

**Department of Defense**  
**Army Working Capital Fund**  
**CONSOLIDATED BALANCE SHEET**  
**As of March 31, 2006 and 2005**

	<u>2006 Consolidated</u>	<u>2005 Consolidated</u>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 129,502,164.73	\$ 644,246,127.79
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other		0.00
2. Investments (Note 4)	0.00	0.00
3. Accounts Receivable (Note 5)	558,404,777.46	513,305,617.44
4. Other Assets (Note 6)	8,273,553.38	0.00
5. Total Intragovernmental Assets	<u>\$ 696,180,495.57</u>	<u>\$ 1,157,551,745.23</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	16,364,438.55	17,802,177.17
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	17,187,822,587.67	15,225,341,628.97
F. General Property, Plant and Equipment (Note 10)	1,202,516,682.74	1,240,283,341.24
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	378,213,584.00	304,861,096.09
<b>2. TOTAL ASSETS</b>	<u><u>\$ 19,481,097,788.53</u></u>	<u><u>\$ 17,945,839,988.70</u></u>
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 96,614,469.64	\$ 139,044,696.59
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	66,974,761.90	74,144,050.20
4. Total Intragovernmental Liabilities	<u>\$ 163,589,231.54</u>	<u>\$ 213,188,746.79</u>
B. Accounts Payable (Note 12)	\$ 487,097,877.39	\$ 321,349,109.60
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	286,523,171.16	304,976,189.04
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	773,954,018.54	246,459,489.32
<b>4. TOTAL LIABILITIES</b>	<u><u>\$ 1,711,164,298.63</u></u>	<u><u>\$ 1,085,973,534.75</u></u>
<b>5. NET POSITION</b>		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	32,010,498.00	54,925.96
C. Cumulative Results of Operations - Earmarked Funds	0.00	0.00
D. Cumulative Results of Operations - Other Funds	17,737,922,991.90	16,859,811,527.99
<b>6. TOTAL NET POSITION</b>	<u><u>\$ 17,769,933,489.90</u></u>	<u><u>\$ 16,859,866,453.95</u></u>
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 19,481,097,788.53</u></u>	<u><u>\$ 17,945,839,988.70</u></u>

Department of Defense  
 Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF NET COST**  
 For the periods ended March 31, 2006 and 2005

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 8,031,581,712.48	\$ 5,619,988,377.41
B. (Less: Earned Revenue)	(8,612,917,093.14)	(7,448,901,495.37)
C. Net Program Costs	<u>\$ (581,335,380.66)</u>	<u>\$ (1,828,913,117.96)</u>
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	<u><u>\$ (581,335,380.66)</u></u>	<u><u>\$ (1,828,913,117.96)</u></u>

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 17,091,034,493.69	\$ 15,370,833,547.07
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	<u>17,091,034,493.69</u>	<u>15,370,833,547.07</u>
<b>4. Budgetary Financing Sources:</b>		
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	74,510,502.00	(2,072.98)
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	(502,988,265.46)
<b>5. Other Financing Sources:</b>		
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 (+/-)	(297,308.00)	0.00
5.C. Imputed financing from costs absorbed by others	75,382,181.30	68,927,201.40
5.D. Other (+/-)	(84,042,257.75)	0.00
<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	65,553,117.55	(339,935,137.04)
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds	(581,335,380.66)	(1,828,913,117.96)
<b>8. Net Change</b>		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	646,888,498.21	1,488,977,980.92
<b>9. Ending Balances</b>		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	17,737,922,991.90	16,859,811,527.99

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
<b>10. Total all funds</b>	\$ <u>17,737,922,991.90</u>	\$ <u>16,859,811,527.99</u>

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 52,852.98
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	0.00	52,852.98
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	106,521,000.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	(74,510,502.00)	2,072.98
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
<b>5. Other Financing Sources:</b>		
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
<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	32,010,498.00	2,072.98
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
<b>8. Net Change</b>		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	32,010,498.00	2,072.98
<b>9. Ending Balances</b>		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	32,010,498.00	54,925.96

Department of Defense  
Army Working Capital Fund  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>32,010,498.00</u>	\$ <u>54,925.96</u>

Department of Defense  
Army Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended March 31, 2006 and 2005

	<u>2006 Combined</u>	<u>2005 Combined</u>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 1,176,499,262.52	\$ 1,530,240,925.28
2. Recoveries of prior year unpaid obligations	788,447,909.26	1,029,606,628.27
3. Budget authority		
3.A. Appropriation	106,521,000.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	9,200,166,402.91	2,164,701,382.88
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	6,402,966,989.46	6,179,965,184.32
3.D.1.b. Change in receivables from Federal sources	205,534,864.11	107,971,509.59
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	20,387,921.94	10,536,320.14
3.D.2.b. Without advance from Federal sources	1,352,544,064.90	937,275,067.85
3.D.3. Anticipated for rest of year, without advances	1,266,713,010.44	1,535,148,167.31
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>18,554,834,253.76</u>	<u>10,935,597,632.09</u>
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	(4,758,374,253.76)	0.00
<b>7. Total Budgetary Resources</b>	<u><u>\$ 15,761,407,171.78</u></u>	<u><u>\$ 13,589,573,185.64</u></u>

Department of Defense  
Army Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended March 31, 2006 and 2005

