross Costs	$ 43,471	$ 35,386	$ 8,085	$ 5,971
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$ 43,471	$ 35,386	$ 8,085	$ 5,971
Gross Costs With the Public	$ 75,534	$ 0	$ 75,534	$ 35,596
(Less: Earned Revenue From the Public)	(5,972)	0	(5,972)	(5,610)
Net Costs With the Public	$ 69,562	$ 0	$ 69,562	$ 29,986
Total Net Cost	$ 113,033	$ 35,386	$ 77,647	$ 35,957
H. Trust Funds				
Intragovernmental Gross Costs	$ 40,520	$ 7,032	$ 33,488	$ 23,056
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$ 40,520	$ 7,032	$ 33,488	$ 23,056
Gross Costs With the Public	$ 721,320	$ 0	$ 721,320	$ 694,248
(Less: Earned Revenue From the Public)	(1,696)	0	(1,696)	0
Net Costs With the Public	$ 719,624	$ 0	$ 719,624	$ 694,248
Total Net Cost	$ 760,144	$ 7,032	$ 753,112	$ 717,304
I. Total Program Costs				
Intragovernmental Gross Costs	$ 2,460,546	$ 1,081,761	$ 1,378,785	$ 1,020,767
(Less: Intragovernmental Earned Revenue)	(3,234,561)	(1,081,762)	(2,152,799)	(1,234,805)
Intragovernmental Net Costs	$ (774,015)	$ (1)	$ (774,014)	$ (214,038)
Gross Costs With the Public	$ 8,882,498	$ 0	$ 8,882,498	$ 8,658,737
(Less: Earned Revenue From the Public)	(428,778)	0	(428,778)	(367,963)
Net Costs With the Public	$ 8,453,720	$ 0	$ 8,453,720	$ 8,290,774
Total Net Cost	$ 7,679,705	$ (1)	$ 7,679,706	$ 8,076,736
Cost Not Assigned to Programs	$ 0	$ 0	$ 0	$ 0
(Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	$ 7,679,705	$ (1)	$ 7,679,706	$ 8,076,736

Department of Defense - US Army Corps of Engineers

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005 and 2004 ($ in Thousands)

	Special Funds	Trust Funds	Transfer Funds
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 4,277	$ 3,823,601	$ 310,673
Prior Period Adjustments (+/-)			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
Beginning Balances, as adjusted	$ 4,277	$ 3,823,601	$ 310,673
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	0	28,468
Nonexchange revenue	0	1,223,892	0
Donations and forfeitures of cash and cash	0	0	0
Transfers-in/out without reimbursement (+/-)	14,787	49,347	156,888
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	(575)	(11,815)	(8,260)
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Total Financing Sources	$ 14,212	$ 1,261,424	$ 177,096
Net Cost of Operations (+/-)	16,243	760,144	113,033
Net Change	$ (2,031)	$ 501,280	$ 64,063
Ending Balance	$ 2,246	$ 4,324,881	$ 374,736
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 0	$ 0	$ 23,515
Prior period adjustments (+/-)			
Changes in Accounting Principles (+/-)	0	0	0
Correction of Errors (+/-)	0	0	0
Beginning Balances, as adjusted	$ 0	$ 0	$ 23,515
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	28,095
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	0	(28,468)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Total Financing Sources	$ 0	$ 0	$ (373)
Net Cost of Operations (+/-)	0	0	0
Net Change	$ 0	$ 0	$ (373)
Ending Balance	$ 0	$ 0	$ 23,142

Borrowing Authority	Revolving Funds	Contributed Funds	General Funds	FUSRAP
$ (7,708)	1,201,096	$ 396,789	$ 26,547,571	$ 0
0	0	0	0	0
0	0	0	0	0
$ (7,708)	$ 1,201,096	$ 396,789	$ 26,547,571	$ 0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	3,823,459	157,780
0	0	409,490	(720)	0
0	0	0	0	0
1	0	0	105,367	0
0	0	0	274	0
0	0	0	1,490	0
(7,634)	1,874	(10,259)	33,621	0
0	231,929	0	9,652	0
748	0	0	0	0
$ (6,885)	$ 233,803	$ 399,231	$ 3,973,143	$ 157,780
5	106,191	341,602	5,655,092	687,395
$ (6,890)	$ 127,612	$ 57,629	$ (1,681,949)	$ (529,615)
$ (14,598)	$ 1,328,708	$ 454,418	$ 24,865,622	$ (529,615)
$ 0	0	$ 0	$ 368,474	$ 4,373
0	0	0	0	0
0	0	0	0	0
$ 0	$ 0	$ 0	$ 368,474	$ 4,373
0	0	0	4,464,502	165,000
0	0	0	(493)	0
0	0	0	(36,596)	(1,320)
0	0	0	(3,823,459)	(157,780)
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
$ 0	$ 0	$ 0	$ 603,954	$ 5,900
0	0	0	0	0
$ 0	$ 0	$ 0	$ 603,954	$ 5,900
$ 0	$ 0	$ 0	$ 972,428	$ 10,273

Department of Defense - US Army Corps of Engineers

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005 and 2004 ($ in Thousands)

