

Department of Defense
Army Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
	<hr/>	<hr/>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 708,669,539.05	\$ 694,795,153.38
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	0.00	0.00
3. Accounts Receivable (Note 5)	506,221,621.68	372,254,452.36
4. Other Assets (Note 6)	70,710.85	64,064.75
5. Total Intragovernmental Assets	<hr/> \$ 1,214,961,871.58	<hr/> \$ 1,067,113,670.49
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	18,663,687.07	18,603,184.91
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	15,721,257,531.84	13,297,895,054.29
F. General Property, Plant and Equipment (Note 10)	1,225,318,937.06	894,975,382.63
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	286,115,791.29	285,237,986.46
2. TOTAL ASSETS	<hr/> <hr/> \$ 18,466,317,818.84	<hr/> <hr/> \$ 15,563,825,278.78
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 170,015,318.65	\$ 108,856,313.24
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & Note 16)	63,880,197.54	54,903,718.46
4. Total Intragovernmental Liabilities	<hr/> \$ 233,895,516.19	<hr/> \$ 163,760,031.70
B. Accounts Payable (Note 12)	\$ 328,184,450.60	\$ 509,698,637.26
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	304,976,189.04	320,653,914.51
D. Environmental Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	304,288,158.85	214,706,709.22
4. TOTAL LIABILITIES	<hr/> \$ 1,171,344,314.68	<hr/> \$ 1,208,819,292.69
5. NET POSITION		
A. Unexpended Appropriations	\$ 0.00	\$ 28,762,088.99
B. Cumulative Results of Operations	17,294,973,504.16	14,326,243,897.10
6. TOTAL NET POSITION	<hr/> \$ 17,294,973,504.16	<hr/> \$ 14,355,005,986.09
7. TOTAL LIABILITIES AND NET POSITION	<hr/> <hr/> \$ 18,466,317,818.84	<hr/> <hr/> \$ 15,563,825,278.78

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

	2005 Consolidated	2004 Consolidated
1. Program Costs		
A. Intragovernmental Gross Costs	\$ 2,749,595,328.44	\$ 2,016,746,240.51
B. (Less: Intragovernmental Earned Revenue)	(7,120,171,813.92)	(8,505,869,825.12)
C. Intragovernmental Net Costs	\$ (4,370,576,485.48)	\$ (6,489,123,584.61)
D. Gross Costs With the Public	6,106,414,417.18	6,976,150,127.05
E. (Less: Earned Revenue From the Public)	(3,168,861,873.20)	(1,751,448,999.32)
F. Net Costs With the Public	\$ 2,937,552,543.98	\$ 5,224,701,127.73
G. Total Net Cost	\$ (1,433,023,941.50)	\$ (1,264,422,456.88)
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	\$ (1,433,023,941.50)	\$ (1,264,422,456.88)

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 15,370,833,547.07	\$ 13,883,676,804.39
2. Prior period adjustments (+/-)		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	0.00
2.B. Beginning Balance, Restated	15,370,833,547.07	13,883,676,804.39
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
3. Beginning Balances, as adjusted	15,370,833,547.07	13,883,676,804.39
4. Budgetary Financing Sources:		
4.A. Appropriations received	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used	52,852.98	202,497,953.30
4.E. Nonexchange revenue	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	(65,944,000.00)	(1,198,600,000.00)
4.H. Other budgetary financing sources (+/-)	446,286,128.66	227,041,284.04
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	110,721,033.95	96,735,133.24
5.D. Other (+/-)	0.00	(149,529,734.75)
6. Total Financing Sources	491,116,015.59	(821,855,364.17)
7. Net Cost of Operations (+/-)	(1,433,023,941.50)	(1,264,422,456.88)
8. Ending Balances	\$ 17,294,973,504.16	\$ 14,326,243,897.10

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	\$ 52,852.98	\$ 11,960,042.29
2. Prior period adjustments (+/-)		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	0.00
2.B. Beginning Balance, Restated	52,852.98	11,960,042.29
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
3. Beginning Balances, as adjusted	52,852.98	11,960,042.29
4. Budgetary Financing Sources:		
4.A. Appropriations received	0.00	219,300,000.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used	(52,852.98)	(202,497,953.30)
4.E. Nonexchange revenue	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	(52,852.98)	16,802,046.70
7. Net Cost of Operations (+/-)		
8. Ending Balances	\$ 0.00	\$ 28,762,088.99

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
	<hr/>	<hr/>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	\$ 0.00	\$ 219,300,000.00
1b. Borrowing authority	0.00	0.00
1c. Contract authority	2,261,236,099.30	3,351,453,316.64
1d. Net transfers (+/-)	0.00	(1,198,600,000.00)
1e. Other	0.00	0.00
2. Unobligated balance:		
2a. Beginning of period	1,530,240,925.28	2,093,703,656.20
2b. Net transfers, actual (+/-)	(65,944,000.00)	0.00
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	9,857,439,297.88	8,619,535,083.36
2. Receivable from Federal sources	75,768,669.75	(111,481,027.91)
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	21,036,286.69	(30,410,469.07)
2. Without advance from Federal sources	656,942,665.29	103,784,745.69
3c. Anticipated for the rest of year, without advances	487,784,123.63	406,498,244.88
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	<hr/> 11,098,971,043.24	<hr/> 8,987,926,576.95
4. Recoveries of prior year obligations	1,080,953,853.16	339,343,744.14
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<hr/> <hr/> \$ 15,905,457,920.98	<hr/> <hr/> \$ 13,793,127,293.93