	2006 Combined	2005 Combined
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 0.00	\$ 0.00
8.B. Reimbursable	10,062,281,647.58	9,659,302,238.07
8.C. Subtotal	<u>10,062,281,647.58</u>	<u>9,659,302,238.07</u>
9. Unobligated balance:		
9.A. Apportioned	5,699,125,524.20	3,930,270,947.57
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>5,699,125,524.20</u>	<u>3,930,270,947.57</u>
10. Unobligated balance not available	0.00	0.00
<b>11. Total status of budgetary resources</b>	<u>\$ 15,761,407,171.78</u>	<u>\$ 13,589,573,185.64</u>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	10,331,508,447.06	8,953,394,819.82
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ (4,181,756,579.12)</u>	<u>\$ (4,985,315,041.54)</u>
12.C. Total unpaid obligated balance	6,149,751,867.94	3,968,079,778.28
13. Obligations incurred net (+/-)	<u>\$ 10,062,281,647.58</u>	<u>\$ 9,659,302,238.07</u>
14. Less: Gross outlays	(7,023,704,264.81)	(6,588,846,807.83)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(788,447,909.26)</u>	<u>(1,029,606,628.27)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(1,558,078,929.01)	(1,045,246,577.44)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	12,581,637,920.57	10,994,243,621.79
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(5,739,835,508.13)</u>	<u>(6,030,561,618.98)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>6,841,802,412.44</u>	<u>4,963,682,002.81</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	7,023,704,264.81	6,588,846,807.83
19.B. Less: Offsetting collections	(6,423,354,911.40)	(6,190,501,504.46)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
<b>19.D. Net Outlays</b>	<u>\$ 600,349,353.41</u>	<u>\$ 398,345,303.37</u>



Department of Defense  
 Army Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended March 31, 2006 and 2005

	<u>2006 Combined</u>	<u>2005 Combined</u>
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
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	<u>0.00</u>	<u>0.00</u>
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
<b>7. Total Budgetary Resources</b>	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

Department of Defense  
Army Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended March 31, 2006 and 2005

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

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF FINANCING**  
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
	<hr/>	<hr/>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 10,062,281,647.58	\$ 9,659,302,238.07
2. Less: Spending authority from offsetting collections and recoveries (-)	(8,769,881,749.67)	(8,265,354,710.17)
3. Obligations net of offsetting collections and recoveries	1,292,399,897.91	1,393,947,527.90
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	<hr/> 1,292,399,897.91	<hr/> 1,393,947,527.90
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(297,308.00)	0.00
8. Imputed financing from costs absorbed by others	75,382,181.30	68,927,201.40
9. Other (+/-)	(84,042,257.75)	0.00
10. Net other resources used to finance activities	<hr/> (8,957,384.45)	<hr/> 68,927,201.40
<b>11. Total resources used to finance activities</b>	<hr/> <b>\$ 1,283,442,513.46</b>	<hr/> <b>\$ 1,462,874,729.30</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(1,614,446,804.71)	(2,095,981,491.93)
12b. Unfilled Customer Orders	1,372,931,986.84	947,811,387.99
13. Resources that fund expenses recognized in prior periods	(13,183,724.58)	(11,129,690.33)
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	(4,998,068,742.23)	(4,146,254,418.79)
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 (+/-)	84,339,565.75	0.00
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<hr/> <b>\$ (5,168,427,718.93)</b>	<hr/> <b>\$ (5,305,554,213.06)</b>
<b>18. Total resources used to finance the net cost of operations</b>	<hr/> <b>\$ (3,884,985,205.47)</b>	<hr/> <b>\$ (3,842,679,483.76)</b>

Department of Defense  
Army Working Capital Fund  
**CONSOLIDATED STATEMENT OF FINANCING**  
For the periods ended March 31, 2006 and 2005

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
	<hr/>	<hr/>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	144,620.55	21,329,592.59
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 144,620.55	<hr/> 21,329,592.59
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	45,559,192.17	34,625,645.06
26. Revaluation of assets or liabilities (+/-)	633,265,726.00	(569,492,202.00)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	2,871,213,058.98	2,764,599,908.45
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(246,532,772.89)	(237,296,578.30)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 3,303,505,204.26	<hr/> 1,992,436,773.21
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<hr/> \$ 3,303,649,824.81	<hr/> \$ 2,013,766,365.80
<b>30. Net Cost of Operations</b>	<hr/> <hr/> \$ (581,335,380.66)	<hr/> <hr/> \$ (1,828,913,117.96)

<b>Note 1.</b>	<b>Significant Accounting Policies</b>
----------------	--

**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 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 GAAP. As a result, the AWCF cannot currently implement every aspect of 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. As of year-end FY 2005, the AWCF has eight auditor identified financial statement material weaknesses: (1) financial management systems and processes, (2) inventory, (3) general property, plant, and equipment, (4) intragovernmental transactions and eliminations, (5) accounting adjustments, (6) accounts payable, (7) Statement of Net Cost, and (8) Statement of Financing.

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

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

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

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

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

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

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

The AWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. For FY 2006, 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 Industrial Operations activities recognize revenue according to the percentage of completion method. Supply Management activities recognize 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.

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 AWCF cannot accurately identify all intragovernmental transactions by its related components or activities because the AWCF systems do not track buyer and seller data needed to match related transactions. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of 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 DoD and AWCF are developing long-term system improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that



after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

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

The 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 Department of the Treasury accounts maintain the AWCF monetary financial resources. 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, per Code of Federal Regulations 4 CFR 101. Material disclosures are provided in Note 5, Accounts Receivable.

**1.L. Loans Receivable**

Not applicable.

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

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

allow the AWCF to comply with SFFAS No. 3. (See Note 9, Inventory and Related Property)

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

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

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

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

Not applicable.

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

General Property, Plant & Equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100 thousand. Also, improvement costs over the DoD capitalization threshold of \$100 thousand 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. The AWCF recognizes advances and prepayments as expenses when it receives the related goods and services.

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

Not applicable.

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

The AWCF conducts business with commercial contractors under two primary types of contracts--fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, 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-progress 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," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the AWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. The AWCF recognizes

contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

#### **1.T. Accrued Leave**

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 accounting period reflects the current pay rates.

#### **1.U. Net Position**

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

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

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

Not applicable.

