

Department of Defense
Army Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 370,711,256.66	\$ 913,387,389.08
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)	427,140,172.91	396,239,892.83
4. Other Assets (Note 6)	0.00	1,403.22
5. Total Intragovernmental Assets	\$ 797,851,429.57	\$ 1,309,628,685.13
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	13,167,166.00	13,731,712.55
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	16,664,044,022.63	13,980,047,209.40
F. General Property, Plant and Equipment (Note 10)	1,214,471,866.72	947,194,794.70
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	356,467,894.15	287,833,609.33
2. TOTAL ASSETS	\$ 19,046,002,379.07	\$ 16,538,436,011.11
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 83,481,399.69	\$ 123,242,547.79
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	56,897,564.78	69,669,358.78
4. Total Intragovernmental Liabilities	\$ 140,378,964.47	\$ 192,911,906.57
B. Accounts Payable (Note 12)	\$ 347,393,523.01	\$ 318,693,827.23
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	286,523,171.16	304,976,189.04
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	753,613,506.39	241,337,355.32
4. TOTAL LIABILITIES	\$ 1,527,909,165.03	\$ 1,057,919,278.16
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	0.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	0.00	0.00
D. Cumulative Results of Operations - Other Funds	17,518,093,214.04	15,480,516,732.95
6. TOTAL NET POSITION	\$ 17,518,093,214.04	\$ 15,480,516,732.95
7. TOTAL LIABILITIES AND NET POSITION	\$ 19,046,002,379.07	\$ 16,538,436,011.11

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	\$ 3,898,408,313.33	\$ 3,832,382,245.92
B. (Less: Earned Revenue)	(4,242,533,306.30)	(3,794,228,185.98)
C. Net Program Costs	\$ (344,124,992.97)	\$ 38,154,059.94
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	\$ (344,124,992.97)	\$ 38,154,059.94

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 17,091,034,493.69	\$ 15,370,833,547.07
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	17,091,034,493.69	15,370,833,547.07
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc.) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	0.00	52,852.98
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	94,128,000.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	19,280,081.24
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	37,346,582.83	34,376,311.60
5.D. Other (+/-)	45,587,144.55	0.00
6. Total Financing Sources		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	82,933,727.38	147,837,245.82
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds	(344,124,992.97)	38,154,059.94
8. Net Change		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	427,058,720.35	109,683,185.88
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	17,518,093,214.04	15,480,516,732.95

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ 17,518,093,214.04	\$ 15,480,516,732.95

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
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UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	\$ 0.00	\$ 52,852.98
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	<hr/> 0.00	<hr/> 52,852.98
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	0.00	(52,852.98)
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	<hr/> 0.00	<hr/> (52,852.98)
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	0.00	(52,852.98)
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
8. Net Change		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	0.00	(52,852.98)
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	0.00	0.00

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended December 31, 2005 and 2004

	2006 Consolidated		2005 Consolidated	
10. Total all funds	\$	0.00	\$	0.00

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 1,176,499,262.52	\$ 1,530,240,925.28
2. Recoveries of prior year unpaid obligations	226,337,651.93	800,910,370.44
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	8,439,759,562.62	2,341,926,640.98
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	3,103,136,605.66	2,978,164,521.90
3.D.1.b. Change in receivables from Federal sources	45,670,141.81	(16,404,699.91)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	9,135,068.34	(2,593,862.84)
3.D.2.b. Without advance from Federal sources	1,133,610,441.39	970,234,518.25
3.D.3. Anticipated for rest of year, without advances	823,328,562.97	0.00
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	13,554,640,382.79	6,271,327,118.38
4. Nonexpenditure transfers, net, anticipated and actual	0.00	94,128,000.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(2,121,513,382.79)	0.00
7. Total Budgetary Resources	\$ 12,835,963,914.45	\$ 8,696,606,414.10

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 0.00	\$ 0.00
8.B. Reimbursable	5,652,468,030.05	6,425,463,945.23
8.C. Subtotal	5,652,468,030.05	6,425,463,945.23
9. Unobligated balance:		
9.A. Apportioned	7,183,495,884.40	2,271,142,468.87
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	7,183,495,884.40	2,271,142,468.87
10. Unobligated balance not available	0.00	0.00
11. Total status of budgetary resources	\$ 12,835,963,914.45	\$ 8,696,606,414.10
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	10,331,508,447.06	8,953,394,819.82
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (4,181,756,579.12)	\$ (4,985,315,041.54)
12.C. Total unpaid obligated balance	6,149,751,867.94	3,968,079,778.28
13. Obligations incurred net (+/-)	\$ 5,652,468,030.05	\$ 6,425,463,945.23
14. Less: Gross outlays	(3,364,890,935.48)	(3,104,774,701.14)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	0.00	0.00
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	(226,337,651.93)	(800,910,370.44)
17. Change in uncollected customer payments from Federal sources (+/-)	(1,179,280,583.20)	(953,829,818.34)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	12,392,747,889.70	11,473,173,693.47
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(5,361,037,162.32)	(5,939,144,859.88)
18.C. Total, unpaid obligated balance, net, end of period	7,031,710,727.38	5,534,028,833.59
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	3,364,890,935.48	3,104,774,701.14
19.B. Less: Offsetting collections	(3,112,271,674.00)	(2,975,570,659.06)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
19.D. Net Outlays	\$ 252,619,261.48	\$ 129,204,042.08

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	2006 Combined		2005 Combined
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$	0.00
2. Recoveries of prior year unpaid obligations	0.00		0.00
3. Budget authority			
3.A. Appropriation	0.00		0.00
3.B. Borrowing authority	0.00		0.00
3.C. Contract authority	0.00		0.00
3.D. Spending authority from offsetting collections			
3.D.1 Earned			
3.D.1.a. Collected	0.00		0.00
3.D.1.b. Change in receivables from Federal sources	0.00		0.00
3.D.2 Change in unfilled customer orders			
3.D.2.a. Advance received	0.00		0.00
3.D.2.b. Without advance from Federal sources	0.00		0.00
3.D.3 Anticipated for rest of year, without advances	0.00		0.00
3.D.4 Previously unavailable	0.00		0.00
3.D.5 Expenditure transfers from trust funds	0.00		0.00
3.E. Subtotal	0.00		0.00
4. Nonexpenditure transfers, net, anticipated and actual	0.00		0.00
5. Temporarily not available pursuant to Public Law	0.00		0.00
6. Permanently not available	0.00		0.00
7. Total Budgetary Resources	\$ 0.00	\$	0.00