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
STATUS OF BUDGETARY RESOURCES		
8. Obligations incurred:		
8a. Direct	\$ 0.00	\$ 0.00
8b. Reimbursable	12,873,115,985.79	10,965,755,175.49
8c. Subtotal	<u>12,873,115,985.79</u>	<u>10,965,755,175.49</u>
9. Unobligated balance:		
9a. Apportioned	3,032,341,935.19	2,827,372,118.44
9b. Exempt from apportionment	0.00	0.00
9c. Other available	0.00	0.00
10. Unobligated Balances Not Available	0.00	0.00
11. Total, Status of Budgetary Resources	<u>\$ 15,905,457,920.98</u>	<u>\$ 13,793,127,293.93</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
12. Obligated Balance, Net - beginning of period	\$ 3,968,079,778.28	\$ 1,898,331,635.16
13. Obligated Balance transferred, net (+/-)	0.00	0.00
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	(538,371,080.93)	(404,897,841.78)
14b. Unfilled customer order from Federal sources	(5,179,655,295.65)	(4,755,397,525.39)
14c. Undelivered orders	10,063,735,690.84	8,507,966,570.74
14d. Accounts payable	629,495,784.93	721,192,435.11
15. Outlays:		
15a. Disbursements	10,052,325,476.68	8,463,575,710.05
15b. Collections	(9,878,475,584.57)	(8,589,124,614.29)
15c. Subtotal	<u>173,849,892.11</u>	<u>(125,548,904.24)</u>
16. Less: Offsetting receipts	0.00	0.00
17. Net Outlays	<u>\$ 173,849,892.11</u>	<u>\$ (125,548,904.24)</u>

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

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

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF FINANCING
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
	<hr/>	<hr/>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 12,873,115,985.79	\$ 10,965,755,175.49
2. Less: Spending authority from offsetting collections and recoveries (-)	(11,692,140,772.77)	(8,920,772,076.21)
3. Obligations net of offsetting collections and recoveries	1,180,975,213.02	2,044,983,099.28
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	<hr/> 1,180,975,213.02	<hr/> 2,044,983,099.28
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	110,721,033.95	96,735,133.24
9. Other (+/-)	0.00	(149,529,734.75)
10. Net other resources used to finance activities	<hr/> 110,721,033.95	<hr/> (52,794,601.51)
11. Total resources used to finance activities	<hr/> 1,291,696,246.97	<hr/> 1,992,188,497.77
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(1,767,711,089.18)	(2,692,439,797.91)
12b. Unfilled Customer Orders	677,978,951.98	73,374,276.62
13. Resources that fund expenses recognized in prior periods	(5,564,845.44)	(7,249,151.09)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	(6,116,253,945.53)	(5,864,689,324.96)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to	0.00	0.00
16b. Other (+/-)	0.00	0.00
17. Total resources used to finance items not part of the net cost of operations	<hr/> (7,211,550,928.17)	<hr/> (8,491,003,997.34)
18. Total resources used to finance the net cost of operations	<hr/> (5,919,854,681.20)	<hr/> (6,498,815,499.57)

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF FINANCING
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
	<hr/>	<hr/>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	52,299,932.70	13,610,443.34
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	12,956,535.96
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 52,299,932.70	<hr/> 26,566,979.30
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	54,071,784.23	44,918,170.79
26. Revaluation of assets or liabilities (+/-)	557,518,406.96	488,590,196.28
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	4,209,372,965.53	4,654,489,714.49
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(386,432,349.72)	19,827,981.83
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 4,434,530,807.00	<hr/> 5,207,826,063.39
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> 4,486,830,739.70	<hr/> 5,234,393,042.69
30. Net Cost of Operations	<hr/> <hr/> (1,433,023,941.50)	<hr/> <hr/> (1,264,422,456.88)

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) 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 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 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 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 Bulletin No. 01-09. 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 3rd Quarter 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 will be 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 \$100,000. 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 \$15,000, \$25,000, and \$50,000 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 \$100,000 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 3rd Quarter FY 2005. Financial statement fluctuations greater than two percent of total assets on the Balance Sheet and/or greater than ten percent between 3rd Quarter FY 2004 and 3rd Quarter 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

Army Working Capital Fund

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.

Note 2.	Nonentity Assets
----------------	-------------------------

As of June 30	2005	2004
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	0.00
D. Other Assets	0.00	0.00
E. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	0.00	0.00
H. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 18,466,317,818.84	\$ 15,563,825,278.78
5. Total Assets	\$ 18,466,317,818.84	\$ 15,563,825,278.78

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 \$2,902,493 thousand, or 19 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This increase is due primarily to increases in general property plant and equipment, accounts receivable, and inventory in FY 2005.

Army Working Capital Fund

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 June 30	2005	2004
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 28,762,088.99
B. Revolving Funds	708,669,539.05	666,033,064.39
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 708,669,539.05	\$ 694,795,153.38
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 708,669,539.05	\$ 694,795,153.38
B. Fund Balance per Army Working Capital Fund	708,669,539.05	694,795,153.38
3. Reconciling Amount		
	\$ 0.00	\$ 0.00

Fluctuations and/or Abnormalities

Appropriated Funds decreased \$28,762 thousand, or 100 percent, from 3rd Quarter FY 2004 to 3rd Quarter 2005 due to guidance received stating that all Working Capital Fund, Fund Balance With Treasury Appropriated Funds should be reported as Revolving Funds.

Other disclosures

During FY 2005 the AWCF did not receive direct appropriations. However, the AWCF did receive transfers in of budgetary resources of \$84,425 thousand for war reserves and \$99,631 thousand received for industrial mobilization capacity, totaling \$184,056 thousand in accordance with the DoD Appropriations Act, 2005, P.L. 108-287. The AWCF transferred \$250,000 thousand to the Army Operation and Maintenance Appropriation in May 2005 in accordance with critical Army requirements reprogramming action FY05-27 PA.