	Combined Total	Eliminations
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 32,276,299	$ 0
Prior Period Adjustments (+/-)		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
Beginning Balances, as adjusted	$ 32,276,299	$ 0
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	4,009,707	0
Nonexchange revenue	1,632,662	0
Donations and forfeitures of cash and cash	0	0
Transfers-in/out without reimbursement (+/-)	326,390	0
Other budgetary financing sources (+/-)	274	0
Other Financing Sources:		
Donations and forfeitures of property	1,490	0
Transfers-in/out without reimbursement (+/-)	(3,048)	0
Imputed financing from costs absorbed by others	241,581	0
Other (+/-)	748	0
Total Financing Sources	$ 6,209,804	$ 0
Net Cost of Operations (+/-)	7,679,705	(1)
Net Change	$ (1,469,901)	$ 1
Ending Balance	$ 30,806,398	$ 1
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 396,362	$ 0
Prior period adjustments (+/-)		
Changes in Accounting Principles (+/-)	0	0
Correction of Errors (+/-)	0	0
Beginning Balances, as adjusted	$ 396,362	$ 0
Budgetary Financing Sources:		
Appropriations received	4,629,502	0
Appropriations transferred-in/out (+/-)	27,602	0
Other adjustments (rescissions, etc) (+/-)	(37,916)	0
Appropriations used	(4,009,707)	0
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	$ 609,481	$ 0
Net Cost of Operations (+/-)	0	0
Net Change	$ 609,481	$ 0
Ending Balance	$ 1,005,843	$ 0

	2005 Consolidated		2004 Consolidated
$	32,276,299	$	34,289,488
	0		0
	0		0
$	32,276,299	$	34,289,488
	0		0
	0		0
	0		0
	4,009,707		4,079,023
	1,632,662		1,434,495
	0		0
	326,390		315,045
	274		(3,945)
	1,490		435
	(3,048)		(1,632)
	241,581		239,548
	748		578
$	6,209,804	$	6,063,547
	7,679,706		8,076,736
$	(1,469,902)	$	(2,013,189)
$	30,806,397	$	32,276,299
$	396,362	$	636,846
	0		0
	0		0
$	396,362	$	636,846
	4,629,502		3,854,081
	27,602		18,394
	(37,916)		(33,936)
	(4,009,707)		(4,079,023)
	0		0
	0		0
	0		0
	0		0
	0		0
	0		0
	0		0
	0		0
$	609,481	$	(240,484)
	0		0
$	609,481	$	(240,484)
$	1,005,843	$	396,362

COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
Budgetary Financing Accounts				
BUDGETARY RESOURCES				
Budget Authority:				
Appropriations received	$ 57,253	$ 891,624	$ 0	$ 0
Borrowing authority	0	0	0	0
Contract authority	0	0	0	0
Net transfers (+/-)	(42,466)	0	192,590	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	62	89,344	47,488	(343)
Net transfers, actual (+/-)	0	0	(7,606)	0
Anticipated Transfers Balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	9	0	12	1,187
Receivable from Federal sources	0	0	0	0
Change in unfilled customer orders	0	0	0	0
Advance received	0	0	0	(1)
Without advance from Federal sources	0	0	(11)	0
Anticipated for the rest of year, without advances	0	0	0	0
Previously unavailable	0	0	0	0
Transfers for trust funds	0	0	0	0
Subtotal	$ 9	$ 0	$ 1	$ 1,186
Recoveries of prior year obligations	0	0	0	0
Temporarily not available pursuant to Public Law	0	(10,000)	0	0
Permanently not available	0	0	0	(748)
Total Budgetary Resources	$ 14,858	$ 970,968	$ 232,473	$ 95
STATUS OF BUDGETARY RESOURCES				
Obligations incurred:				
Direct	$ 14,170	$ 847,176	$ 191,798	$ 3
Reimbursable	9	0	12	438
Subtotal	$ 14,179	$ 847,176	$ 191,810	$ 441
Unobligated balance:				
Apportioned	679	0	10,480	0
Exempt from apportionment	0	123,792	30,183	(346)
Other available	0	0	0	0
Unobligated Balances Not Available	0	0	0	0
Total, Status of Budgetary Resources	$ 14,858	$ 970,968	$ 232,473	$ 95
Relationship of Obligations to Outlays:				
Obligated Balance, Net - beginning of period	$ 2,911	$ 275,064	$ 33,228	$ 369
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	0	0	0	0
Unfilled customer order from Federal sources	0	0	0	0
Undelivered orders	101	258,436	26,932	0
Accounts payable	1,140	7,527	16,447	348
Outlays:				
Disbursements	15,848	856,276	181,670	462
Collections	(9)	0	(12)	(1,186)
Subtotal	$ 15,839	$ 856,276	$ 181,658	$ (724)
Less: Offsetting receipts	(52,817)	(1,223,892)	0	0
Net Outlays	$ (36,978)	$ (367,616)	$ 181,658	$ (724)