#### **1.W. Comparative Data**

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations as of the end of the 2nd Quarter, FY 2006. Financial statement fluctuations greater than two percent of total assets on the Balance Sheet and/or greater than ten percent between 2nd Quarter, FY 2005 and 2nd Quarter, FY 2006 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 Department of the Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. In-transit payments are those payments that have been made to other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

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

### **1.Z. Logistics Modernization Program**

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

<b>Note 2.</b>	<b>Nonentity Assets</b>
----------------	-------------------------

As of March 31	2006	2005
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
<b>3. Total Nonentity Assets</b>	\$ 0.00	\$ 0.00
<b>4. Total Entity Assets</b>	\$ 19,481,097,788.53	\$ 17,945,839,988.70
<b>5. Total Assets</b>	\$ 19,481,097,788.53	\$ 17,945,839,988.70

Assets are categorized as:

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

**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

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
----------------	-----------------------------------

As of March 31	2006	2005
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	129,502,164.73	644,246,127.79
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	\$ 129,502,164.73	\$ 644,246,127.79
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 129,502,164.73	\$ 644,246,127.79
B. Fund Balance per AWCF	129,502,164.73	644,246,127.79
<b>3. Reconciling Amount</b>	\$ 0.00	\$ 0.00

**Fluctuations and/or Abnormalities**

Revolving funds decreased \$514.7 million, or 80 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The Army Working Capital Fund (AWCF) began FY 2006 with a fund balance of \$623.3 million. The majority of the decrease occurred from 4th Quarter, FY 2005 to 2nd Quarter, FY 2006 as cash disbursements exceeded collections by \$336.6 million in the Industrial Operations business area and by \$263.7 million in the Supply Management business area. The reduction in fund balance was part of an AWCF planned reduction facilitated through FY 2006 budgeted rates. The increase in disbursements over collections is attributable to increased inventory purchases in both business areas. In addition, in FY 2006, the AWCF received a warrant for \$106.5 million in accordance with DoD Appropriation Act, 2006, P.L. 109-148, 119 STAT 2680. The AWCF distributed \$42.5 million for war reserves and Army combat uniforms to the Supply Management business area and \$64 million to the Industrial Operations business area for industrial mobilization capacity.

**Other disclosures**

The AWCF increased field-reported data by \$245.4 thousand to agree with the Fund Balance With Treasury (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 March 31, 2006.

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 March 31, 2006.



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, Significant Accounting Policies

## Status of Fund Balance with Treasury

As of March 31	2006	2005
<b>1. Unobligated Balance</b>		
A. Available	\$ 4,432,412,513.76	\$ 2,395,122,780.26
B. Unavailable	0.00	0.00
<b>2. Obligated Balance not yet Disbursed</b>	\$ 12,581,637,920.57	\$ (1,750,876,652.47)
<b>3. Nonbudgetary FBWT</b>	\$ 0.00	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (16,884,548,269.60)	\$ 0.00
<b>5. Total</b>	\$ 129,502,164.73	\$ 644,246,127.79

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

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

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

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

The Non-FBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority and investment accounts. This category reduces the Status of Fund Balance with Treasury.

### Fluctuations and/or Abnormalities

Unobligated balance available increased \$2 billion, or 85 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This change is attributable to decreased obligations for inventory replacement primarily in the Supply Management business area. Obligations in previous years contribute to current period inventory increases on the balance sheet. Because of the increased inventory levels, the AWCFF did not need to obligate funds for additional inventory purchases during this reporting period.

The obligated balance not yet disbursed increased \$14.3 billion, or 819 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This increase 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 decreased \$16.9 billion, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This decrease is largely 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.

**Note Reference**

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

**Disclosures Related to Suspense/Budget Clearing Accounts**

As of March 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
<b>Account</b>				
F3875 – Disbursing Officer Suspense	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
<b>Total</b>	<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 the Department of the Treasury appropriation.

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

As of March 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDs)	\$ 26,560,000.00	\$ 14,818,345.35	\$ 7,062,583.43	(7,755,761.92)
B. Negative Unliquidated Obligations (NULO)	5,440,000.00	3,687,185.49	3,948,452.23	261,266.74
<b>2. Total In-transit Disbursements, Net</b>	\$ 206,706,000.00	\$ 248,966,601.59	\$ 121,442,553.87	(127,524,047.72)

**Definitions:**

An unmatched disbursement (UMD) occurs when a payment does not match to a corresponding obligation in the accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

A negative unliquidated obligation (NULO) occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

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

**Aged UMDs and NULOs:**

The Army absolute value UMDs, NULOs, and \$389.1 thousand in aged in-transit disbursements represent problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30-day aging category. After 30 days, they are 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.

<b>Note 4.</b>	<b>Investments and Related Interest</b>
----------------	---

As of March 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
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
<b>2. Other Investments</b>					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of March 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>3. Intragovernmental Securities</b>					
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
<b>4. Other Investments</b>					
A. Total Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Not applicable.

**Note 5. Accounts Receivable**

As of March 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 558,404,777.46	N/A	\$ 558,404,777.46	\$ 513,305,617.44
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 23,061,673.05	\$ (6,697,234.50)	\$ 16,364,438.55	\$ 17,802,177.17
<b>3. Total Accounts Receivable</b>	\$ 581,466,450.51	\$ (6,697,234.50)	\$ 574,769,216.01	\$ 531,107,794.61

**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 2nd Quarter, FY 2006.

<b>Aged Accounts Receivable Groups (Amounts in thousands)</b>		
<b>Category</b>	<b>Intragovernmental</b>	<b>Nonfederal</b>
<b>Nondelinquent</b>		
Current	\$614,850	\$12,885
Noncurrent	-	-
<b>Delinquent</b>		
1 to 30 days	1,449	88
31 to 60 days	702	537
61 to 90 days	3,001	1
91 to 180 days	1,937	123
181 days to 1 year	143	61
Greater than 1 year and less than or equal to 2 years	4,161	3,717
Greater than 2 years and less than or equal to 6 years	289	460
Greater than 6 years and less than 10 years	-	1,057
Greater than 10 years	-	4,133
<b>Subtotal</b>	\$626,532	\$23,062
Less Supported Undistributed Collections	-	-
Less Eliminations	67,229	-
Less Other	898	-
<b>Total Gross Amount Due</b>	\$558,405	\$23,062