Defense Finance and Accounting Service increased field-reported data by \$237 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 June 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 June 30, 2005.

Army Working Capital Fund

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

Army Working Capital Fund

Status of Fund Balance with Treasury

As of June 30

	2005	2004
1. Unobligated Balance		
A. Available	\$ 2,544,557,811.56	\$ 2,420,873,873.56
B. Unavailable	0.00	0.00
2. Obligated Balance not yet Disbursed	\$ (1,835,888,272.51)	\$ (1,726,078,720.18)
3. Total	\$ 708,669,539.05	\$ 694,795,153.38

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.

Obligated Balance not yet Disbursed illustrates the amount of obligations incurred in excess of FBWT and reimbursable orders.

Army Working Capital Fund

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
<u>Account</u>				
F3875	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3880	0.00	0.00	0.00	0.00
F3882	0.00	0.00	0.00	0.00
F3885	0.00	0.00	0.00	0.00
F3886	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

The Suspense/Budget Clearing Accounts shown above are maintained and reported by the Army General Fund. Some transactions relating to 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 June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDS)	\$ 10,080,000.00	\$ 35,188,000.00	\$ 3,086,291.41	(32,101,708.59)
B. Negative Unliquidated Obligations (NULO)	4,236,000.00	2,681,000.00	4,887,598.30	2,206,598.30
2. Total In-transit Disbursements, Net	\$ 185,270,000.00	\$ 210,868,000.00	\$ 171,966,793.82	(38,901,206.18)

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 \$820 thousand in aged in-transit disbursements represent problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30-day aging category. After 30 days, they become perceived 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
----------------	---

As of June 30	2005				2004	
	Par Value/Cost	Amorti- zation Method	Unamortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
1. Intragovernmental Securities						
A. Non-Marketable, Market-Based	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00	0.00
C. Total Intragovernmental Securities	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
2. Other Investments	<u>\$ 0.00</u>		<u>0.00</u>	<u>\$ 0.00</u>	N/A	<u>\$ 0.00</u>

Not applicable.

Note 5. Accounts Receivable

As of June 30	2005			2004
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 506,221,621.68	N/A	\$ 506,221,621.68	\$ 372,254,452.36
2. Nonfederal Receivables (From the Public)	\$ 25,360,921.57	\$ (6,697,234.50)	\$ 18,663,687.07	\$ 18,603,184.91
3. Total Accounts Receivable	\$ 531,582,543.25	\$ (6,697,234.50)	\$ 524,885,308.75	\$ 390,857,637.27
4. 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.

5. Other information:

Fluctuations and/or Abnormalities

Intragovernmental Receivables increased \$133,967 thousand, or 36 percent from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The increase is attributable to orders from the Army General Fund for increased maintenance efforts in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

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 3rd Quarter FY 2005, the AWCF reported unsupported undistributed collections of \$885 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.

Army Working Capital Fund

Intragovernmental accounts receivable include \$4,879 thousand in receivables over 180 days old which is less than one percent of the total intragovernmental accounts receivable.

Non-federal accounts receivable includes \$4,058 thousand over 180 days old. Of this amount, \$3,011 thousand 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 \$1,863 thousand.

Note Reference

For additional line item discussion, see:

- Note 1.K, Accounts Receivable
- Note 12, Accounts Payable
- Note 15, Other Liabilities

Army Working Capital Fund

Note 6.	Other Assets
----------------	---------------------

As of June 30	2005	2004
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 70,710.85	\$ 64,064.75
B. Total Intragovernmental Other Assets	\$ 70,710.85	\$ 64,064.75
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 287,448,878.55	\$ 265,653,912.45
B. Other Assets (With the Public)	(1,333,087.26)	19,584,074.01
C. Total Nonfederal Other Assets	\$ 286,115,791.29	\$ 285,237,986.46
3. Total Other Assets	<u>\$ 286,186,502.14</u>	<u>\$ 285,302,051.21</u>
4. Other Information Related to Other Assets:		

Fluctuations and/or Abnormalities

Intragovernmental advances and prepayments increased by \$7 thousand, or 10 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This account balance is dictated by trading partner reports of unearned revenue made by other DoD entities. The change is a result of an increase in Army Working Capital Fund (AWCF) advances to the Army General Fund.

Other Assets (With the Public) decreased \$20,917 thousand, or 107 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. During the 4th Quarter FY 2004, the United States Army Medical Materiel Agency reported a decrease of \$17,408 thousand, as it closed out an advance it had reported for several years. The amount for creditable material returns in the table below reflects an abnormal balance caused by a data migration error from legacy systems to the Logistics Modernization Program (LMP). These assets represent items already received from federal sources for which credit was granted. The error has been identified and will be corrected in 4th Quarter FY 2005.

Non-Federal Other Assets - Other Assets (With the Public): (Amounts in thousands)

<u>Type of Assets</u>	<u>2005</u>	<u>2004</u>
Advances to Others:		
Contractor Advance	\$2,010	\$19,419
Travel Advances	21	72
Prepayments	15	93
Creditable Material Returns	(3,379)	0
Totals	<u>\$ (1,333)</u>	<u>\$ 19,584</u>

Army Working Capital Fund

Advances and Prepayments

In accordance with DoD elimination guidance, the 3rd Quarter FY 2005 AWCF intragovernmental advances to others balance were increased \$15,774 thousand to agree with seller-side unearned revenue from other DoD reporting entities.