Revolving Funds	Contributed Funds	General Funds	FUSRAP	2005 Combined	2004 Combined
$ 0	$ 409,534	$ 4,464,502	$ 165,000	$ 5,987,913	$ 5,141,166
0	0	0	0	0	135
0	0	0	0	0	0
0	0	114,874	0	264,998	206,924
0	0	0	0	0	0
3,553	259,938	1,290,984	2,252	1,693,278	1,850,226
0	0	0	0	(7,606)	28,495
0	0	0	0	0	0
0	0	0	0	0	0
4,460,783	82	2,007,481	2,151	6,471,705	5,212,085
10,357	0	848	(75)	11,130	64,104
0	0	0	0	0	0
(3,651)	0	(30,672)	0	(34,324)	29,660
(3,726)	(58)	3,311,387	(1,251)	3,306,341	272,555
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
$ 4,463,763	$ 24	$ 5,289,044	$ 825	$ 9,754,852	$ 5,578,404
0	0	0	0	0	0
0	0	0	0	(10,000)	(10,000)
0	0	(36,322)	(1,320)	(38,390)	(29,076)
$ 4,467,316	$ 669,496	$ 11,123,082	$ 166,757	$ 17,645,045	$ 12,766,274
$ 0	$ 401,479	$ 4,125,130	$ 159,708	$ 5,739,464	$ 5,615,179
4,430,234	82	2,470,795	827	6,902,397	5,457,815
$ 4,430,234	$ 401,561	$ 6,595,925	$ 160,535	$ 12,641,861	$ 11,072,994
0	0	4,403,747	6,222	4,421,128	1,234,139
37,082	267,935	123,353	0	581,999	459,076
0	0	(1)	0	(1)	(1)
0	0	58	0	58	66
$ 4,467,316	$ 669,496	$ 11,123,082	$ 166,757	$ 17,645,045	$ 12,766,274
$ 898,660	$ 148,071	$ (348,299)	$ 28,672	$ 1,038,676	$ 1,007,621
0	0	0	0	0	0
(23,697)	0	(212,137)	(1)	(235,835)	(224,704)
(33,480)	(5)	(5,180,374)	(291)	(5,214,150)	(1,907,809)
476,525	177,178	1,918,857	4,342	2,862,371	2,022,902
509,122	22,067	494,444	31,906	1,083,001	1,148,287
4,393,793	350,449	5,914,601	154,577	11,867,676	10,705,281
(4,457,132)	(82)	(1,976,809)	(2,151)	(6,437,381)	(5,241,746)
$ (63,339)	$ 350,367	$ 3,937,792	$ 152,426	$ 5,430,295	$ 5,463,535
0	(409,534)	(58,425)	0	(1,744,668)	(1,592,297)
$ (63,339)	$ (59,167)	$ 3,879,367	$ 152,426	$ 3,685,627	$ 3,871,238

Department of Defense - US Army Corps of Engineers

CONSOLIDATING STATEMENT OF FINANCING

As of September 30, 2005 and 2004 ($ in Thousands)

	Special Funds	Trust Funds	Transfer Funds
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations incurred	$ 14,179	$ 847,176	$ 191,810
Less: Spending authority from offsetting collections and recoveries (-)	(9)	0	(1)
Obligations net of offsetting collections and recoveries	$ 14,170	$ 847,176	$ 191,809
Less: Offsetting receipts (-)	(52,817)	(1,223,892)	0
Net obligations	$ (38,647)	$ (376,716)	$ 191,809
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	(575)	(11,815)	(8,260)
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Net other resources used to finance activities	$ (575)	$ (11,815)	$ (8,260)
Total resources used to finance activities	$ (39,222)	$ (388,531)	$ 183,549
Resources Used to Finance Items not Part of the Net Cost of Operations			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	$ 2,046	$ 6,449	$ (11,897)
Unfilled Customer Orders	0	0	(11)
Resources that fund expenses recognized in prior periods	0	0	0
Budgetary offsetting collections and receipts that do not affect net cost of operations	52,817	1,223,892	0
Resources that finance the acquisition of assets	0	0	98
Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	575	11,815	8,260
Total resources used to finance items not part of the net cost of operations	$ 55,438	$ 1,242,156	$ (3,550)
Total resources used to finance the net cost of operations	$ 16,216	$ 853,625	$ 179,999
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Period:			
Increase in annual leave liability	$ 0	$ 0	$ 0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0
Other (+/-)	0	0	0
Total components of Net Cost of Operations that will require or generate resources in future periods	$ 0	$ 0	$ 0
Components not Requiring or Generating Resources:			
Depreciation and amortization	15	3,643	6,653
Revaluation of assets or liabilities (+/-)	0	(1,650)	(5,800)
Other (+/-)			
Trust Fund Exchange Revenue	0	0	0
Cost of Goods Sold	0	0	0
Operating Material & Supplies Used	0	0	0
Other	13	(95,474)	(67,818)
Total components of Net Cost of Operations that will not require or generate resources	$ 28	$ (93,481)	$ (66,965)
Total components of net cost of operations that	$ 28	$ (93,481)	$ (66,965)
will not require or generate resources in the current period	$ 16,244	$ 760,144	$ 113,034
Net Cost of Operations			