## **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 \$898.2 thousand in the 2nd Quarter, FY 2006 and eliminations totaled \$67.2 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. 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 \$4 million in disputed billings and \$1.6 million from bankrupt debtors. Further, \$1.2 million has been referred to the Department of the Treasury for collection and \$2.9 million has been referred to the Department of Justice for legal action. Delinquent public debt from out of service employees amounted to \$80.2 thousand and contractor debt totaled \$215.6 thousand in the 2nd Quarter, FY 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 2nd Quarter FY 2006, AWCF reported non-federal refunds receivable of \$10.7 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 2nd Quarter, FY 2006, the AWCF reported unsupported undistributed collections of \$898.2 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, Significant Accounting Policies  
Note 12, Accounts Payable  
Note 15, Other Liabilities

<b>Note 6.</b>	<b>Other Assets</b>
----------------	---------------------

As of March 31	2006	2005
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 8,273,553.38	\$ 0.00
B. Total Intragovernmental Other Assets	\$ 8,273,553.38	\$ 0.00
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 378,153,060.54	\$ 302,789,882.36
B. Other Assets (With the Public)	60,523.46	2,071,213.73
C. Total Nonfederal Other Assets	\$ 378,213,584.00	\$ 304,861,096.09
<b>3. Total Other Assets</b>	<b>\$ 386,487,137.38</b>	<b>\$ 304,861,096.09</b>

### Fluctuations and/or Abnormalities

Intragovernmental advances and prepayments increased by \$8.3 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. In 2nd Quarter, FY 2006, the Defense Reutilization and Marketing Office (DRMO) reported \$8.3 million of unearned revenue attributed to the Army Working Capital Fund (AWCF). The increase in unearned revenue reported by DRMO is for task orders issued by DRMO to contractors for anticipated hazardous waste removal work in the Supply Management business area. This account balance is dictated by trading partner seller-side rules, therefore the AWCF must report \$8.3 million as an advance.

Outstanding Contract Financing Payments increased \$75.4 million, or 25 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This increase is attributable to payments made to Raytheon Corporation by the Communications—Electronics Command for vehicle power conditioners, vehicle integration kits, offset stovepipes, and delta integration kits.

Other assets (with the public) decreased \$2 million, or 97 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. In January 2006, the Aviation Missile Command conducted a contract reconciliation, which resulted in a \$2 million progress payment reduction.

Intragovernmental other assets reflects \$21.8 million in elimination entries leaving an \$8.3 million balance.

### Note Reference

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

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
----------------	---------------------------------------

As of March 31	2006	2005
<b>1. Cash</b>	\$ 0.00	\$ 0.00
<b>2. Foreign Currency</b>	0.00	0.00
<b>3. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$ 0.00	\$ 0.00

<b>Note 8.</b>	<b>Direct Loan and/or Loan Guarantee Programs</b>
----------------	---

As of March 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 March 31	2006	2005
<b>Loan Programs</b>		
<b>1. Military Housing Privatization Initiative</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>2. Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Total Amount of Direct Loans Disbursed</b>
---

As of March 31	2006	2005
<b>Direct Loan Programs</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
<b>2. Total</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

## Subsidy Expense for Post FY 1991 Direct Loan

As of March 31

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

## Subsidy Rate for Direct Loans

As of March 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
<b>Direct Loan Programs</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%



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

As of March 31	2006		2005	
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$	0.00	\$	0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>				
A. Interest Rate Differential Costs	\$	0.00	\$	0.00
B. Default Costs (Net of Recoveries)		0.00		0.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$	0.00	\$	0.00
<b>3. Adjustments</b>				
A. Loan Modifications	\$	0.00	\$	0.00
B. Fees Received		0.00		0.00
C. Foreclosed Property Acquired		0.00		0.00
D. Loans Written Off		0.00		0.00
E. Subsidy Allowance Amortization		0.00		0.00
F. Other		0.00		0.00
<b>G. Total of the above Adjustment Components</b>	\$	0.00	\$	0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$	0.00	\$	0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>				
A. Interest Rate Re-estimate	\$	0.00	\$	0.00
B. Technical/Default Reestimate		0.00		0.00
<b>C. Total of the above Reestimate Components</b>	\$	0.00	\$	0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$	0.00	\$	0.00

**Defaulted Guaranteed Loans from Post FY 1991 Guarantees**

As of March 31	2006		2005	
<b>Loan Guarantee Program(s)</b>				
<b>1. Military Housing Privatization Initiative</b>				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0.00	\$	0.00
<b>2. Armament Retooling &amp; Manufacturing Support Initiative</b>				
A. Defaulted Guaranteed Loans Receivable, Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$	0.00	\$	0.00
<b>3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>				
	\$	0.00	\$	0.00

## Guaranteed Loans Outstanding

As of March 31	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2006</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2005</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Liabilities for Post FY 1991 Loan Guarantees, Present Value**

As of March 31	2006	2005
<b>Loan Guarantee Program(s)</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post FY 1991 Loan Guarantees

As of March 31

2006	Interest Differential	Defaults	Fees	Other	Total
<b>1. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2005	Interest Differential	Defaults	Fees	Other	Total
<b>2. New Loan Guarantees Disbursed:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>3. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
<b>4. Modifications and Reestimates:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006	2005				
<b>5. Total Loan Guarantee:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>			

## Subsidy Rates for Loan Guarantees

As of March 31	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Loan Guarantee Programs:</b>					
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%

<b>Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees</b>
--

As of March 31	2006	2005
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>3. Adjustments</b>		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	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
<b>H. Total of the above Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>4. Ending Balance of the Loan Guarantee Liability before Reestimates</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>5. Add or Subtract Subsidy Reestimates by Component</b>		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
<b>C. Total of the above Reestimate Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Army Working Capital Fund

**Administrative Expenses**



<b>Note 9.</b>	<b>Inventory and Related Property</b>
----------------	---------------------------------------

As of March 31	2006	2005
1. Inventory, Net	\$ 17,187,822,587.67	\$ 15,225,341,628.97
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 17,187,822,587.67</b>	<b>\$ 15,225,341,628.97</b>

<b>Inventory, Net</b>
-----------------------

As of March 31	2006			2005	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
<b>1. Inventory Categories</b>					
A. Available and Purchased for Resale	\$ 19,021,516,914.39	\$ (4,785,679,973.40)	14,235,836,940.99	\$ 12,407,507,681.11	LAC,MAC
B. Held for Repair	4,385,212,752.66	(1,472,910,243.20)	2,912,302,509.46	2,789,116,406.50	LAC,MAC
C. Excess, Obsolete, and Unserviceable	529,512,436.61	(529,512,436.61)	0.00	0.00	NRV
D. Raw Materials	39,683,137.22	0.00	39,683,137.22	28,552,365.95	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	165,175.41	AC
<b>F. Total</b>	<b>\$ 23,975,925,240.88</b>	<b>\$ (6,788,102,653.21)</b>	<b>17,187,822,587.67</b>	<b>\$ 15,225,341,628.97</b>	

## Legend for Valuation Methods:

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

NRV = Net Realizable Value  
 O = Other  
 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 2005.