Note Reference

For additional line item discussion, see:

Note 1.R, Other Assets

Note 7.	Cash and Other Monetary Assets
----------------	---------------------------------------

As of June 30	2005	2004
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency (non-purchased)	0.00	0.00
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

Not applicable.

Note 8. Direct Loan and/or Loan Guarantee Programs

As of June 30

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Army Working Capital Fund

Direct Loans Obligated After FY 1991

As of June 30

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

Army Working Capital Fund

Total Amount of Direct Loans Disbursed

As of June 30

	2005	2004
Direct Loan Programs		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00

Subsidy Expense for Post-1991 Direct Loans

As of June 30

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

Army Working Capital Fund

Subsidy Rate for Direct Loans

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

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

As of June 30

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

Defaulted Guaranteed Loans from Post-1991 Guarantees

As of June 30

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

Army Working Capital Fund

Guaranteed Loans Outstanding		
As of June 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2004		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00

Army Working Capital Fund

Liability for Post-1991 Loan Guarantees, Present Value

As of June 30

	2005	2004
Loan Guarantee Program		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

Subsidy Expense for Post-1991 Loan Guarantees

As of June 30

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

Army Working Capital Fund

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%	0.00%	0.00%	0.00%	0.00%

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

As of June 30

	2005	2004
1. Beginning Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	\$ 0.00	\$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	0.00	0.00
B. Technical/default Re-estimate	0.00	0.00
C. Total of the above Re-estimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00

Army Working Capital Fund

Administrative Expense

As of June 30

	2005	2004
1. Direct Loans		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00
2. Loan Guarantees		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	\$ 0.00	\$ 0.00

Note 9.	Inventory and Related Property
----------------	---------------------------------------

As of June 30	2005	2004
1. Inventory, Net	\$ 15,721,257,531.84	\$ 13,297,895,054.29
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
4. Total	<u>\$ 15,721,257,531.84</u>	<u>\$ 13,297,895,054.29</u>

Inventory, Net

As of June 30

	2005			2004		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 17,235,254,516.73	\$ (4,104,837,247.03)	13,130,417,269.70	\$ 11,885,745,276.71		O, LAC
B. Held for Repair	3,889,191,325.97	(1,319,386,372.37)	2,569,804,953.60	1,386,288,165.29		O, LAC
C. Excess, Obsolete, and Unserviceable	497,682,192.88	(497,682,192.88)	0.00	0.00		NRV
D. Raw Materials	22,772,920.09	0.00	22,772,920.09	25,795,289.13		O
E. Work in Process	(1,737,611.55)	0.00	(1,737,611.55)	66,323.16		AC
F. Total	\$ 21,643,163,344.12	\$ (5,921,905,812.28)	15,721,257,531.84	\$ 13,297,895,054.29		

Legend for Valuation Methods:

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

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

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

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

3. Other Information:

Definitions

Other – Moving Average Cost (MAC)

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 2004.

Fluctuations/Abnormalities

Total inventory increased \$2,423,362 thousand, or 18 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This increase is detailed in the paragraphs below.

The Inventory Available and Purchased for Resale increased \$1,244,672 thousand, or 10 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The Inventory Held for Repair increased \$1,183,517 thousand, or 85 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. These increases are 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 decreased \$3,022 thousand, or 12 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This decrease is primarily attributable to increased issuances of raw materials at Tobyhanna Army Depot.

Work in Process decreased \$1,804 thousand, or 2,720 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005 at the Watervliet Arsenal. The abnormal balance in Work in Process at Watervliet Arsenal is the result of the difference between their cost estimates and their actual cost. The Watervliet Arsenal uses a job order cost system. Under Job Order Cost System and Revenue Recognition policies all cost should be allocated to Customer Orders and revenue billed/recognized based on the relationship of that allocated cost to total projected cost. As a result, revenue under/over cost remains in work in process and must be allocated to orders for proper recognition of Net Operating Results. This balance varies based on the accuracy of their estimates.

Other disclosures

The AWCF began transitioning to the LMP during June FY 2003. Therefore, not all AWCF inventory reported is valued under the same method. Inventory at Tobyhanna Army Depot, Communications-Electronics Command, and other AMC activities using LMP is valued at MAC. Tobyhanna's Project Stock and the remainder of the AWCF inventory is valued at LAC.

The Commodity Command Support System inventory reported as Available and Purchased for Resale includes a net upward adjustment of \$2,485,228 thousand to bring financial records into agreement with the logistics records. The Defense Finance and Accounting Service (DFAS) implemented new procedures in FY 2004 to reconcile the financial and logistic records. Some

Army Working Capital Fund

transactions are not passing from logistical records to financial records. DFAS continues to work to identify the problems so that a complete reconciliation can be accomplished.

Note Reference

For additional line item discussion, see:

Note 18, Consolidated Cost and Earned Revenue

Army Working Capital Fund

Operating Materials and Supplies, Net

As of June 30

	2005			2004		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
1. OM&S Categories						
A. Held for Use	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	
B. Held for Repair	0.00		0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	
D. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	

Legend for Valuation Methods:

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

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

Not applicable. The AWCF expenses rather than capitalizes OM&S because it is normally used within a year of purchase.

Army Working Capital Fund

Stockpile Materials, Net

As of June 30

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

Legend for Valuation Methods:

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

NRV = Net Realizable Value
 O = Other

Not Applicable.