Department of Defense
Army Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2005 and 2004

	2006 Combined		2005 Combined
Status of Budgetary Resources:			
8. Obligations incurred:			
8.A. Direct	\$ 0.00	\$	0.00
8.B. Reimbursable	0.00		0.00
8.C. Subtotal	0.00		0.00
9. Unobligated balance:			
9.A. Apportioned	0.00		0.00
9.B. Exempt from apportionment	0.00		0.00
9.C. Subtotal	0.00		0.00
10. Unobligated balance not available	0.00		0.00
11. Total Status of Budgetary Resources	\$ 0.00	\$	0.00
Change in Obligated Balance:			
12. Obligated balance, net			
12.A. Unpaid obligations, brought forward, October 1	0.00		0.00
12.B. Less: Uncollected customer payments	\$ 0.00	\$	0.00
from Federal sources, brought forward, October 1			
12.C. Total unpaid obligated balance	0.00		0.00
13. Obligations incurred net (+/-)	\$ 0.00	\$	0.00
14. Less: Gross outlays	0.00		0.00
15. Obligated balance transferred, net			
15.A. Actual transfers, unpaid obligations (+/-)	0.00		0.00
15.B. Actual transfers, uncollected customer	0.00		0.00
payments from Federal sources (+/-)			
15.C. Total Unpaid obligated balance transferred, net	0.00		0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00		0.00
17. Change in uncollected customer	0.00		0.00
payments from Federal sources (+/-)			
18. Obligated balance, net, end of period			
18.A. Unpaid obligations	0.00		0.00
18.B. Less: Uncollected customer payments (+/-)	0.00		0.00
from Federal sources (-)			
18.C. Total, unpaid obligated balance, net, end of period	0.00		0.00
Net Outlays			
19. Net Outlays:			
19.A. Gross outlays	0.00		0.00
19.B. Less: Offsetting collections	0.00		0.00
19.C. Less: Distributed Offsetting receipts	0.00		0.00
19.D. Net Outlays	\$ 0.00	\$	0.00

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 5,652,468,030.05	\$ 6,425,463,945.23
2. Less: Spending authority from offsetting collections and recoveries (-)	(4,517,889,909.13)	(4,730,310,847.84)
3. Obligations net of offsetting collections and recoveries	1,134,578,120.92	1,695,153,097.39
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	1,134,578,120.92	1,695,153,097.39
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	37,346,582.83	34,376,311.60
9. Other (+/-)	45,587,144.55	0.00
10. Net other resources used to finance activities	82,933,727.38	34,376,311.60
11. Total resources used to finance activities	\$ 1,217,511,848.30	\$ 1,729,529,408.99
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 (-)	(2,029,777,369.52)	(2,551,561,874.42)
12b. Unfilled Customer Orders	1,142,745,509.73	967,640,655.41
13. Resources that fund expenses recognized in prior periods	(23,857,312.82)	(23,981,305.21)
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	(2,080,017,045.46)	(1,588,201,094.49)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	(45,587,144.55)	0.00
17. Total resources used to finance items not part of the net cost of operations	\$ (3,036,493,362.62)	\$ (3,196,103,618.71)
18. Total resources used to finance the net cost of operations	\$ (1,818,981,514.32)	\$ (1,466,574,209.72)

Department of Defense
Army Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	1,051,347.65	16,629,837.48
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	1,051,347.65	29,586,373.44
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	16,105,104.12	16,377,050.61
26. Revaluation of assets or liabilities (+/-)	281,711,299.48	227,030,998.81
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	1,292,289,063.55	1,301,873,293.89
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(116,300,293.45)	(70,139,447.09)
28. Total components of Net Cost of Operations that will not require or generate resources	1,473,805,173.70	1,475,141,896.22
29. Total components of net cost of operations that will not require or generate resources in the current period	\$ 1,474,856,521.35	\$ 1,504,728,269.66
30. Net Cost of Operations	\$ (344,124,992.97)	\$ 38,154,059.94

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

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

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

The AWCF is unable to fully implement all elements of Federal GAAP and OMB Circular A-136 due to limitations of its financial and non-financial management processes and systems. The Army derives its reported values and information for major asset and liability categories largely from non-financial feeder systems, such as inventory and logistics systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the AWCF cannot currently implement every aspect of Federal GAAP and OMB Circular A-136. The AWCF continues to implement processes and system improvements addressing the limitations of its financial and non-financial feeder systems. Further explanation of these financial statement elements is provided in the applicable note.

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

1.B. Mission of the Reporting Entity

The AWCF is part of the Defense Working Capital Fund, and is divided into two separate business areas: Supply Management and Industrial Operations. In October 2004, the Depot Maintenance and Ordnance business areas were consolidated into what is now

Industrial Operations. These business areas ensure delivery of critical items, such as petroleum products, repair parts, consumable supplies, depot maintenance services, munitions and weapons to support the deployment and projection of lethal force as and when required by the nation.

1.C. Appropriations and Funds

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

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

1.D. Basis of Accounting

The AWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. For FY 2005, the AWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the AWCF financial and non-financial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

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

presented on the Statement of Net Costs is based on accrued costs; however, some of the financial information is based on obligations and disbursements.

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

1.E. Revenues and Other Financing Sources

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

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

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the AWCF financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses and accounts payable. Expenditures for capital and other long-term assets are not recognized as expenses in the AWCF operations until depreciated as in the case of property, plant and equipment (PP&E). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual leave earned but not taken, are recognized in the period in which payments are made.

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

1.G. Accounting for Intragovernmental Activities

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

The AWCF proportionate share of public debt and related expenses of the Federal government are not included. Debt issued by the Federal government and the related costs are not apportioned to federal agencies. The AWCF financial statements, therefore, do not report any portion of the public debt or interest, nor do the financial statements report the source of public financing whether from issuance of debt or tax revenues.