Borrowing Authority	Revolving Funds	Contributed Funds	General Funds	FUSRAP	2005 Combined	2004 Combined
$ 441	4,430,234	$ 401,561	$ 6,595,925	$ 160,535	$ 12,641,861	$ 11,072,994
(1,186)	(4,463,763)	(24)	(5,289,044)	(825)	(9,754,852)	(5,578,404)
$ (745)	$ (33,529)	$ 401,537	$ 1,306,881	$ 159,710	$ 2,887,009	$ 5,494,590
0	0	(409,534)	(58,425)	0	(1,744,668)	(1,592,297)
$ (745)	$ (33,529)	$ (7,997)	$ 1,248,456	$ 159,710	$ 1,142,341	$ 3,902,293
0	0	0	1,490	0	1,490	435
(7,634)	1,874	(10,259)	33,621	0	(3,048)	(1,632)
0	$ 231,929	0	9,652	0	241,581	239,548
748	0	0	0	0	748	579
$ (6,886)	$ 233,803	$ (10,259)	$ 44,763	$ 0	$ 240,771	$ 238,930
$ (7,631)	$ 200,274	$ (18,256)	$ 1,293,219	$ 159,710	$ 1,383,112	$ 4,141,223
$ 2	$ (32,663)	$ (53,695)	$ (748,661)	$ (678)	$ (839,097)	$ (400,175)
(1)	(7,377)	(58)	3,280,715	(1,251)	3,272,017	302,216
0	(25,840)	0	0	0	(25,840)	(55,278)
0	0	409,534	58,425	0	1,744,668	1,592,297
0	(13,043)	0	(191)	0	(13,136)	(1,684,000)
0	0	0	(10,000)	0	(10,000)	(10,000)
7,634	(1,874)	10,260	(35,110)	0	1,560	1,636
$ 7,635	$ (80,797)	$ 366,041	$ 2,545,178	$ (1,929)	$ 4,130,172	$ (253,304)
$ 4	$ 119,477	$ 347,785	$ 3,838,397	$ 157,781	$ 5,513,284	$ 3,887,919
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	(34)	0	0	0	(34)	0
0	0	1,250	9,714	529,617	540,581	50,966
$ 0	$ (34)	$ 1,250	$ 9,714	$ 529,617	$ 540,547	$ 50,966
0	61,626	1,992	1,121,680	0	1,195,609	2,373,460
0	(24,884)	1,382	1,077,606	0	1,046,654	(822,198)
0	0	0	0	0	0	0
0	2,764	0	0	0	2,764	0
0	0	0	0	0	0	0
0	(52,760)	(10,806)	(392,305)	(2)	(619,152)	2,586,589
$ 0	$ (13,254)	$ (7,432)	$ 1,806,981	$ (2)	$ 1,625,875	$ 4,137,851
$ 0	$ (13,288)	$ (6,182)	$ 1,816,695	$ 529,615	$ 2,166,422	$ 4,188,817
$ 4	$ 106,189	$ 341,603	$ 5,655,092	$ 687,396	$ 7,679,706	$ 8,076,736

FY 2005 Required Supplementary Stewardship Information (RSSI)

FEDERAL MISSION PROPERTY, PLANT and EQUIPMENT
Yearly Investment in Federal Mission Property, Plant and Equipment

For Fiscal Year Ended September 30, 2005
(In Millions of Dollars)

(a) Categories	(b) FY2001	(c) FY2002	(d) FY2003	(e) FY2004	(f) FY2005
1. Bank Stabilization Projects	nr	nr	nr	$74	$59
Total:				$74	$59

Narrative Statement:

Investments in Federal Mission Property, Plant and Equipment refer to those expenses incurred by USACE for the protection of the riverbanks of the Mississippi River and other navigable waterways inside the continental United States. Stabilization and protection of the riverbanks are important to the flood control and navigation plans, serving to protect flood control features and to insure the desired alignment of the river's navigation channel. Stabilizing the riverbanks and channels provide an efficient navigation alignment, increase the flood-carrying capacity of the river, and or protection of the levees system to include the tributary basin improvements for major drainage. The process by which this is accomplished is by; cutoffs (shortening the river and reducing flood heights), revetment (controlling the river's meandering), dikes (directing the flow), and improvement dredging (realigning the river/channel).

Notes:

1. For FY 2001 – 2003 USACE does not have historical data as FY04 was our first reporting of Federal Mission Property, Plant and Equipment in the Required Supplementary Stewardship Information section of the financial statements. (nr = Nonreporting)
2. After major floods in 1882, 1912, 1913 and 1927 the Flood Control Act of 1928 was signed which committed the federal government to a definite program of flood control. This legislation authorized the Mississippi River and Tributaries Project, the nation's first comprehensive flood control and navigation act.
3. Investments values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DOD systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards requirements.

FY 2005 Required Supplementary Stewardship Information (RSSI)

HERITAGE ASSETS

For Fiscal Year Ended September 2005

(a)	(b) Measurement Quantity	(c) As of 10/01/04	(d) Additions	(e) Deletions	(f) As of 9/30/05
Museums	Each	1			1
Monuments & Memorials	Each	1			1
Cemeteries	Sites	0			0
Archeological Sites	Sites	142			142
Buildings & Structure	Each	348	1		349
Major Collections	Each	1			1

Narrative Statement

USACE administers the Lake Superior Marine Museum as part of the Operations and Maintenance Mission of the Detroit District. This museum has gone inadvertently unreported in previous submittals on USACE Heritage Assets.

We have one (1) Major Collection, that being the collection of historical memorabilia, historic artifacts and records managed by the Headquarters, U.S. Army Corps of Engineers Office of History.

Other than multipurpose heritage assets, heritage assets are not material to the mission of the U. S. Army Corps of Engineers. Disclosures pertinent to multipurpose heritage assets are contained in the financial statements.

Heritage assets classified as Land are special land plots containing archaeological sites as listed on the National Register of Historic Places or eligible to be listed.

Heritage assets on display are assumed to be in adequate condition for display purposes, consistent with their origins, unless otherwise noted. Reported heritage assets are free of material conditions that are counter to safeguarding, adequately protecting, and properly managing those assets; they have not materially degraded while under the care of the U. S. Army Corps of Engineers. The existence of most of the un-categorized heritage assets is informally known to be adequate for display purposes, however, the condition of many un-categorized assets are unknown.

Cemeteries and Archeological Sites are archeological properties listed on or eligible for, the National Register of Historic Places. These archeological assets cover almost the entire range of human occupation of the Continental United States beginning with the Kennewick Man Discovery Site in Washington State, dating to approximately 10,000 years before present, to archeological remains of early European-American settlements such as Fort Independence in Georgia..