Note 10. General PP&E, Net

As of June 30	2005						2004
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
1. Major Asset Classes							
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00	\$ 0.00	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	2,168,280,539.62	\$ (1,346,649,569.42)	821,630,970.20	507,870,774.56	
C. Leasehold Improvements	S/L	lease term	95,213,296.87	(75,769,733.69)	19,443,563.18	22,263,392.14	
D. Software	S/L	2-5 Or 10	309,372,505.82	(230,244,158.36)	79,128,347.46	91,697,150.88	
E. General Equipment	S/L	5 or 10	1,526,285,224.71	(1,259,698,999.77)	266,586,224.94	217,118,476.15	
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00	
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00	
H. Construction-in-Progress	N/A	N/A	38,529,831.28	N/A	38,529,831.28	56,025,588.90	
I. Other			0.00	0.00	0.00	0.00	
2. Total General PP&E			\$ 4,137,681,398.30	\$ (2,912,362,461.24)	\$ 1,225,318,937.06	\$ 894,975,382.63	

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Other Information:

Total General Property Plant & Equipment increased \$330,344 thousand or 37 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The increase is detailed in the paragraphs below.

Buildings, Structures, and Facilities

Buildings, Structures, and Facilities increased by \$313,760 thousand or 62 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This increase is primarily due to the acquisition of a Chemical Weapons Disposal facility for \$267,065 thousand at the Pine Bluff Arsenal. Acquisitions at Rock Island Arsenal, McAlester Army Ammunition Plant, Anniston Army Depot, and Tobyhanna Army Depot accounted for the balance.

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 \$2,820 thousand, or 13 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005 is due to depreciation recorded.

Software

Software decreased \$12,569 thousand, or 14 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The AWCf depreciates software at approximately 20 percent annually, however, a prior posting error at the

Army Working Capital Fund

Communications-Electronics Command (CECOM) caused under-reporting of software acquisitions. Correction of the posting error resulted in less of a change in software net book value.

General Equipment

General Equipment increased \$49,468 thousand, or 23 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The majority of this increase is for Power Train equipment procured at Anniston Army Depot.

Construction in Progress

Construction in Progress decreased by \$17,496 thousand, or 31 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The majority of the decrease in construction in progress was the correction of a posting error. The CECOM erroneously posted internal use software as construction in progress in a prior fiscal year. The AWCF identified and corrected this error during 4th Quarter FY 2004.

Note Reference

For additional line item discussion, see:

Note 1.O, General Plant, Property and Equipment

Assets Under Capital Lease				
As of June 30	2005		2004	
1. Entity as Lessee, Assets Under Capital Lease				
A. Land and Buildings	\$	0.00	\$	0.00
B. Equipment		0.00		0.00
C. Other		0.00		0.00
D. Accumulated Amortization		0.00		0.00
E. Total Capital Leases	\$	0.00	\$	0.00

Other Information:

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 June 30	2005	2004
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	44,518,759.12	44,518,760.00
D. Total Intragovernmental Liabilities	\$ 44,518,759.12	\$ 44,518,760.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	304,976,189.04	320,653,914.51
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	119,158,840.06	84,896,463.49
F. Total Nonfederal Liabilities	\$ 424,135,029.10	\$ 405,550,378.00
3. Total Liabilities Not Covered by Budgetary Resources	\$ 468,653,788.22	\$ 450,069,138.00
4. Total Liabilities Covered by Budgetary Resources	\$ 702,690,526.46	\$ 758,750,154.69
5. Total Liabilities	\$ 1,171,344,314.68	\$ 1,208,819,292.69

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

Army Working Capital Fund

Fluctuations and/or Abnormalities

Other Non-Federal Liabilities increased by \$34,262 thousand, or 40 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This increase is attributable to the Supply Business Area accruing annual leave previously not reported in 3rd Quarter FY 2004.

Other Liabilities Not Covered by Budgetary Resources: (Amounts in thousands)

	<u>2005</u>	<u>2004</u>
Governmental - Other Liabilities		
FECA Reimbursement to the Dept. of Labor	\$ 44,519	\$ 44,519

Legend:

FECA – Federal Employees Compensation Act

The FECA reimbursement liability is classified as covered or not covered by budgetary resources based on the date the liability is due to be paid. The FECA liability is due in October each year. The covered portion was due in October 2004, while the not covered portion is due in October 2005 and October 2006. Only the Industrial Operations business area reports a FECA liability because it is comprised 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 FECA liability due in FY 2006 is based on the liability incurred for FY 2005.

Non-federal Liabilities

Military Retirement Benefits and Other 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
-----------------	-------------------------

As of June 30	2005			2004
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 170,015,318.65	\$ N/A	\$ 170,015,318.65	\$ 108,856,313.24
2. Non-Federal Payables (to the Public)	328,184,097.03	353.57	328,184,450.60	509,698,637.26
3. Total	\$ 498,199,415.68	\$ 353.57	\$ 498,199,769.25	\$ 618,554,950.50

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 increased \$61,159 thousand, or 56 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The increase is due to increased activity with trading partners; primarily the Navy General Fund, Defense Logistics Agency (DLA), and Army General Fund.

The AWCF Non-Federal Payables decreased \$181,514 thousand, or 36 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This decrease is due to a higher liquidation rate since 3rd Quarter 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 12-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. At the direction of the Office of the Under Secretary of Defense (Comptroller), the AWCF wrote off unsupported undistributed disbursements of \$63,287 thousand in FY 2004. The AWCF currently has \$494 thousand 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 \$88,620 thousand. In addition, \$17,827 thousand 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
-----------------	-------------

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

Not applicable.