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

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

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

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the DoD and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The AWCF was not able to fully implement the policies and procedures in this Guide relating to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. However, the AWCF was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal

Intragovernmental Transactions Accounting Policies and Procedures Guide” issued in October 2002 for reconciling intragovernmental transactions. These transactions pertain to Federal Employees’ Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

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

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

The AWCF financial resources are maintained in Department of the 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 Department of the 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 Department of the Treasury’s system. Differences between the AWCF and Department of the Treasury’s records sometime result and are subsequently reconciled. Material disclosures are provided in Note 3. Differences between accounting offices’ detail-level records and Department of the Treasury FBWT accounts are disclosed in Note 3, Fund Balance With Treasury, specifically differences caused by in-transit disbursements and unmatched disbursements which are not recorded in the accounting offices’ detail-level records.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivables from other federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise from the provision of goods and services to state, local, and foreign governments. Refunds receivable, however, are overpayments by the Federal government in the process of being collected. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances by fund type. The AWCF recognizes an allowance of 50 percent for all non-federal debt

between 180 days and two years old and a 100 percent allowance for all non-federal debt over two years old. The allowance is updated annually, based on the aged accounts receivable at the end of the 2nd Quarter. The AWCF does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided in Note 5, Accounts Receivable.

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

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

SFFAS No. 3 distinguishes between inventory held for sale and inventory held in reserve for future sale. There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The AWCF holds material based on military need and support for contingencies. Therefore, the AWCF does not attempt to account separately for items held for current or future sale.

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

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

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

Not applicable.

1.O. General Property, Plant and Equipment

General Property, Plant & Equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. 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 thousand, \$25 thousand, and \$50 thousand for FY 1993, FY 1994, and FY 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on AWCF financial statements.

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

Internal use software is capitalized at cost if the acquisition cost is \$100 thousand or more. For commercial off-the-shelf software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life for calculating amortization of software is two to five years using the straight-line method.

1.P. Advances and Prepayments

The AWCF records payments made prior to the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

1.Q. Leases

Not applicable.

1.R. Other Assets

The AWCF conducts business with commercial contractors under two primary types of contracts--fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the AWCF provides financing payments. One type of financing payment that the AWCF makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as

construction-in-process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

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

1.S. Contingencies and Other Liabilities

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

Cumulative results of operations for AWCF represents the excess of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception.

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for the FY 2005. Financial statement

fluctuations greater than two percent of total assets on the Balance Sheet and/or greater than ten percent between FY 2004 and FY 2005 are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The AWCF obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods or services not yet delivered.

1.Y. Undistributed Disbursements and Collections

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

The Department of Defense policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of Federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The AWCF follows this procedure.

1.Z. Logistics Modernization Program (LMP) Issues

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

Note 2.	Nonentity Assets
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As of December 31	2006	2005
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	\$ 19,046,002,379.07	\$ 16,538,436,011.11
5. Total Assets	\$ 19,046,002,379.07	\$ 16,538,436,011.11

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 \$2.6 billion, or 16 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This increase is due primarily to increases in general property plant and equipment and inventory in FY 2005.

Note Reference

For additional line item discussion, see:

Note 3, Fund Balance With Treasury

Note 5, Accounts Receivable

Note 6, Other Assets

Note 9, Inventory and Related Property

Note 10, General PPE, Net

Note 3.	Fund Balance with Treasury
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As of December 31	2006	2005
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	370,711,256.66	913,387,389.08
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	\$ 370,711,256.66	\$ 913,387,389.08
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 370,711,256.66	\$ 913,387,389.08
B. Fund Balance per AWCF	370,711,256.66	913,387,389.08
3. Reconciling Amount	\$ 0.00	\$ 0.00

Fluctuations and/or Abnormalities

Revolving funds decreased \$542.7 million, or 59 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. During the 1st Quarter FY 2005, the AWCF received a transfer in of budgetary resources of \$84.4 million for war reserves. During the 3rd Quarter FY 2005, the AWCF received a transfer in of budgetary resources of \$99.6 million for industrial mobilization capacity. These transfers were in accordance with the DoD Appropriations Act, 2005, P.L. 108-287. During the 3rd Quarter FY 2005, the AWCF transferred out \$250.0 million to the Army General Fund, Operations and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action number FY 05-27 PA. During the 4th Quarter, FY 2005, the AWCF transferred out \$450.0 million to the Army General Fund, Operations and Maintenance Appropriation in accordance with Critical Army Requirements, Reprogramming Action number FY 05-47 PA.

Other disclosures

Defense Finance and Accounting Service increased field-reported data by \$188.7 thousand to agree with the FBWT reported on the Department of the Treasury trial balance.

The deposit differences are reconcilable differences reported by the Department of the Treasury or the Army. The Army has no deposit differences greater than 180 days old as of December 31, 2005.

The Intragovernmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by the Department of the Treasury but not reported by the organization. The Army had no IPAC differences greater than 180 days old as of December 31, 2005.

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

Note Reference

For additional line item discussion, see:
Note 1.I, Funds with the U.S. Treasury

Status of Fund Balance with Treasury

As of December 31	2006	2005
1. Unobligated Balance		
A. Available	\$ 6,360,167,321.43	\$ 2,271,142,468.87
B. Unavailable	0.00	0.00
2. Obligated Balance not yet Disbursed	\$ 12,392,747,889.70	\$ (1,357,755,079.79)
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (18,382,203,954.47)	\$ 0.00
5. Total	\$ 370,711,256.66	\$ 913,387,389.08

Unobligated Balance Available represents the budgetary resources from contract authority, reimbursable orders, appropriations, and transfers in of budgetary resources that have not yet been obligated.

Unobligated balance available increased \$4.1 billion, or 180 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This change is attributable to decreased inventory purchases in the Supply Management business area.

The Obligated Balance not yet Disbursed decreased \$13.8 billion, or 1,013 percent. This decrease is attributable to a presentation change in FY 2006 which moved all non-FBWT budgetary accounts from this line to the Non-FBWT Budgetary Accounts line.

Non-FBWT Budgetary Accounts increased \$18.4 billion, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This increase is attributable to a presentation change in FY 2006 which moved all non-FBWT budgetary accounts to this line from the Obligated Balance not yet Disbursed line.

Disclosures Related to Suspense/Budget Clearing Accounts

As of December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
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	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>0.00</u>

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 December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 11,941,000.00	\$ 37,976,920.00	\$ 7,232,245.20	\$ (30,744,674.80)
B. Negative Unliquidated Obligations (NULO)	4,016,000.00	3,521,866.17	5,521,742.32	1,999,876.15
2. Total In-transit Disbursements, Net	\$ 5,779,000.00	\$ 263,594,749.45	\$ 186,699,525.93	(76,895,223.52)

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

Aged UMDs and NULOs:

The Army absolute value UMDs, NULOs, and \$1.2 million in aged in-transit disbursements represent problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30-day aging category. After 30 days, they are identified as problem disbursements. Fluctuations in the schedule represent normal activity for UMDs and NULOs based on the inflow of undistributed disbursements received for processing. Total in-transit balances have decreased at the primary accounting sites supporting the war, contingency operations, and supply and materiel replenishment.