Buildings and Structures include a range of historic resources from a covered bridge in Sacramento District to early farming structures in Savannah District. It also includes some non-traditional structures such as a snag boat that operated on the Mississippi River. A new building and associated historic district, Conchas Dam and Conchas Dam Historic District, New Mexico was added to USACE inventory.

FY 2005 Required Supplementary Stewardship Information (RSSI)

NONFEDERAL PHYSICAL PROPERTY
Yearly Investment in State and Local Governments

For Fiscal Year Ended September 30, 2005
(In Millions of Dollars)

(a) Categories	(b) FY2001	(c) FY2002	(d) FY2003	(e) FY2004	(f) FY2005
Transferred Assets:					
1. Federal Mission Related	nr	nr	nr	$4,429	$1,324
Funded Assets:					
2. Federal Mission Related	nr	nr	nr	0	0
Total:				$4,429	$1,324

Narrative Statement:

Investments in Nonfederal Property refers to those expenses incurred by USACE for the purchase, construction or major renovation of physical property owned by State and Local Governments, including major additions and replacements; the purchase of major equipment; and the purchase of improvement of other physical assets. The authority to enter into cost share agreements with nonfederal sponsors is governed under numerous Water Resources Development Acts starting with the Act of 1992.

Notes:

1. For FY 2001 – 2003 USACE does not have historical data as FY04 was our first reporting of Nonfederal Physical Property in the Required Supplementary Stewardship Information. The variance in the FY04 and FY05 amounts is due to FY04 figure being a first report cumulative number and the FY05 number is for FY05 cost share. (nr = Nonreporting)
2. Under numerous authorities USACE provides design, build and construction services/management for the missions of commercial navigation, flood/storm damage reduction, hydropower, regulatory, environmental, recreation and water supply.
3. Investments values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DOD systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards requirements.

FY 2005 Required Supplementary Stewardship Information (RSSI)

General Property, Plant and Equipment
Real Property Deferred Maintenance Amounts

As of September 30, 2005

(a)	(b)
Property Type/Major Class	
1. Real Property	
A. Buildings	
B. Structures	$1,200,000
2. Total	$1,200,000

Narrative Statement: Deferred maintenance at Civil Works water resources projects operated and maintained by the U.S. Army Corps of Engineers was determined through the budget development process whereby operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. O&M needs are based on inspections of project Features, engineering analyses and historical experience. "Non-deferrable" is work that should be accomplished in the budget year to avoid further deterioration or a reduction in project benefits.

Department of Defense - US Army Corps of Engineers

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

As of September 30, 2005 and 2004 ($ in Thousands)

Budgetary Financing Accounts	Civil Works	2005 Combined	2004 Combined
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 5,987,912	$ 5,987,913	$ 5,141,166
Borrowing authority	0	0	135
Contract authority	0	0	0
Net transfers (+/-)	264,998	264,998	206,924
Other	0	0	0
Unobligated balance:			
Beginning of period	1,693,281	1,693,278	1,850,226
Net transfers, actual (+/-)	(7,606)	(7,606)	28,495
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	6,471,704	6,471,705	5,212,085
Receivable from Federal sources	11,131	11,130	64,104
Change in unfilled customer orders	0	0	0
Advance received	(34,324)	(34,324)	29,660
Without advance from Federal sources	3,306,340	3,306,341	272,555
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$ 0	$ 0	$ 0
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	(10,000)	(10,000)	(10,000)
Permanently not available	(38,390)	(38,390)	(29,076)
Total Budgetary Resources	$ 17,645,046	$ 17,645,045	$ 12,766,274
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$ 5,739,464	5,739,464	5,615,179
Reimbursable	6,902,397	6,902,397	5,457,815
Subtotal	12,641,861	12,641,861	11,072,994
Unobligated balance:			
Apportioned	4,421,128	4,421,128	1,234,139
Exempt from apportionment	581,998	581,999	459,076
Other available	0	(1)	(1)
Unobligated Balances Not Available	58	58	66
Total, Status of Budgetary Resources	$ 17,645,045	$ 17,645,045	$ 12,766,274
Relationship of Obligations to Outlays:			
Obligated Balance, Net ? beginning of period	$ 1,038,675	$ 1,038,676	$ 1,007,621
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net ? end of period:			
Accounts receivable	(235,835)	(235,835)	(224,704)
Unfilled customer order from Federal sources	(5,214,150)	(5,214,150)	(1,907,809)
Undelivered orders	2,862,371	2,862,371	2,022,902
Accounts payable	1,083,003	1,083,001	1,148,287
Outlays:			
Disbursements	11,867,677	11,867,676	10,705,281
Collections	(6,437,380)	(6,437,381)	(5,241,746)
Subtotal	$ 5,430,297	$ 5,430,295	$ 5,463,535
Less: Offsetting receipts	(1,744,667)	(1,744,668)	(1,592,297)
Net Outlays	$ 3,685,630	$ 3,685,627	$ 3,871,238

Non-Budgetary Financing Accounts	Civil Works	2005 Combined	2004 Combined
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$ 0	$ 0	$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	0	0	0
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections			
Earned	0	0	0
Collected	0	0	0
Receivable from Federal sources	0	0	0
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$ 0	$ 0	$ 0
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	$ 0	$ 0	$ 0
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:	$		
Direct	0	0	0
Reimbursable	0	0	0
Subtotal	0	0	0
Unobligated balance:			
Apportioned	0	0	0
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$ 0	$ 0	$ 0
Relationship of Obligations to Outlays:			
Obligated Balance, Net - beginning of period	$ 0	$ 0	$ 0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	0	0	0
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	0	0	0
Accounts payable	0	0	0
Outlays:			
Disbursements	0	0	0
Collections	0	0	0
Subtotal	$ 0	$ 0	$ 0
Less: Offsetting receipts	0	0	0
Net Outlays	$ 0	$ 0	$ 0