Note 14.	Environmental Liabilities and Disposal Liabilities
-----------------	---

As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations-- Environmental Restoration (ER) \$	0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations--ER for Closed Ranges	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites (FUDS) -- ER	0.00	0.00	0.00	0.00
4. FUDS--ER for Transferred Ranges	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Active Installations-- Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Active Installations-- Environ.Response at Active Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations-- Environmental Restoration (ER)	0.00	0.00	0.00	0.00
2. BRAC Installations--ER for Transferring Ranges	0.00	0.00	0.00	0.00
3. BRAC Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities:	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 15.	Other Liabilities
-----------------	--------------------------

As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 7,363,038.92	\$ 0.00	\$ 7,363,038.92	\$ 429,521.26
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	22,259,379.56	22,259,379.56	44,518,759.12	44,518,760.00
F. Other Liabilities	11,998,399.50	0.00	11,998,399.50	9,955,437.20
G. Total Intragovernmental Other Liabilities	\$ 41,620,817.98	\$ 22,259,379.56	\$ 63,880,197.54	\$ 54,903,718.46
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 84,316,837.34	\$ 0.00	\$ 84,316,837.34	\$ 63,902,941.46
B. Advances from Others	47,576,074.25	0.00	47,576,074.25	33,229,374.62
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(885,330.68)	0.00	(885,330.68)	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) National Defense PP&E (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
(4) Other	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	119,158,840.06	0.00	119,158,840.06	84,896,463.49
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	54,121,737.88	0.00	54,121,737.88	32,677,929.65
J. Total Nonfederal Other Liabilities	\$ 304,288,158.85	\$ 0.00	\$ 304,288,158.85	\$ 214,706,709.22
3. Total Other Liabilities	\$ 345,908,976.83	\$ 22,259,379.56	\$ 368,168,356.39	\$ 269,610,427.68

Fluctuations and/or Abnormalities

Intragovernmental Other Liabilities

Total Intragovernmental Other Liabilities increased \$8,976 thousand, or 16 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005 because of the following reasons:

Intragovernmental Advances from Others

Intragovernmental Advances from others increased \$6,934 thousand, or 1,614 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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.

Other Liabilities

Intragovernmental Other Liabilities increased \$2,043 thousand, or 21 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 \$89,581 thousand, or 42 percent, because of the following reasons:

Accrued Funded Payroll and Benefits increased \$20,414 thousand, or 32 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 3rd Quarter FY 2004 to 3rd Quarter FY 2005.

Non-Federal Advances from Others increased \$14,347 thousand, or 43 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The increase is primarily related to advances received on Foreign Military Sales orders for consumable materials.

Deposit Funds and Suspense Accounts decreased \$885 thousand, or 100 percent, as a result of Unsupported Undistributed Collections being moved from Accounts Receivable to the Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections per Defense Finance and Accounting Service - Arlington guidance for financial statement preparation.

Accrued Unfunded Annual Leave increased \$34,263 thousand, or 40 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005 because Supply Management was unable to accrue leave due to system deficiencies in prior periods. Beginning in March 2005, the Logistics Modernization Program (LMP) began performing the leave accrual function for Supply Management.

Non-Federal Other Liabilities increased \$21,444 thousand, or 66 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005, due primarily to increases in Contractor Holdbacks and the governments share of personnel benefits. These increases resulted from fluctuations in personnel strengths and the number of days accrued for the payroll cycle from 3rd Quarter FY 2004 to 3rd Quarter FY 2005.

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	\$ 630
CSRS, FERS, FEGLI, FEHB	11,998	9,325
FECA Payable, Past Due	0	0
Total Intragovernmental Other Liabilities	\$ 11,998	\$ 9,955
Non-Federal - Other Liabilities		
Contract Holdbacks	\$ 34,423	\$ 22,284
Employers Contributions to TSP and Taxes Payable	19,249	10,369
Contingent Liability	450	25
Total Non-Federal Other Liabilities	\$ 54,122	\$ 32,678
Total Other Liabilities	\$ 57,549	\$ 42,633

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

Army Working Capital Fund

Army Working Capital Fund

Capital Lease Liability

As of June 30

	2005				2004	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2005	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. 2006	0.00	0.00	0.00	0.00	0.00	0.00
C. 2007	0.00	0.00	0.00	0.00	0.00	0.00
D. 2008	0.00	0.00	0.00	0.00	0.00	0.00
E. 2009	0.00	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
I. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	0.00

Note 16.	Commitments and Contingencies
-----------------	--------------------------------------

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 June 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, Significant Accounting Policies

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

Army Working Capital Fund

As of June 30	2005				2004
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other					
A. FECA	\$ 304,976,189.04		\$ 0.00	\$ 304,976,189.04	\$ 320,653,914.51
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. <u>{Enter Program Name}</u>	0.00		0.00	0.00	0.00
E. Total Other	\$ 304,976,189.04		\$ 0.00	\$ 304,976,189.04	\$ 320,653,914.51
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 304,976,189.04		\$ 0.00	\$ 304,976,189.04	\$ 320,653,914.51

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
-----------------	---

e

Gross Cost and Earned Revenue by Budget Functional Classification

As of June 30

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

Army Working Capital Fund

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

As of June 30

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

Benefit Program Expenses				
As of June 30	2005		2004	
1. Service Cost	\$	0	\$	0
2. Period Interest on the Benefit Liability		0		0
3. Prior (or past) Service Cost		0		0
4. Period Actuarial Gains or (Losses)		0		0
5. Gains/Losses Due to Changes in Medical Inflation Rate Assumption		0		0
6. Total Benefit Program Expense	\$	0.00	\$	0.00

Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors

Not Applicable

Stewardship Assets

Not Applicable

Suborganization Program Costs

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 \$168,601 thousand, or 13 percent, between 3rd Quarter FY 2004 and 3rd Quarter FY 2005. This decrease is largely attributable to the following:

Intragovernmental gross costs increased \$732,849 thousand, or 36 percent between 3rd Quarter FY 2004 and 3rd Quarter FY 2005. This is due to increased workload in support of contingency missions Operation Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Intragovernmental earned revenue decreased \$1,385,698 thousand, or 16 percent, between

Army Working Capital Fund

3rd Quarter FY 2004 and 3rd Quarter FY 2005. This decrease is largely attributable to an adjustment to revenue for Material Return Credits of \$1,622,948 thousand. This adjustment was not done in 3rd Quarter FY 2004. In addition, the reporting for the Statement of Net Cost has changed since the 3rd Quarter FY 2004.