Note 4.	Investments and Related Interest
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As of December 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Investments					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of December 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Other Investments					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Not applicable.

Note 5. Accounts Receivable

As of December 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 427,140,172.91	N/A	\$ 427,140,172.91	\$ 396,239,892.83
2. Nonfederal Receivables (From the Public)	\$ 19,864,400.50	\$ (6,697,234.50)	\$ 13,167,166.00	\$ 13,731,712.55
3. Total Accounts Receivable	\$ 447,004,573.41	\$ (6,697,234.50)	\$ 440,307,338.91	\$ 409,971,605.38

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.

The following table identifies aged accounts receivable groups for the AWCF at the end of the 1st Quarter FY 2006.

AGED ACCOUNTS RECEIVABLE GROUPS (Amounts in thousands)		
CATEGORY	Intragovernmental	Non-federal
Non-delinquent		
Current	\$443,776	\$13,977
Non-current	-	-
Delinquent		
1 to 30 days	7,564	423
31 to 60 days	665	87
61 to 90 days	5,742	35
91 to 180 days	2,741	169
181 days to 1 year	159	3,664
Greater than 1 year and less than or equal to 2 years	4,398	5
Greater than 2 years and less than or equal to 6 years	105	1
Greater than 6 years and less than 10 years	-	7
Greater than 10 years	-	1,496
Total	\$465,150	\$19,864
Less eliminations and undistributed	38,010	-
Total Gross Amount Due	\$427,140	\$19,864

Relevant Information for Comprehension

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

The aged accounts receivable table above does not include undistributed collections or eliminate any intragovernmental receivables within the AWCF. Unsupported undistributed collections totaled \$889.2 thousand in the 1st Quarter FY 2006 and eliminations totaled \$37.1 million.

The majority of accounts receivable from federal sources are in a current status. The statements include \$4.3 million of potentially erroneous aged accounts receivable related to Logistics Modernization Program and validity checks are in progress. In addition, an unbilled Commander's Commencement Order for work performed at Red River Army Depot accounts for \$1.8 million. McAlester Army Ammunition Plant has accounts receivable of \$2.9 million awaiting final close-out and billing. For the remaining delinquent intragovernmental receivables, the AWCF follows the DoD concept of operations for collections. This requires follow-up actions at 30-day intervals with ordering activities.

The majority of accounts receivable due from the public are in a current status. Delinquent accounts receivable from the public includes \$3.7 million in disputed billings and \$915.3 thousand from bankrupt debtors. Further, \$343.4 thousand has been referred to the Department of the Treasury for collection and \$315.8 thousand has been referred to the Department of Justice for legal action. Delinquent public debt from out of service employees amounted to \$9.3 thousand and contractor debt totaled \$40.4 thousand in the 1st Quarter 2006.

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.

For 1st Quarter FY 2006, AWCF reported non-federal refunds receivable of \$6.0 million.

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 12 months found no transactions for undistributed collections involving a non-federal entity. Therefore, all undistributed collections are assigned to federal entities.

For 1st Quarter FY 2006, the AWCF reported unsupported undistributed collections of \$889.2 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.

Note Reference

For additional line item discussion, see:

Note 1.K, Accounts Receivable

Note 12, Accounts Payable

Note 15, Other Liabilities

Note 6.	Other Assets
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As of December 31	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 0.00	\$ 1,403.22
B. Total Intragovernmental Other Assets	\$ 0.00	\$ 1,403.22
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 354,415,708.25	\$ 285,754,480.01
B. Other Assets (With the Public)	2,052,185.90	2,079,129.32
C. Total Nonfederal Other Assets	\$ 356,467,894.15	\$ 287,833,609.33
3. Total Other Assets	<u>\$ 356,467,894.15</u>	<u>\$ 287,835,012.55</u>

Fluctuations and/or Abnormalities

Intragovernmental advances and prepayments decreased by \$1.4 thousand, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This account balance is dictated by trading partner reports of unearned revenue made by other DoD entities.

Outstanding Contract Financing Payments increased \$68.7 million, or 24 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The majority of the increase is attributable to payments made for contracts initiated by the Communications–Electronics Command during the 4th Quarter, FY 2005.

The note reflects \$7.7 million in elimination entries within the Army Working Capital Fund, leaving a zero balance.

Note Reference

For additional line item discussion, see:
Note 1.R, Other Assets

Note 7.	Cash and Other Monetary Assets
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As of December 31	2006	2005
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency (Nonpurchased)	0.00	0.00
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

Not applicable.

Note 8.	Direct Loan and/or Loan Guarantee Programs
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As of December 31

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Direct Loans Obligated After FY 1991

As of December 31

	2006	2005
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

Total Amount of Direct Loans Disbursed

As of December 31

	2006	2005
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 December 31

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<hr/>					
	2006	2005			
5. Total Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			

Subsidy Rate for Direct Loans

As of December 31	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 December 31

	2006	2005
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
G. Total of the above Adjustment Components	\$ 0.00	\$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/default 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 December 31

	2006	2005
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 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

Guaranteed Loans Outstanding

As of December 31

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

Liability for Post-1991 Loan Guarantees, Present Value

As of December 31

	2006	2005
Loan Guarantee Program		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Subsidy Expense for Post-1991 Loan Guarantees

As of December 31

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

2005	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 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
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

	2006	2005
5. Total Loan Guarantee:		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	\$ 0.00	\$ 0.00

Subsidy 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 December 31

	2006	2005
1. Beginning Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	\$ 0.00	\$ 0.00
4. Ending Balance of the Loan Guarantee Liability before 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

Administrative Expense

As of December 31

	2006	2005
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

Not applicable.

Note 9.	Inventory and Related Property
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As of December 31	2006	2005
1. Inventory, Net	\$ 16,664,044,022.63	\$ 13,980,047,209.40
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 16,664,044,022.63	\$ 13,980,047,209.40

Inventory, Net

As of December 31	2006			2005	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
1. Inventory Categories					
A. Available and Purchased for Resale	\$ 19,125,902,754.21	\$ (5,220,838,260.35)	13,905,064,493.86	\$ 11,543,731,866.54	LAC,MAC
B. Held for Repair	4,021,036,406.23	(1,292,120,481.54)	2,728,915,924.69	2,410,989,409.02	LAC,MAC
C. Excess, Obsolete, and Unserviceable	592,082,882.29	(592,082,882.29)	0.00	0.00	NRV
D. Raw Materials	30,063,604.08	0.00	30,063,604.08	25,274,190.67	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	51,743.17	AC
F. Total	\$ 23,769,085,646.81	\$ (7,105,041,624.18)	16,664,044,022.63	\$ 13,980,047,209.40	

Legend for Valuation Methods:

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

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

MAC = Moving Average Cost

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

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

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

3. Other Information:

Definitions

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

Inventory held for repair – damaged material that requires repair to make it usable.