Required Supplemental Information - Part A

AT96 - US Army Corps of Engineers

($ Amounts in Thousands)

Schedule, Part A DoD Intra-governmental Asset Balances.	Treasury Index:	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Unidentifiable Federal Agency Entity (Other than DoD entities)	0		$539			
The Judiciary	10		$0			
Department of Agriculture	12		$789			
Department of Commerce	13		$318			
Department of the Interior	14		$371,152			
Department of Justice	15		$619			
Navy General Fund	17		$236			
United States Postal Service	18		$86			
Department of State	19		$847			
Department of the Treasury	20	$3,146,050	$72		$3,127,832	
Army General Fund	21		$15,948			
Social Security Administration	28		$1			
Nuclear Regulatory Commission	31		$35			
John F. Kennedy Center	33		$896			
Department of Veterans Affairs	36		$1			
General Service Administration	47		$364			
Air Force General Fund	57		$1,035			
Railroad Retirement Board	60		$2			
National Labor Relations Board	63		$1			
Tennessee Valley Authority	64		$28			
Environmental Protection Agency	68		$18,768			
Department of Transportation	69		$3,240			
Homeland Security	70		$133,787			
Agency for International Development	72		$443			
Small Business Administration	73		$3			
Department of Health and Human Services	75		$161			
National Aeronautics and Space Administration	80		$139			
Department of Housing and Urban Development	86		$33			
Department of Energy	89		$46,235			
Independent Agencies	95		$30			
Other Defense Organizations General Funds	97		$237			
Other Defense Organizations Working Capital Funds	97-4930		$7			
Army Working Capital Fund	97-4930.001		$0			
The General Fund of the Treasury	99		$17,853			
Architect of the Capitol			($1)			
Totals		**$3,146,050**	**$613,904**		**$3,127,832**	

AT96 - US Army Corps of Engineers

($ Amounts in Thousands)

Schedule, Part B DoD Intra-governmental entity liabilities.	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Unidentifiable Federal Agency Entity (Other than DoD entities)	0			$43
Department of Agriculture	12	$912		$558
Department of Commerce	13	$3,343		$1,075
Department of the Interior	14	$16,870		$957
Department of Justice	15	$33		$2
Department of Labor	16	$66		$46,851
Navy General Fund	17	$1,753		
United States Postal Service	18	$27		
Department of State	19	$962		$13
Department of the Treasury	20	$603	$14,600	$162,645
Army General Fund	21	$2,930		
Office of Personnel Management	24	$4		$13,618
Library of Congress	3	$12		
Department of Veterans Affairs	36	$119		
Government Printing Office	4	$83		
General Service Administration	47	$18,343		$40
National Science Foundation	49	$29		
Air Force General Fund	57	$102		
Tennessee Valley Authority	64	$688		
Environmental Protection Agency	68	$42		$28
Department of Transportation	69	$254		
Homeland Security	70	$7,826		$19
Small Business Administration	73	$0		$1
Department of Health and Human Services	75	$506		$3,912
Department of Energy	89	$2,152		$4,550
Department of Education	91	$51		$49
Other Defense Organizations General Funds	97	$1,064		
Other Defense Organizations Working Capital Funds	97-4930	$8,499		
Army Working Capital Fund	97-4930.001	$1,989		
Navy Working Capital Fund	97-4930.002	$83		
Air Force Working Capital Fund	97-4930.003	$34		
The General Fund of the Treasury	99	$17,853		$1,722,534
Totals		**$87,232**	**$14,600**	**$1,956,895**

Required Supplemental Information - Part C

AT96 - US Army Corps of Engineers

($ Amounts in Thousands)

Schedule, Part C DoD Intra-governmental revenue and related costs.	Treasury Index:	Earned Revenue
Unidentifiable Federal Agency Entity (Other than DoD entities)	0	$554
The Judiciary	10	$11
Department of Agriculture	12	$8,014
Department of Commerce	13	$7,343
Department of the Interior	14	$41,008
Department of Justice	15	$6,459
Department of Labor	16	$3
Navy General Fund	17	$4,125
United States Postal Service	18	$188
Department of State	19	$6,711
Department of the Treasury	20	$116
Army General Fund	21	$770,336
Office of Personnel Management	24	$92
Social Security Administration	28	$2
Nuclear Regulatory Commission	31	$464
John F. Kennedy Center	33	$9,130
Department of Veterans Affairs	36	$2,289
Government Printing Office	4	($1)
U.S. Equal Employment Opportunity Commission	45	$5
General Service Administration	47	$4,444
National Science Foundation	49	$1,599
General Accounting Office	5	$483
Air Force General Fund	57	$46,665
Railroad Retirement Board	60	$5
National Labor Relations Board	63	$1
Tennessee Valley Authority	64	$76
Environmental Protection Agency	68	$86,974
Department of Transportation	69	$10,697
Homeland Security	70	$1,004,964
Agency for International Development	72	$30,368
Small Business Administration	73	$5
American Battle Monuments	74	$77
Department of Health and Human Services	75	$6,634
National Aeronautics and Space Administration	80	$36,440
Department of Housing and Urban Development	86	$155
Department of Energy	89	$28,055
Department of Education	91	$56
Independent Agencies	95	$433
Other Defense Organizations General Funds	97	$28,571
Other Defense Organizations Working Capital Funds	97-4930	$359
Army Working Capital Fund	97-4930.001	$10
Architect of the Capitol		$8,876
Totals		**$2,152,796**