## **Fluctuations/Abnormalities**

Total inventory increased \$2 billion, or 13 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This increase is detailed in the paragraphs below.

The Inventory Available and Purchased for Resale increased \$1.8 billion, or 15 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The increase is attributable to increased war-time inventory requirements for increased stockage levels in FY 2006. Since FY 2003, the Supply Management business area has been authorized to augment inventory of an additional \$1.1 billion.

Raw Materials increased \$11.1 million, or 39 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The entire raw materials increase occurred at Tobyhanna Army Depot. The depot received increased orders of \$69 million between 2nd Quarter, FY 2005 and 2nd Quarter, FY 2006. Tobyhanna Army Depot's fabrication orders, which are usually more material-intensive orders, increased to 24 percent of total orders from 17 percent of total orders in FY 2005. Additionally, Tobyhanna Army Depot is working to improve the reconciliation processes between the financial and logistical reporting systems, which may have caused an overstock of raw materials.

Work in Process decreased \$165 thousand, or 100 percent, from 2nd Quarter, FY 2005 to 2nd 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 \$3.8 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 March 31	2006			2005		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
<b>1. OM&amp;S Categories</b>						
A. Held for Use	\$ 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
<b>D. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	

**Legend for Valuation Methods:**

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

NRV = Net Realizable Value  
 O = Other

## Stockpile Materials, Net

As of March 31	2006			2005		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
<b>1. Stockpile Materials Categories</b>						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		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 March 31	2006					2005	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
<b>1. Major Asset Classes</b>							
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00	\$ 0.00	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	2,184,533,007.41	\$ (1,403,419,918.17)	781,113,089.24	835,368,442.18	
C. Leasehold Improvements	S/L	lease term	95,213,296.87	(77,679,305.82)	17,533,991.05	20,228,545.43	
D. Software	S/L	2-5 Or 10	362,789,882.82	(295,362,374.67)	67,427,508.15	88,507,158.49	
E. General Equipment	S/L	5 or 10	1,537,388,375.36	(1,261,200,385.05)	276,187,990.31	262,006,908.54	
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	60,254,103.99	N/A	60,254,103.99	34,172,286.60	
I. Other			0.00	0.00	0.00	0.00	
J. Total General PP&E			<u>\$ 4,240,178,666.45</u>	<u>\$ (3,037,661,983.71)</u>	<u>\$ 1,202,516,682.74</u>	<u>\$ 1,240,283,341.24</u>	

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

Legend for Valuation Methods:

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

**Fluctuations and/or Abnormalities**

**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. The Army Working Capital Fund (AWCF) records improvements made on these facilities as leasehold improvements. The decrease of \$2.7 million, or 13 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 is due to additional depreciation recorded.

**Software**

Software decreased \$21.1 million, or 24 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The majority of the change is attributable to depreciation.

**Construction in Progress**

Construction in Progress increased by \$26.1 million, or 76 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The majority of the increase is attributable to projects at Tobyhanna Army Depot, Sierra Army Depot, and Anniston Army Depot. The projects at Tobyhanna Army Depot include a rain test facility, a dust collector, and a fire finder probe. The projects at Sierra Army Depot include fire sprinkler systems installations and heat and insulation upgrades. The projects at Anniston Army Depot include facilities upgrades and building expansions.

**Note Reference**

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



<b>Assets Under Capital Lease</b>
-----------------------------------

As of March 31	2006		2005
<b>1. Entity as Lessee, Assets Under Capital Lease</b>			
A. Land and Buildings	\$ 0.00	\$	0.00
B. Equipment	0.00		0.00
C. Accumulated Amortization	0.00		0.00
D. Total Capital Leases	\$ 0.00	\$	0.00

Other Information:

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

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
-----------------	---

As of March 31	2006	2005
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	36,752,641.39	38,953,914.23
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 36,752,641.39</b>	<b>\$ 38,953,914.23</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	286,523,171.16	304,976,189.04
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	88,188,499.95
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 286,523,171.16</b>	<b>\$ 393,164,688.99</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 323,275,812.55</b>	<b>\$ 432,118,603.22</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 1,387,888,486.08</b>	<b>\$ 653,854,931.53</b>
<b>5. Total Liabilities</b>	<b>\$ 1,711,164,298.63</b>	<b>\$ 1,085,973,534.75</b>

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 \$88.2 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. During 2nd Quarter, FY 2005, the Army Working Capital Fund (AWCF) reported annual leave as a not covered by budgetary resources liability due to systems reporting limitations. In 4th Quarter, FY 2005, these reporting limitations were resolved and the liability is properly reported as unfunded covered by budgetary resources. The AWCF accrues annual leave liability when it is earned, but does not obligate until it is used. Therefore, the liability is reported as an unfunded liability covered by budgetary resources.

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

	2006	2005
<b>Intragovernmental - Other Liabilities</b>		
Reimbursement to the Dept. of Labor	\$ 36,753	\$ 38,954

The Department of Labor (DOL) bills the Army for the Federal Employees Compensation Act (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 current liability covers the period July 2003 through March 2006.

### 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

<b>Note 12.</b>	<b>Accounts Payable</b>
-----------------	-------------------------

As of March 31	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 96,614,469.64	\$ N/A	\$ 96,614,469.64	\$ 139,044,696.59
2. Nonfederal Payables (to the Public)	487,090,339.46	7,537.93	487,097,877.39	321,349,109.60
<b>3. Total</b>	<u>\$ 583,704,809.10</u>	<u>\$ 7,537.93</u>	<u>\$ 583,712,347.03</u>	<u>\$ 460,393,806.19</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.