Excess, obsolete, and unserviceable inventory – condemned materiel that must be retained for management purposes.

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

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

Future Sales

In addition to the account balances shown in the Inventory, Net Table, 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 2006.

Fluctuations/Abnormalities

Total inventory increased \$2.7 billion, or 19 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This increase is detailed in the paragraphs below.

The Inventory Available and Purchased for Resale increased \$2.4 billion, or 20 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The increase is attributable to requirements for increased stockage levels in FY 2006.

The Inventory Held for Repair increased \$317.9 million, or 13 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The increase is due to an increase in the volume of returned items needing repair in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Raw Materials increased \$4.8 million, or 19 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This increase is primarily attributable to increased purchases of raw materials needed to complete orders at Tobyhanna Army Depot.

Work in Process decreased \$51.7 thousand, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. During the 4th Quarter, FY 2005 Watervliet Arsenal corrected cost estimating processes to enable billing of all costs at month end consistent with standard business practices.

Other disclosures

The AWCF began transitioning to the Logistics Modernization Program (LMP) during June 2003. Therefore, not all AWCF inventory reported is valued under the same method. Inventory at Tobyhanna Army Depot, Communications–Electronics Command, and other Army Materiel Command activities using LMP is valued at MAC. The remainder of the AWCF inventory is valued at LAC.

The Commodity Command Standard System (CCSS) inventory reported as Available and Purchased for Resale includes a net upward adjustment of \$3.9 billion to bring financial records into agreement with the logistics records. Some transactions are not passing from logistical records to financial records. Upon replacement of CCSS with LMP, this adjustment should no longer be required.

Note Reference

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

Operating Materials and Supplies, Net

As of December 31	2006			2005		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
1. OM&S Categories						
A. Held for Use	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
 SP = Standard Price
 AC = Actual Cost

NRV = Net Realizable Value
 O = Other

Stockpile Materials, Net

As of December 31	2006			2005	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
1. Stockpile Materials Categories					
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

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

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

Note 10. General PP&E, Net

As of December 31	2006					2005	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
1. Major Asset Classes							
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00	\$ 0.00	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	2,174,206,023.55	\$ (1,385,524,935.46)	788,681,088.09	519,057,062.62	
C. Leasehold Improvements	S/L	lease term	95,213,296.87	(77,007,989.03)	18,205,307.84	20,906,827.67	
D. Software	S/L	2-5 Or 10	355,687,882.82	(275,144,256.08)	80,543,626.74	122,775,831.96	
E. General Equipment	S/L	5 or 10	1,536,299,365.93	(1,263,429,888.65)	272,869,477.28	252,439,127.00	
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	53,688,966.77	N/A	53,688,966.77	32,015,945.45	
I. Other			483,400.00	0.00	483,400.00	0.00	
J. Total General PP&E			\$ 4,215,578,935.94	\$ (3,001,107,069.22)	\$ 1,214,471,866.72	\$ 947,194,794.70	

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Fluctuations and/or Abnormalities

Buildings, Structures, and Facilities

Buildings, Structures, and Facilities increased by \$269.6 million, or 52 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The majority of the increase is due to the acquisition of a Chemical Weapons Disposal facility at the Pine Bluff Arsenal.

Leasehold Improvements

The entire amount shown on this line is for improvements made to facilities at Corpus Christi Army Depot which is a tenant on a Navy installation, but does not maintain a lease with the Navy. Improvements made on these facilities are recorded as leasehold improvements. The decrease of \$2.7 million, or 13 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 is due to depreciation recorded.

Software

Software decreased \$42.2 million, or 34 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The majority of the change is attributable to depreciation.

Construction in Progress

Construction in Progress increased by \$21.7 million, or 68 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The majority of the increase is attributable to projects at Tobyhanna Army Depot, Anniston Army Depot, Sierra Army Depot, Bluegrass Army Depot, and Pine Bluff Arsenal. Projects at Bluegrass Army Depot and Pine Bluff Arsenal include Armed Forces Reserve Centers.

Other Assets

Other Assets increased \$483.4 thousand, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The increase is attributable to systems interface issues at Rock Island that will be addressed during the 2nd Quarter, FY 2006.

Note Reference

For additional line item discussion, see:
Note 1.O, General Plant, Property and Equipment

Assets Under Capital Lease

As of December 31	2006	2005
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Other	0.00	0.00
D. Accumulated Amortization	0.00	0.00
E. Total Capital Leases	\$ 0.00	\$ 0.00

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of December 31	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	31,502,264.05	33,389,069.34
D. Total Intragovernmental Liabilities	\$ 31,502,264.05	\$ 33,389,069.34
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	286,523,171.16	304,976,189.04
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	0.00	76,201,974.85
F. Total Nonfederal Liabilities	\$ 286,523,171.16	\$ 381,178,163.89
3. Total Liabilities Not Covered by Budgetary Resources	\$ 318,025,435.21	\$ 414,567,233.23
4. Total Liabilities Covered by Budgetary Resources	\$ 1,209,883,729.82	\$ 643,352,044.93
5. Total Liabilities	\$ 1,527,909,165.03	\$ 1,057,919,278.16

Liabilities Not Covered by Budgetary Resources are liabilities incurred by the reporting entity which are not covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are liabilities incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Realized budgetary resources include:

1. New budget authority,
2. Spending authority from offsetting collections (credited to an appropriation or fund account),
3. Recoveries of unexpired budget authority through downward adjustments of prior year obligations,
4. Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year,
5. Permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

Fluctuations and/or Abnormalities

Non-Federal Other Liabilities decreased by \$76.2 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. During 1st Quarter FY 2005, the AWCF reported annual leave as a not covered by budgetary resources liability due to systems reporting limitations. In 4th Quarter FY 2005, these reporting limitations were resolved and the liability is properly reported as unfunded covered by budgetary resources.