Required Supplemental Information - Part E

AT96 - US Army Corps of Engineers

($ Amounts in Thousands)

	Treasury Index:	Transfers In	Transfers Out
Department of the Interior	14	$58,055	$3,218
Army General Fund	21	$361	$34
Tennessee Valley Authority	64		$156
Department of Transportation	69	$1,632	
Department of Energy	89	$228,157	
The General Fund of the Treasury	99	$890,822	$852,276
Totals		**$1,179,027**	**$855,684**

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2005

MEMORANDUM FOR THE COMMANDER, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Independent Auditor's Report on the Fiscal Year 2005 U.S. Army Corps of Engineers, Civil Works, Financial Statements (Report No. D 2006 020)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying U.S. Army Corps of Engineers, Civil Works, (USACE) Consolidated Balance Sheet as of September 30, 2005 and 2004, the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Combined Statement of Financing for the fiscal years then ended. The financial statements are the responsibility of USACE management. USACE is also responsible for implementing effective internal control and for complying with laws and regulations. We are unable to give an opinion on the USACE FY 2005 Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of the audit.

Disclaimer of Opinion on the Financial Statements

USACE acknowledged to us that the USACE FY 2005 Financial Statements may not be fairly presented in conformity with generally accepted accounting principles. Because USACE management cannot assert that the financial statements are free from material error, and based on the deficiencies acknowledged by USACE management, we did not perform auditing procedures to determine whether material amounts on the financial statements were fairly presented. We did not perform these and other auditing procedures because Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. USACE has also acknowledged, and prior audits have identified, the material weaknesses listed in the Summary of Internal Control. These material weaknesses also affect the reliability of certain information contained in the annual financial statements—much of which is taken from the same data sources as the principal financial statements.[1] Therefore, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

[1] *The annual financial statements include the principal financial statements, management discussion and analysis, consolidating and combining financial statements, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.*

Summary of Internal Control

In planning our audit, we considered USACE internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance, but our purpose was not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance. However, previously identified reportable conditions,[2] all of which are material, continue to exist in the following areas.

- Fund Balance With Treasury and Unexpended Appropriations
- Accounts Receivable
- General Property, Plant, and Equipment
- Accounts Payable
- Financial Statement Compilation
- Financial Management Systems

Material weaknesses are reportable conditions in which internal controls do not reduce (to a relatively low level) the risk of misstatements that are material to the financial statements and that might not be timely detected by employees while performing their normal, assigned functions. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited because USACE management acknowledged, and prior audits confirm, that instances of noncompliance continue to exist. USACE acknowledged that its financial management systems do not fully comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by the Federal Financial Management Improvement Act of 1996.

The Department of Defense Inspector General and the Government Accountability Office previously disclosed, and USACE acknowledged, instances of noncompliance with the following.

- Federal Managers' Financial Integrity Act of 1982
- Office Management and Budget Circulars:

  -A-123, "Management Accountability and Control"

  -A-127, "Federal Management Systems"

  -A-130, "Management of Federal Information Resources" [3]

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[2] *Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.*

[3] *GAO Report No. GAO-02-589, "Corps of Engineers Making Improvements, But Weaknesses Continue," June 2002; GAO Report No. GAO-01-89, "Significant Weaknesses in Corps of Engineers' Computer Controls," October 2000; and DoD IG Report No. D-2004-115, "Information System Security: The Followup on the Government Accountability Office and U.S. Army Audit Agency Recommendations for the U.S. Army Corps of Engineers (FOUO)," September 21, 2004.*

Therefore, we did not determine whether USACE was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

Management Responsibility

USACE management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to USACE. USACE management commented, "it is important to note that USACE has taken aggressive action to make corrective actions on all material audit findings." USACE management further commented, "USACE has shown significant progress in this area [Financial Statement Compilation] since the original reviews in FY 2003 and FY 2004."

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Attachment:
As stated

Report on Internal Control and Compliance with Laws and Regulations

Internal Control

USACE management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and reportable conditions that could adversely affect a favorable opinion on internal control.

Material Weaknesses. USACE management acknowledged that previously identified reportable conditions, all of which are material, continue to exist.

Fund Balance With Treasury and Unexpended Appropriations. USACE did not comply with generally accepted accounting principles. Specifically, USACE recorded noncompliant funding in the Corps of Engineers Financial Management System for the Fund Balance With Treasury and Unexpended Appropriations accounts. Furthermore, USACE did not establish Fund Balance With Treasury accounts in the Corps of Engineers Financial Management System for expenditure and receipt accounts required by the United States Code and assigned by Department of Treasury, and omitted transactions applicable to the accounts. Finally, USACE commingled appropriation warrants and nonexpenditure transfers in the Corps of Engineers Financial Management System subsidiary accounts for Fund Balance With Treasury. As a result, USACE did not maintain reliable funding information in the Corps of Engineers Financial Management System for the Fund Balance With Treasury and Unexpended Appropriations accounts.

USACE also erroneously reported unprocessed interagency transfer collections (that is, USACE reported collections that had not yet occurred) to the Department of Treasury and the Office of Management and Budget. In addition, the USACE revolving fund created unreconciled collection and disbursement differences. As a result, USACE did not report reliable Fund Balance With Treasury amounts to the Department of Treasury and the Office of Management and Budget.