Gross Costs with the Public decreased \$869,736 thousand, or 12 percent, between 3rd Quarter FY 2004 and 3rd Quarter FY 2005. Earned revenue from the Public increased \$1,417,413 thousand, or 81 percent 3rd Quarter FY 2004 and 3rd Quarter FY 2005. Changes to Gross Costs with the Public and Earned Revenue from the Public are predominantly caused by the mapping of Other Gains and Losses related to inventory adjustments. For 3rd Quarter FY 2005, Gross Costs with the Public included \$3,277,673 thousand for LMP inventory adjustments; Earned Revenue from the Public included \$2,720,155 thousand. The changes to Gross Costs and Revenue included \$1,244,602 thousand and \$1,174,651 thousand respectively for LMP adjustments.

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 \$5,081,447 thousand included: \$5,033,447 thousand for CECOM and \$48,000 thousand 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 \$4,634,514 thousand 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
-----------------	--

	2005		2004	
As of June 30	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Other Prior Period Adjustments	0.00	0.00	0.00	0.00
D. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 40,529,232.48	\$ 0.00	\$ 41,112,717.44	\$ 0.00
B. Civilian Health	70,037,849.15	0.00	55,486,203.50	0.00
C. Civilian Life Insurance	153,952.32	0.00	136,212.30	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. Total Imputed Financing	\$ 110,721,033.95	\$ 0.00	\$ 96,735,133.24	\$ 0.00

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 \$139,390 thousand, 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 \$13,986 thousand, or 14 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This was primarily due to an increase in Civilian Health costs of \$14,552 thousand, or 26 percent, and an increase in Civilian Life Insurance of \$18 thousand, or 13 percent from 3rd Quarter FY 2004 to 3rd Quarter 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 \$202,445 thousand, or 100 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005, as the AWCF did not receive any current appropriations.

Budgetary Financing Sources Transfers-in/out without reimbursement changed \$1,132,656 thousand, or 95 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. During FY 2005, the AWCF received transfers in of budgetary resources of \$84,425 thousand for war reserves and \$99,631 thousand received for industrial mobilization capacity, totaling \$184,056 thousand from the DoD Appropriations Act, 2005, P.L. 108-287. In addition, this appropriations act transferred out \$250,000 thousand to the Army General Fund, Operation and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action FY 05-27 PA. During FY 2004, the AWCF transferred out \$1,157,000 thousand to Army Operations and Maintenance Appropriation and \$41,600 thousand to the Defense Commissary Agency (DeCA).

Other Budgetary Financing Sources increased by \$219,245 thousand, or 97 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This represents those transfers in/out without reimbursement without trading partner information that must be reclassified as a gain or loss.

Other Financing Sources Other increased by \$149,530 thousand, or 100 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The FY 2004 balance represents inventory gains and losses that were reported as non-exchange gains and losses. These gains and losses are now reported as exchange gains and losses and are therefore reported on the Statement of Net Cost. However, during 3rd Quarter FY 2004 the AWCF discovered that LMP was overstating inventory gains and losses requiring adjustments to these numbers in subsequent quarters.

Army Working Capital Fund

The AWCF net costs decreased by \$168,601 thousand, or 13 percent, between 3rd Quarter FY 2004 and 3rd Quarter 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 \$219,300 thousand, or 100 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005 as the AWCF did not receive any FY 2005 appropriations.

Appropriations used decreased \$202,445 thousand 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 June 30	2005	2004
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 10,368,245,359.06	\$ 8,795,293,249.12
2. Available Borrowing and Contract Authority at the End of the Period	6,811,093,371.70	5,794,942,358.86

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 June 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 June 30, 2005
Industrial Operations	\$ 33,695	\$ 51,312	\$ 85,007
Supply Management	4,516,162	2,209,924	6,726,086
Total AWCF	\$ 4,549,857	\$ 2,261,236	\$ 6,811,093

Unobligated balances from spending authority from offsetting collections (revenues earned) as of June 30, 2005, are as follows: (Amounts in thousands)

Business Area	Earned	Change in Unfilled Orders	Anticipated	Total Spending Authority from Offsetting Collections
Industrial Operations	\$ 3,145,287	\$ 1,241,929	\$ 487,784	\$ 4,875,000
Supply Management	6,787,921	(563,950)	0	6,223,971
Total AWCF	\$ 6,784,283	\$ 677,979	\$ 487,748	\$ 11,098,971

Fluctuations and/or Abnormalities

Appropriations Received decreased \$219,300 thousand, or 100 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The AWCF did not receive direct appropriations in FY 2005.

All business activity increased from 3rd Quarter FY 2004 to 3rd Quarter FY 2005 due to increased reimbursable activity with the Army General Fund, as well as within the

Army Working Capital Fund

AWCF, in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle. Contract authority decreased \$1,090,217 thousand, or 33 percent, primarily due to increased purchases of repair parts to support maintenance efforts related to the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Budget Authority, Net transfers changed \$1,198,600 thousand, or 100 percent, between 3rd Quarter FY 2004 to 3rd Quarter FY 2005. No budgetary authority has been transferred in or out of the AWCF during this period. During FY 2004, the AWCF transferred out \$1,157,000 thousand to Army Operations and Maintenance Appropriation and \$41,600 thousand to the Defense Commissary Agency (DeCA).