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

	2006	2005
Intragovernmental - Other Liabilities		
Reimbursement to the Dept. of Labor	\$ 31,502	\$ 33,389

Legend:

FECA – Federal Employees Compensation Act

The Department of Labor (DOL) bills the Army for FECA liability. The Army pays the liability from the Army General Fund and then distributes an estimated cost to the AWCF. The AWCF estimate is based on the actual bill due to DOL in October 2004 and paid in February 2005. The uncovered liability is for the period July 2004 through December 2005.

Non-federal Liabilities

Employment-Related Actuarial Liabilities consist of the FECA actuarial liability.

Note Reference

For additional line item discussion, see:

Note 12, Accounts Payable

Note 15, Other Liabilities

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

Note 12.	Accounts Payable
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As of December 31	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 83,481,399.69	\$ N/A	\$ 83,481,399.69	\$ 123,242,547.79
2. Nonfederal Payables (to the Public)	347,388,323.58	5,199.43	347,393,523.01	318,693,827.23
3. Total	<u>\$ 430,869,723.27</u>	<u>\$ 5,199.43</u>	<u>\$ 430,874,922.70</u>	<u>\$ 441,936,375.02</u>

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.

Fluctuations and/or Abnormalities

The Army Working Capital Fund (AWCF) Intragovernmental Payables decreased \$39.8 million, or 32 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The decrease is due to decreased activity with the Defense Logistics Agency (DLA) and the United States Transportation Command (TRANSCOM).

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 Department of the Treasury. The DoD policy is to allocate supported undistributed disbursements between intragovernmental and non-federal categories based on the percentage of each category of payables. The AWCF allocated supported undistributed disbursements based on a 24-month review of detail transactions. Unsupported undistributed disbursements are those disbursements reported at the Department of the Treasury for which no supporting voucher exists to post to the appropriate line in the accounting records.

Unsupported Undistributed Disbursements

Unsupported undistributed disbursements are recorded in United States Standard General Ledger account 2120, Disbursements in Transit. The AWCF currently has \$2.4 million in unsupported undistributed disbursements.

Intragovernmental Eliminations

The DoD summary level seller accounts receivable balances were compared to the AWCF payable balances. As a result of this comparison, adjusting entries were entered to decrease the AWCF intragovernmental payables by \$861.4 million. In addition, \$37.1 million of payables within the AWCF were eliminated from the report. For the majority of intragovernmental sales, the AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile its intragovernmental payables with its trading partners' receivables. The DoD intends to develop long-term systems improvements that will address this issue.

Note Reference

For additional line item discussion, see:
Note 1.G, Accounting for Intragovernmental Activities

Note 13.	Debt
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As of December 31	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of December 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities--				
Nonfederal				
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
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As of December 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,565,549.46
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	42,003,018.74	10,500,754.68	52,503,773.42	55,648,448.90
F. Other Liabilities	4,393,791.36	0.00	4,393,791.36	11,455,360.42
G. Total Intragovernmental Other Liabilities	\$ 46,396,810.10	\$ 10,500,754.68	\$ 56,897,564.78	\$ 69,669,358.78
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 109,244,212.01	\$ 0.00	\$ 109,244,212.01	\$ 86,150,063.61
B. Advances from Others	69,561,312.03	0.00	69,561,312.03	43,687,869.32
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(889,227.43)	0.00	(889,227.43)	(921,174.44)
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (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	88,701,635.33	0.00	88,701,635.33	76,201,974.85
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	486,995,574.45	0.00	486,995,574.45	36,218,621.98
J. Total Nonfederal Other Liabilities	\$ 753,613,506.39	\$ 0.00	\$ 753,613,506.39	\$ 241,337,355.32
3. Total Other Liabilities	\$ 800,010,316.49	\$ 10,500,754.68	\$ 810,511,071.17	\$ 311,006,714.10

Capital Lease Liability

As of December 31	2006				2005	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2006	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2007	0.00	0.00	0.00	0.00	0.00	0.00
C. 2008	0.00	0.00	0.00	0.00	0.00	0.00
D. 2009	0.00	0.00	0.00	0.00	0.00	0.00
E. 2010	0.00	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
I. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00

Fluctuations and/or Abnormalities

Intragovernmental Other Liabilities

Intragovernmental Advances from others decreased \$2.6 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 due to advances from the Army General Fund that were liquidated during FY 2005.

Intragovernmental Other Liabilities decreased \$7.1 million, or 62 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The change is a result of decreased employee benefit liabilities as reported by the Office of Personnel Management (OPM). The Army Working Capital Fund (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

Accrued Funded Payroll and Benefits increased \$23.1 million, or 27 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The increase in Accrued Funded Payroll and Benefits reflects fluctuations in personnel strengths and the number of days accrued for the payroll cycle from 1st Quarter FY 2005 to 1st Quarter FY 2006.

Non-Federal Advances from Others increased \$25.9 million, or 59 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. During 1st Quarter FY 2006, the AWCF increased workload with non-federal entities, e.g., foreign military sales and repairable orders from the public at Red River Army Depot.

Accrued Unfunded Annual Leave increased \$12.5 million, or 16 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 because Supply Management was unable to accrue leave due to system deficiencies in

prior periods. Previously, the Standard Operations Maintenance, Army Research Development System (SOMARDS) posted unfunded annual leave for the Supply Management business area to the Army General Fund. In March 2005, the Defense Finance and Accounting Service (DFAS) began posting SOMARDS data to the AWCF. Additionally, the Logistics Modernization Program (LMP) began performing the leave accrual function for Supply Management activities on LMP.

Non-Federal Other Liabilities increased \$450.8 million, or 1,245 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The increase is attributable to inventory in-transit posted by the Logistics Modernization Program (LMP). The LMP records a liability for inventory in-transit to the Communications–Electronics Command when inventory is released from the vendor and Army takes ownership. This procedure was implemented during the 4th Quarter, FY 2005. The process records an accrual in the current month and a reversal is posted at the beginning of the following month, which allows LMP to identify the proper liability for inventory in transit.

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 includes the amounts payable in October 2005 and October 2006. The non-current liability is payable in October 2007. 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 Army General Fund is responsible for the entire liability and reports it on the Army General Fund statements.

Other Liabilities: (Amounts in Thousands)

	FY 2006	FY 2005
Intragovernmental - Other Liabilities		
VSIP	\$ 0	\$ 0
CSRS, FERS, FEGLI, FEHB	4,394	11,455
Total Intragovernmental Other Liabilities	\$ 4,394	\$ 11,455
Non-Federal –Other Liabilities		
Contract Holdbacks	\$ 40,091	\$ 24,339
Employers Contributions to TSP and Taxes Payable	21,404	11,880
Contingent Liability	0	0
Liabilities for In-transit Inventory	425,501	0
Total Non-Federal Other Liabilities	\$ 486,996	\$ 36,219
Total Other Liabilities	\$ 491,390	\$ 47,674

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

Note 16.	Commitments and Contingencies
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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 financial statements.