Nonfederal Payables (to the Public) - payables for debts owed to individuals and entities outside the Federal Government.

**Fluctuations and/or Abnormalities**

Intragovernmental payables decreased \$42.4 million, or 31 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The Army Working Capital Fund (AWCF) conducted less business with several trading partners, such as the Defense Logistics Agency (DLA) and the Department of the Navy, since the 2nd Quarter, FY 2005. Additionally, since the 2nd Quarter, FY 2005, the AWCF paid DLA over-ocean transportation bills more quickly.

Nonfederal payables increased \$165.7 million, or 52 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The AWCF received increased inventory deliveries in both the Industrial Operations and Supply Management business areas and increased contractor support in the Industrial Operations business area. The increased deliveries and support resulted in an increase to nonfederal payables.

**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 nonfederal 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 \$2.7 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 the AWCF decreased intragovernmental payables by \$214.4 million and increased nonfederal payables by the same amount. In addition, \$67.2 million of payables between the AWCF business areas 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, Significant Accounting Policies

<b>Note 13.</b>	<b>Debt</b>
-----------------	-------------

As of March 31	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
<b>1. Agency Debt (Intragovernmental)</b>					
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
<b>2. Total Debt</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not applicable.

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
-----------------	---

As of March 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities--</b>				
<b>Nonfederal</b>				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)				
\$	0.00	\$	0.00	\$
			0.00	\$
	0.00		0.00	0.00
2. Active Installations—Military Munitions Response Program (MMRP)				
	0.00		0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR				
	0.00		0.00	0.00
4. Formerly Used Defense Sites--MMRP				
	0.00		0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action				
	0.00		0.00	0.00
2. Environmental Closure Requirements				
	0.00		0.00	0.00
3. Environmental Response at Operational Ranges				
	0.00		0.00	0.00
4. Other				
	0.00		0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program				
	0.00		0.00	0.00
2. Military Munitions Response Program				
	0.00		0.00	0.00
3. Environmental Corrective Action / Closure Requirements				
	0.00		0.00	0.00
4. Other				
	0.00		0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers				
	0.00		0.00	0.00
2. Nuclear Powered Submarines				
	0.00		0.00	0.00
3. Other Nuclear Powered Ships				
	0.00		0.00	0.00
4. Other National Defense Weapons Systems				
	0.00		0.00	0.00
5. Chemical Weapons Disposal Program				
	0.00		0.00	0.00
6. Other				
	0.00		0.00	0.00
<b>2. Total Environmental Liabilities</b>				
\$	0.00	\$	0.00	\$
			0.00	\$
				0.00

## Environmental Disclosures

As of March 31	2006	2005
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	0.00	0.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00



<b>Note 15.</b>	<b>Other Liabilities</b>
-----------------	--------------------------

As of March 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,355,539.77
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	31,502,264.05	26,251,886.71	57,754,150.76	61,213,293.79
F. Other Liabilities	9,220,611.14	0.00	9,220,611.14	7,575,216.64
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 40,722,875.19</b>	<b>\$ 26,251,886.71</b>	<b>\$ 66,974,761.90</b>	<b>\$ 74,144,050.20</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 89,387,639.00	\$ 0.00	\$ 89,387,639.00	\$ 78,318,905.72
B. Advances from Others	66,717,617.13	0.00	66,717,617.13	49,172,338.91
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(898,244.63)	0.00	(898,244.63)	(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
G. Accrued Unfunded Annual Leave	93,218,119.13	0.00	93,218,119.13	88,188,499.95
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	525,528,887.91	0.00	525,528,887.91	31,700,919.18
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 773,954,018.54</b>	<b>\$ 0.00</b>	<b>\$ 773,954,018.54</b>	<b>\$ 246,459,489.32</b>
<b>3. Total Other Liabilities</b>	<b>\$ 814,676,893.73</b>	<b>\$ 26,251,886.71</b>	<b>\$ 840,928,780.44</b>	<b>\$ 320,603,539.52</b>

## Capital Lease Liability

As of March 31	2006				2005	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
<b>1. Future Payments Due</b>						
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. 2011	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	\$ 0.00
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 0.00	\$ 0.00	\$ 0.00

### Fluctuations and/or Abnormalities

#### Intragovernmental Other Liabilities

Intragovernmental Advances from others decreased \$5.4 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The Army Working Capital Fund (AWCF) trading partners did not recognize advances to the AWCF. Therefore, the AWCF eliminated these amounts during the reconciliation process. This procedure was not in place until 1st Quarter, FY 2006.

Intragovernmental Other Liabilities increased \$1.6 million, or 22 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The change is a result of increased employee benefit liabilities as reported by the Office of Personnel Management (OPM). The AWCF is required to balance with what OPM reports to the Department of the Treasury as an accrual for the reporting period.

#### Total Non-Federal Other Liabilities

Accrued Funded Payroll and Benefits increased \$11.1 million, or 14 percent, from 2nd Quarter, FY 2005 to 2nd 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 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006.

Non-Federal Advances from Others increased \$17.5 million, or 36 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. During 2nd Quarter, FY 2006, the AWCF increased workload with non-federal entities

such as foreign military sales and orders at Red River Army Depot. During the 1st and 2nd Quarters, FY 2006, a private contractor provided advances to Red River Army Depot for work on the Bradley Reset program.

Non-Federal Other Liabilities increased \$493.8 million, or 1,558 percent, from 2nd Quarter, FY 2005 to 2nd 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 the vendor releases inventory and Army takes ownership. 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. This process was not in place until 4th Quarter, FY 2005.