Unobligated balance, Net transfers, Actual changed \$65,944 thousand, or 100 percent, between 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The Army received two transfers from Defense Logistics Agency (DLA) amounting to \$99,631 thousand for war reserves and \$84,425 thousand for industrial mobilization capacity in accordance with the DoD Appropriations Act, 2005, P.L. 108-287. In addition, the AWCF transferred out \$250,000 thousand to the Army Operation and Maintenance account during 3rd Quarter FY 2005 under the authority of Critical Army Requirements, Reprogramming Action FY 05-27PA.

Spending Authority from Offsetting Collections increased \$2,111,044 thousand, or 23 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 \$1,237,904 thousand, or 14 percent, in 3rd Quarter FY 2005.

Earned - Receivable from Federal Sources changed by \$187,250 thousand, or 168 percent, in 3rd Quarter FY 2004 to 3rd Quarter FY 2005.

Change in Unfilled Customer Orders – Advance Received changed by \$51,447 thousand, or 169 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005.

Change in Unfilled Customer Orders – Without Advance from Federal Sources increased by \$553,158 thousand, or 533 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005.

Anticipated for the rest of the year, Without Advances increased \$81,286 thousand or 20 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005.

Recoveries of Prior Year Obligations increased by \$741,610 thousand, or 219 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. 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 the overstatement of unliquidated obligation balances. These correcting entries created large deobligations in this reporting period.

Reimbursable obligations increased by \$1,907,361 thousand, or 17 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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.

Accounts Receivable increased \$133,473 thousand, or 33 percent from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The increase is attributable to orders from the Army General Fund for increased maintenance efforts in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Undelivered Orders increased \$1,555,769 thousand, or 18 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 \$91,697 thousand, or 13 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This decrease is due to a higher liquidation rate since 3rd Quarter FY 2004 for delivered goods and services.

Net Outlays decreased \$299,399 thousand, or 238 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. Disbursements increased \$1,588,750 thousand, or 19 percent, and Collections increased \$1,289,351 thousand, or 15 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 \$9,214,807 thousand and \$3,657,878 thousand 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 Defense Finance and Accounting Service and Army Materiel Command are working to reconcile these balances.

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 \$1,131,187 thousand to bring the statements into agreement. The differences between budgetary and proprietary data for the AWCF were reported as material weaknesses in the FY 2004 AWCF financial statement report.

Fluctuations and/or Abnormalities

Obligations incurred increased by \$1,907,361 thousand, or 17 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 \$2,771,369 thousand, or 31 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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. Additionally, the stabilization of the Logistics Modernization Program (LMP) resulted in the correction of obligations reflected in the current year statement as recoveries of prior year obligations.

Total Imputed Financing increased \$13,986 thousand, or 14 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This was primarily due to an increase in Civilian Health costs of \$14,552 thousand, or 26 percent, and an increase in Civilian Life Insurance of \$18 thousand, or 13 percent from 3rd Quarter FY 2004 to 3rd Quarter 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.

The Budgetary Resources Obligated - Other line increased by \$149,530 thousand, or 100 percent from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The FY 2004 balance represents inventory gains and losses that were reported as non-exchange gains and losses. These gains and losses are now reported as exchange gains and losses and are therefore reported on the Statement of Net Cost. However, during 2nd Quarter FY 2004 the AWCF discovered that the LMP was overstating inventory gains and losses requiring adjustments to these numbers in subsequent quarters.

Change in Undelivered Orders decreased \$924,729 thousand, or 34 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This reflects the increased delivery after 2nd Quarter FY 2004 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 \$604,605 thousand, or 824 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This reflects the increased order volume in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Resources that Fund Expenses Recognized in Prior Periods decreased \$1,684 thousand, or 23 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. This line reflects only decreases in unfunded expenses. In 3rd Quarter FY 2004 there was a decrease in the unfunded leave liability, and in 3rd Quarter FY 2005 there was an increase that is reflected as an increase in annual leave liability.

Increase in Annual Leave Liability increased by \$38,689 thousand, or 284 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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.

The Increase in Exchange Revenue Receivable From the Public changed \$12,957 thousand, or 100 percent, from 3rd Quarter FY 2004 to 3rd Quarter FY 2005. The only account used by the AWCF that populates this line is the Allowance for Loss on Accounts Receivable. The line carries a balance when this account increases and in the 3rd Quarter FY 2005 the allowance calculation resulted in a decrease of the balance, so the line reflects a zero balance.

Depreciation and amortization increased \$9,154 thousand, or 20 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 \$68,928 thousand, or 14 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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 values reported by LMP.

Army Working Capital Fund

Other Other changed by \$406,260 thousand, or 2,049 percent, from 3rd Quarter FY 2004 to 3rd Quarter 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

Army Working Capital Fund

Army Working Capital Fund

Note 22.	Disclosures Related to the Statement of Custodial Activity
-----------------	---

Note 23.	Other Disclosures
-----------------	--------------------------

As of June 30

2005

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

Future Payments Due Fiscal Year	<u>Land and Buildings</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
2005	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	0.00	0.00	0.00	0.00
2007	0.00	0.00	0.00	0.00
2008	0.00	0.00	0.00	0.00
2009	0.00	0.00	0.00	0.00
After 5 Years	0.00	0.00	0.00	0.00
<hr/>				
Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00