As of 1st Quarter FY 2006, the AWCF has approximately \$733.4 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. This contingent liability and estimate is presented in the following table.

Estimate of the Possible Liability

Title of Contingent Liabilities	Estimate (in thousands)
Army Materiel Command	\$ 733

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
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As of December 31	2006				2005
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other					
A. FECA	\$ 286,523,171.16	4.53	\$ 0.00	\$ 286,523,171.16	\$ 304,976,189.04
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Other	\$ 286,523,171.16		\$ 0.00	\$ 286,523,171.16	\$ 304,976,189.04
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 286,523,171.16		\$ 0.00	\$ 286,523,171.16	\$ 304,976,189.04

Actuarial Cost Method Used:

Assumptions:

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

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

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

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

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.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of December 31	2006	2005

As of December 31	2006	2005
1. Intragovernmental Costs	\$ 101,546,732.98	\$ 725,731,278.13
2. Public Costs	3,796,861,580.35	3,106,650,967.79
3. Total Costs	\$ 3,898,408,313.33	\$ 3,832,382,245.92
4. Intragovernmental Earned Revenue	\$ (2,479,225,974.59)	\$ (2,426,078,730.88)
5. Public Earned Revenue	(1,763,307,331.71)	(1,368,149,455.10)
6. Total Earned Revenue	\$ (4,242,533,306.30)	\$ (3,794,228,185.98)
7. Net Cost of Operations	\$ (344,124,992.97)	\$ 38,154,059.94

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, 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 \$382.3 million, or 1,002 percent, between 1st Quarter FY 2005 and 1st Quarter FY 2006. This decrease is largely attributable to the following:

Intragovernmental earned revenue increased \$53.0 million, or 2 percent, between 1st Quarter FY 2005 and 1st Quarter FY 2006. This increase is primarily attributable to an increase in revenue received from the Army General Fund.

Public Earned Revenue increased \$395.2 million, or 29 percent, between 1st Quarter FY 2005 and 1st Quarter FY 2006. The increase in Public Earned Revenue is due predominantly to Supply Management inventory adjustment gains, other revenue, and gains on disposition of assets.

Other Disclosures

During FY 2004, it was discovered that inventory transactions in LMP were causing overstatement of other gains and other losses, impacting the Communication-Electronics Command (CECOM), Tobyhanna Army Depot, and other Army Materiel Command (AMC) activities. During 2nd Quarter FY 2005, as part of the LMP stabilization plan, AMC and the Defense Finance and Accounting Service (DFAS), and LMP contractor support processed journal voucher entries to correct this problem. These correcting entries created large offsetting gains and losses. The DFAS prepared adjusting entries to reduce the inventory gains and losses in order to properly reflect the current year gains and losses being reported. The total adjustment of \$5.6 billion included \$5.56 billion for CECOM and \$48.0 million for Tobyhanna Army Depot activities using LMP.

In addition, elimination balancing entries to bring the AWCF buyer-side costs into agreement with the seller-side revenues caused a reclassification of \$81.5 million from Public Gross and Net Costs to Intragovernmental Gross and Net Costs. For the majority of intragovernmental sales, the AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile its intragovernmental expenses with its trading partners' revenues. The DoD intends to develop long-term systems improvements that will address this issue.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of December 31	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 12,423,556.29	\$ 0.00	\$ 12,704,975.45	\$ 0.00
B. Civilian Health	24,872,302.00	0.00	21,624,720.00	0.00
C. Civilian Life Insurance	50,724.54	0.00	46,616.15	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 37,346,582.83	\$ 0.00	\$ 34,376,311.60	\$ 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 \$20.4 million, did not meet the materiality threshold established for financial statement reporting. These balances were reclassified to accounts that would have been affected if they had occurred in the current year.

Imputed Financing

Total Imputed Financing increased \$3.0 million, or 9 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This was due to a decrease in Civilian CSRS/FERS Retirement of \$281.4 thousand, or 2 percent; an increase in Civilian Health costs of \$3.2 million, or 15 percent; and an increase in Civilian Life Insurance of \$4.1 thousand, or 9 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 as reported to the AWCF from the Office of Personnel Management (OPM). 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 1st Quarter FY 2006, 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 All other Funds decreased \$52.9 thousand, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 because the AWCF did not receive any appropriations during the 1st Quarter FY 2006.

Transfers-in/out without reimbursement decreased \$94.1 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. In FY 2005, the AWCF received a transfer-in without reimbursement from the Defense Logistics Agency, but did not receive any transfers during the 1st Quarter FY 2006.

Other budgetary financing sources, all other funds decreased by \$19.3 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This decrease resulted from a change in accounting procedures. During the first three quarters of FY 2005, other gains and losses were reported as having a budgetary impact and recorded on the Other Budgetary Financing Sources line. The AWCF began reporting other gains and losses as having no budgetary impact during the 4th Quarter FY 2005. Other gains and losses are now reported on the Other Financing Sources Other line.

Other Financing Sources Other increased by \$45.6 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This increase resulted from a change in accounting procedures. During the first three quarters of FY 2005, other gains and losses were reported as having a budgetary impact and recorded on the Other Budgetary Financing Sources line. The AWCF began reporting other gains and losses as having no budgetary impact during 4th Quarter FY 2005. Other gains and losses are now reported on the Other Financing Sources Other line.

Unexpended Appropriations:

Appropriations used All other Funds decreased \$52.9 thousand, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006 because the AWCF did not receive any appropriations during the 1st Quarter FY 2006.