### Other disclosures

The Federal Employment Compensation Act (FECA) is administered by the Department of Labor (DOL), Office of Workers' Compensation Programs. Workers' Compensation claims are submitted to and approved by the DOL. The DOL pays the claim holders and prepares a chargeback billing to the AWCF. The FECA law, P.L. 93-416, Section 8147, essentially gives agencies two years to pay the chargeback bill, thereby allowing time for the applicable amount to be included in budget submissions. Pursuant to the FECA law, once funding is received, the FECA bill should be paid within 30 days. The current liability includes the amounts payable in FY 2006 and FY 2007. The non-current liability is payable in FY 2008. 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. During the 3rd Quarter, FY 2006, the Army expects to pay the delinquent portion of the FECA liability bill.

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
<b>Intragovernmental - Other Liabilities</b>		
VSIP	\$ 0	\$ 0
<b>CSRS, FERS, FEGLI, FEHB</b>	9,221	7,575
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 9,221</b>	<b>\$ 7,575</b>
<b>Non-Federal –Other Liabilities</b>		
Contract Holdbacks	\$ 35,917	\$ 31,424
Employers Contributions to TSP and Taxes Payable	14,231	(173)
Contingent Liability	0	450
Liabilities for In-transit Inventory	475,381	0
<b>Total Non-Federal Other Liabilities</b>	<b>\$ 525,529</b>	<b>\$ 31,701</b>
<b>Total Other Liabilities</b>	<b>\$ 534,750</b>	<b>\$ 39,276</b>

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, Significant Accounting Policies

Note 11, Liabilities Not Covered by Budgetary Resources

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

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
-----------------	--------------------------------------

### **Relevant Information for Comprehension**

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

### **Nature of Contingency**

As of 2nd Quarter FY 2006, the Army Working Capital Fund (AWCF) had no contingent liabilities.

### **Other Information Pertaining to Commitments**

The AWCF has entered into contractual commitments that may require future use of financial resources, such as undelivered orders. As of 2nd Quarter, FY 2006, the AWCF has \$11.8 billion of undelivered orders.

### **Note Reference**

For additional line item discussion, see:

Note 1.S, Significant Accounting Policies

Note 12, Accounts Payable

Note 15, Other Liabilities

Note 20, Disclosures Related to the Statement of Budgetary Resources

<b>Note 17.</b>	<b>Military Retirement Benefits and Other Employment Related Actuarial Liabilities</b>
-----------------	--

As of March 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
<b>1. Pension and Health Benefits</b>					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. 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
<b>2. Other</b>					
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
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<b>\$ 286,523,171.16</b>		<b>\$ 0.00</b>	<b>\$ 286,523,171.16</b>	<b>\$ 304,976,189.04</b>

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**

**Intragovernmental Costs and Exchange Revenue**

As of March 31	2006	2005
1. Intragovernmental Costs	\$ 379,104,004.70	\$ 1,722,114,173.00
2. Public Costs	7,652,477,707.78	3,897,874,204.41
<b>3. Total Costs</b>	<b>\$ 8,031,581,712.48</b>	<b>\$ 5,619,988,377.41</b>
4. Intragovernmental Earned Revenue	\$ (5,309,919,974.73)	\$ (5,133,531,689.42)
5. Public Earned Revenue	(3,302,997,118.41)	(2,315,369,805.95)
<b>6. Total Earned Revenue</b>	<b>\$ (8,612,917,093.14)</b>	<b>\$ (7,448,901,495.37)</b>
<b>7. Net Cost of Operations</b>	<b>\$ (581,335,380.66)</b>	<b>\$ (1,828,913,117.96)</b>

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

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

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

While the 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 AWCF is in the process of upgrading its financial and logistical feeder systems to the Logistics Modernization Program (LMP) to address this issue.

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



Beginning in 1st Quarter, FY 2006, the AWCF can identify capitalized purchases reported as revenue by federal trading partners and separate those purchases from other expenses. These capitalized purchases do not appear on the Statement of Net Cost but rather are reflected within the Statement of Financing.

Since public costs are derived by subtracting federal trading partner reported revenue from the total costs contained in AWCF accounting systems, a decrease in intragovernmental costs results in an increase in public costs.

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

Intragovernmental costs decreased \$1.3 billion, or 78 percent, between 2nd Quarter, FY 2005 and 2nd Quarter, FY 2006. This decrease is primarily attributable to a change in accounting procedures described above. As a result of the changes described above, the AWCF moved \$1.4 billion from intragovernmental costs to public costs.

After considering the \$1.4 billion decrease, which resulted from the cost reclassification, the intragovernmental costs actually increased by \$48.8 million, or 3 percent, as shown in the table below.

(Amounts in thousands)

<b>Description</b>	<b>2nd Quarter, FY 2006</b>	<b>2nd Quarter, FY 2005</b>	<b>Dollar Change</b>
Intragovernmental Costs	\$ 379,104	\$ 1,722,114	\$ (1,343,010)
Add: Change in Accounting Procedures	1,391,751	0	1,391,751
Adjusted Intragov. Costs	\$ 1,770,855	\$ 1,722,114	\$ 48,741

Public costs increased \$3.8 billion, or 96 percent, between 2nd Quarter, FY 2005 and 2nd Quarter, FY 2006. Of the total increase, \$1.4 billion is attributable to a change in accounting procedures as described above in the intragovernmental cost disclosure. As a result, the AWCF reclassified \$1.4 billion from intragovernmental costs to public costs.

The AWCF did not net LMP-related gains and losses in 2nd Quarter, FY 2006, but did during the 2nd Quarter, FY 2005. Rather, other gains are now reported as revenue and other losses are now reported as costs. This reporting change accounts for \$1 billion of the public cost increase.

The AWCF cost of goods sold increased by \$106.6 million as a result of increased business in both the Supply Management and Industrial Operations business areas. Further, expenses related to the purchase of supplies, materials, and services increased \$249.3 million in the Industrial Operations business area and \$93.2 million in the Supply Management business area.