Accounts Receivable. USACE Districts did not provide adequate source data and needs to improve the reconciliation of the general ledger to the subsidiary records for specific samples reviewed.

General Property, Plant, and Equipment

Buildings, Structures, and Facilities. USACE did not implement corrective actions for the Buildings, Structures, and Facilities line item deficiencies involving useful lives, support for asset values, placed-in-service dates, asset classification (including bank stabilization), physical existence, and capital lease recording.

A systematic weakness was also identified involving adjustments to useful lives in the Corps of Engineers Financial Management System. Specifically, the Corps of Engineers Financial Management System does not always spread depreciation accurately across the life of buildings and structures, which affects the book value, accumulated depreciation, and ultimately, the balance of the Buildings, Structures, and Facilities line item.

Construction-in-Progress. USACE did not implement corrective actions for Construction-in-Progress deficiencies involving the timely transfer of completed assets, the capitalization of expense-type events, non-Federal cost share projects, prior Construction-in-Progress errors, negative Construction-in-Progress, and other variances. In addition, material audit issues relating to previously identified Construction-in-Progress deficiencies remained unresolved.

Equipment. USACE did not implement corrective actions for deficiencies involving the lack of adequate documentation to support equipment values.

Land. USACE did not implement corrective actions for deficiencies involving land costs originating in the Corps of Engineers Management Information System, land costs originating in the Corps of Engineers Financial Management System, and classification of reservoir costs.

Accounts Payable. USACE Districts did not correct previously identified internal control weaknesses involving Accounts Payable. USACE activities continued to improperly record payables, did not properly review aged payables, did not record payables in the proper accounting period, and were unable to provide supporting documentation in a timely manner.

Financial Statement Compilation. The review of the FY 2004 year-end financial statement compilation process disclosed significant deficiencies related to unsupported journal vouchers and undocumented differences in trial balance data. In addition, USACE had not corrected the deficiencies with the Corps of Engineers Financial Management System general ledger correlations.

Financial Management Systems. USACE acknowledged that its financial management systems do not fully comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Until resolved, the possibility exists that USACE general and application computer control vulnerabilities make it difficult for USACE to ensure the reliability, confidentiality, and availability of financial and sensitive data.

These financial management deficiencies* are indications of material weaknesses in internal control that may adversely affect any decision by USACE that is based, in whole or in part, on information that is inaccurate because of these deficiencies. Financial information reported by USACE also may contain misstatements resulting from these deficiencies.

Compliance with Laws and Regulations

USACE management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because USACE management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether USACE was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations.

USACE acknowledged, and the Department of Defense Inspector General and the Government Accountability Office audits established, that USACE did not fully comply with the following financial management systems reporting requirements:

- The Federal Managers' Financial Integrity Act of 1982 requires agencies to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. When systems are not in compliance, the statement must include a report of internal accounting and administrative control material weaknesses with plans and a schedule for correcting the material weaknesses.
- Office of Management and Budget Circular A-123, revised June 21, 1995, requires agencies and individual Federal managers to take systematic and proactive measures to assess the adequacy of management controls in Federal programs and operations, identify needed improvements, take corresponding corrective actions, and report annually on management controls.
- Office of Management and Budget Circular A-127, revised July 23, 1993, requires agencies to develop, operate, evaluate, and report on financial management systems. It also requires that financial management systems provide complete, reliable, consistent, timely, and useful information.

**Described in greater detail in previous GAO and DoD IG reports.*

- Office of Management and Budget Circular A-130, Appendix III, establishes a minimum set of controls to be included in Federal automated information security programs, assigns Federal agency responsibilities for the security of automated information, and links agency information security programs and agency management control systems established in accordance with Office of Management and Budget Circular A-123. Agencies should implement and maintain their automated security programs to ensure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

USACE acknowledged that its financial management systems do not fully comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level, as required under the Federal Financial Management Improvement Act of 1996. According to prior Government Accountability Office audit reports, USACE did not fully comply with the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circulars A-123 and A-130 requirements to protect the integrity of its financial management systems, identify needed improvements, and take corresponding corrective actions. During FY 2004, the Department of Defense Inspector General reviewed previously identified Government Accountability Office deficiencies related to general and application controls. The Department of Defense Inspector General audit report concluded that USACE had not fully implemented all of the Government Accountability Office recommendations. During FY 2005, USACE acknowledged that it is still in the process of completing the prior Government Accountability Office recommendations. Until resolved, the possibility exists that the USACE general and application computer control vulnerabilities make it difficult for USACE to ensure the reliability, confidentiality, and availability of financial and sensitive data, as required by the Office of Management and Budget Circular A-127.

Audit Disclosures

USACE acknowledged to us on June 21, 2005, that the USACE financial management systems cannot provide adequate evidence supporting various material amounts on the financial statements. USACE also stated that material internal control weaknesses disclosed in prior Department of Defense Inspector General audit reports may or may not materially affect the financial statements. Therefore, we did not conduct audit work related to previously identified deficiencies in the following areas.

- Fund Balance With Treasury and Unexpended Appropriations
- Accounts Receivable
- General Property, Plant, and Equipment
- Accounts Payable
- Financial Statement Compilation
- Financial Management Systems

In addition, we did not perform audit work related to the following selected provisions of laws and regulations.

- Antideficiency Act
- Federal Credit Reform Act of 1990
- Pay and Allowance System for Civilian Employees
- Prompt Payment Act
- Provisions Governing Claims of the U.S. Government (including provisions of the Debt Collection Improvement Act of 1996)

This report does not include recommendations to correct the material internal control weaknesses and noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions.

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