Note Reference

For additional line item discussion, see:

Note 18, Disclosures Related to the Statement of Net Cost

Note 20, Disclosures Related to the Statement of Budgetary Resources

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of December 31	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 12,145,194,298.32	\$ 11,152,096,144.30
2. Available Borrowing and Contract Authority at the End of the Period	13,021,166,792.15	6,891,783,913.38

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 1st Quarter FY 2006 is as follows: (Amounts in thousands)

Business Area	Unused Contract Authority as of December 31, 2005	Contract Authority Realized for FY 2006
Industrial Operations	\$ 117,141	\$ 10,869
Supply Management	8,322,618	3,705,364
Total AWCF	\$ 8,439,759	\$ 3,716,233

Unobligated balances from spending authority from offsetting collections (revenues earned) as of 1st Quarter FY 2006 are as follows: (Amounts in thousands)

Business Area	Earned	Change in Unfilled Orders	Anticipated	Total Spending Authority from Offsetting Collections
Industrial Operations	\$ 968,276	\$ 1,396,296	\$ 823,328	\$ 3,187,900
Supply Management	2,180,531	(253,550)	0	1,926,981
Total AWCF	\$ 3,148,807	\$ 1,142,746	\$ 823,328	\$ 5,114,881

Fluctuations and/or Abnormalities

All business activity increased from 1st Quarter FY 2005 to 1st Quarter FY 2006 due to increased reimbursable activity with the Army General Fund, as well as within the AWCF, in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Recoveries of prior year unpaid obligations decreased by \$574.6 million, or 72 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. During 2nd Quarter FY 2005, and throughout FY 2005 as part of the Logistics Modernization Program (LMP) stabilization plan, the Army Materiel Command, the Defense Finance and Accounting Service, and the LMP contractor support were doing data migration cleanup to adjust obligations and unliquidated obligations on a transactional basis. These adjustments resulted in large recoveries during FY 2005.

Contract authority increased \$6.1 billion, or 260 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. Prior to FY 2005, the net remaining contract authority was reported on the contract authority line of the statement. The Department of Defense issued reporting instructions in September 2005, which now require reporting the total contract authority on this line.

Spending authority from offsetting collections increased \$7.3 billion, or 116 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. 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 – Change in receivables from Federal sources changed by \$62.1 million, or 378 percent.

Change in unfilled customer orders – Advance received changed by \$11.7 million, or 452 percent.

Change in unfilled customer orders – Without advance from Federal sources increased by \$163.4 million, or 17 percent.

Anticipated for rest of year, without advances increased \$823.3 million, or 100 percent.

Non-expenditure transfers, net, anticipated and actual decreased \$94.1 million, or 100 percent, between 1st Quarter FY 2005 to 1st Quarter FY 2006. No budgetary authority was transferred in to or out of the AWCF during the 1st Quarter FY 2006.

Permanently not available increased by \$2.1 billion, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The amount represents contract authority replaced by

other budgetary resources throughout the year. Prior to FY 2005, the permanently not available was not reflected on the AWCF reports. The Department of Defense issued reporting instructions in FY 2005, which now require reporting.

Obligations incurred Reimbursable decreased by \$773.0 million, or 12 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This change is attributable to decreased inventory purchases in the Supply Management business area.

Unobligated Balance Apportioned increased \$4.9 billion, or 216 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This change is attributable to decreased inventory purchases in the Supply Management business area.

Obligations incurred net decreased by \$773.0 million, or 12 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This change is attributable to decreased inventory purchases in the Supply Management business area.

Change in uncollected customer payments from Federal sources decreased \$225.5 million, or 24 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This change is largely attributable to a reduction in unfilled customer orders without advances in the Supply Management business area.

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.

The AWCF had \$3.7 billion reimbursable obligations for apportionment category B and \$1.9 billion obligations exempt from apportionment.

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. The Army Materiel Command believes that the majority of these overstatements were corrected during FY 2005.

Note Reference

For additional line item discussion, see:

Note 1, Significant Accounting Policies

Note 5, Accounts Receivable

Note 12, Accounts Payable

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

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

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

The Army Working Capital Fund'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 \$122.9 million to bring the statements into agreement. The differences between budgetary and proprietary data for the AWCF were reported as material weaknesses in the FY 2005 AWCF annual financial statement report.

Fluctuations and/or Abnormalities

Obligations incurred decreased by \$773.0 million, or 12 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This change is attributable to decreased inventory purchases in the Supply Management business area.

Other Financing Sources Other increased by \$45.6 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This increase resulted from a change in accounting procedures. During the first three quarters of FY 2005, non-exchange gains and losses were not reported on the Statement of Financing. In 4th Quarter FY 2005, the presentation of this line was changed to include non-exchange gains and losses.

Change in Undelivered Orders decreased \$521.8 million, or 20 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This reflects the increased delivery of items ordered in prior years in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Change in Unfilled Customer Orders increased by \$175.1 million, or 18 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This reflects the increased order volume in support of the contingency missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Resources that finance the Acquisition of Assets increased \$491.8 million, or 31 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This increase is primarily due to the receipt of previously ordered inventory which will be used to fill customer orders.

Other Resources or Adjustments to Net Obligated Resources – Other decreased by \$45.6 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. This decrease resulted from a change in accounting procedures. During the first three quarters of FY 2005, non-exchange gains and losses were not reported on the Statement of

Financing. In 4th Quarter FY 2005, the presentation of this line was changed to include non-exchange gains and losses.

Components Requiring or Generating Resources in Future Period – Increase in annual leave liability decreased by \$15.6 million, or 94 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The Supply Management activities previously reported the annual leave liability in the Army General Fund financial statements but began reporting in the AWCF financial statements during the 2nd Quarter FY 2005.

Components Requiring or Generating Resources in Future Period – Increase in exchange revenue receivable from the public decreased by \$13.0 million, or 100 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. No value appears on this line because there was not an increase in exchange revenue from the public.

Revaluation of Assets or Liabilities increased by \$54.7 million, or 24 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. During FY 2005, the AWCF off-set inventory-related gains and losses to more accurately reflect the revaluation amounts. This practice was discontinued in 1st Quarter FY 2006.

Other Other changed by \$46.2 million, or 66 percent, from 1st Quarter FY 2005 to 1st Quarter FY 2006. The change is attributable to the Department of the Treasury regulations requiring posting to a cost capitalization offset account. The AWCF implemented this accounting procedure in 2nd Quarter FY 2005.

Other disclosures

None

Note Reference

For Additional Line Item discussion, see:

Note 10, General PP&E

Note 11, Liabilities Not Covered by Budgetary Resources

Note 18, Disclosures Related to the Statement of Net Cost

Note 20, Disclosures Related to the Statement of Budgetary Resources

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

Note 23.	Earmarked Funds
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BALANCE SHEET As of December 31				
	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds

ASSETS

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

LIABILITIES and NET POSITION

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

STATEMENT OF NET COST

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

STATEMENT OF CHANGES IN NET POSITION

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

Not applicable.

Note 24.	Other Disclosures
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As of December 31	2006			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due
Fiscal Year

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

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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Not applicable.