Public earned revenue increased \$987.6 million, or 43 percent, between 2nd Quarter, FY 2005 and 2nd Quarter, FY 2006. The increase in public earned revenue is due predominantly to

Supply Management inventory gains related to an increase in returned reparable items. Beginning in the 4th Quarter, FY 2004, the AWCF stopped providing credits on inventory returns from Operations Iraqi Freedom and Enduring Freedom. Therefore, the AWCF reports returned reparable items as other gains. The AWCF classifies these gains as public earned revenue, rather than intragovernmental, because they cannot identify the federal trading partners associated with the returns. The AWCF will work to identify trading partners and more accurately classify these gains. The AWCF expects to do this in the 3rd Quarter, FY 2006.

### **Other Disclosures**

During FY 2004, the AWCF 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, 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. In FY 2005, the total adjustment of \$5.6 billion included \$5.56 billion for CECOM and \$48 million for Tobyhanna Army Depot activities using LMP. The DFAS discontinued preparing this adjustment in the 1st Quarter, FY 2006 because previous unit-of-measure problems associated with inventory values no longer significantly impact this line. At the end of the 2nd Quarter FY 2006, the value in the LMP other gains account was \$904.3 million and the value in the LMP other loss account was \$954 million.

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 Reference**

For additional line item discussion, see:  
Note 1, Significant Accounting Policies  
Note 21, Disclosures Related to the Statement of Financing

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

As of March 31	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments</b>				
<b>Increases (Decreases) to Net Position Beginning Balance</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
<b>C. Total Prior Period Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 24,946,968.30	\$ 0.00	\$ 25,548,016.91	\$ 0.00
B. Civilian Health	50,332,165.00	0.00	43,283,600.00	0.00
C. Civilian Life Insurance	103,048.00	0.00	95,584.49	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
<b>F. Total Imputed Financing</b>	<b>\$ 75,382,181.30</b>	<b>\$ 0.00</b>	<b>\$ 68,927,201.40</b>	<b>\$ 0.00</b>

Legend:

CSRS – Civil Service Retirement System  
 FERS – Federal Employees Retirement System

**Fluctuations and/or Abnormalities**

Cumulative Results of Operations:

Appropriations used All other Funds increased by \$74.5 million, or 3,594,467 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The Army Working Capital Fund (AWCF) did not receive appropriations in FY 2005; rather the AWCF received a transfer-in without reimbursement from the Defense Logistics Agency (DLA).

Transfers-in/out without reimbursement decreased \$94.1 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. In FY 2005, the AWCF received a transfer-in without reimbursement from the DLA, but did not receive any transfers as of the 2nd Quarter, FY 2006.

Other budgetary financing sources, all other funds decreased by \$503 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This decrease resulted from a change in accounting procedures. During the first three quarters of FY 2005, the AWCF reported other gains and losses 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, transfers-in/out without reimbursement increased \$297.3 thousand, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. During FY 2003, a policy decision was published stating that the preponderance of use principle did not apply to land, and that all land should be on the books of the Army General Fund. As a result of this decision, the AWCF transferred previously unreported land values at Tobyhanna Army Depot and Watervliet Arsenal to the Army General Fund.

Other Financing Sources, Other increased \$84 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd 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 Received All other Funds increased \$106.5 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. In January 2006, the AWCF received a \$106.5 million warrant in accordance with DoD Appropriation Act, 2006, P.L. 109-148, 119 STAT 2680, which caused this increase. Of this, the AWCF distributed \$42.5 million to the Supply Management business area for war reserve and Army combat uniforms, and \$64 million to the Industrial Operations business area for industrial mobilization capacity. The AWCF did not receive an appropriation in FY 2005.

Appropriations used All other Funds increased \$74.5 million, or 3,594,467 percent, from 2<sup>nd</sup> Quarter, FY 2005 to 2nd Quarter, FY 2006. The AWCF did not receive appropriations in FY 2005; rather the AWCF received a transfer-in without reimbursement from the DLA.

#### **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

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
-----------------	--

As of March 31	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 11,729,863,733.51	\$ 10,696,515,761.81
2. Available Borrowing and Contract Authority at the End of the Period	11,144,712,761.47	6,714,558,655.28

The Army Working Capital Fund (AWCF) reports all obligations as reimbursable per the 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 2nd Quarter, FY 2006 is as follows: (Amounts in thousands)

Business Area	Unused Contract Authority as of March 31, 2006	Contract Authority Realized for FY 2006
Industrial Operations	\$ 96,247	\$ 26,731
Supply Management	2,302,116	6,775,072
<b>Total AWCF</b>	<b>\$ 2,398,363</b>	<b>\$ 6,801,803</b>

Unobligated balances from spending authority from offsetting collections (revenues earned) as of 2nd 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	\$ 2,103,300	\$ 1,775,386	\$ 1,266,713	\$ 5,145,399
Supply Management	4,505,201	(402,454)	0	4,102,747
<b>Total AWCF</b>	<b>\$ 6,608,501</b>	<b>\$ 1,372,932</b>	<b>\$ 1,266,713</b>	<b>\$ 9,248,146</b>

**Fluctuations and/or Abnormalities**

All business activity increased from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to increased reimbursable activity with the Army General Fund, as well as within the AWCF, in support of the missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Recoveries of prior year unpaid obligations decreased by \$241.1 million, or 23 percent, from 2nd Quarter, FY 2005 to 2nd 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 adjusted obligations and unliquidated obligations on a transactional basis to correct data migration problems. These adjustments resulted in large recoveries during FY 2005.

Appropriation authority increased \$106.5 million, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. In January 2006, the AWCF received a \$106.5 million warrant in accordance with DoD Appropriation Act, 2006, P.L. 109-148, 119 STAT 2680, which caused this increase. Of this, the AWCF distributed \$42.5 million to the Supply Management business area for war reserve and Army combat uniforms and \$64 million to the Industrial Operations business area for industrial mobilization capacity. The AWCF did not receive an appropriation in FY 2005.

Contract authority increased \$7.0 billion, or 325 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. Prior to 4th Quarter, FY 2005, the net remaining contract authority was reported on the contract authority line of the statement. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) issued reporting instructions in September 2005 requiring the AWCF to report the total contract authority on this line.

Spending authority from offsetting collections increased \$477.3 million, or 5 percent, from 2nd Quarter, FY 2005 to 2nd 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. Although the total variance for spending authority from offsetting collections is less than 10 percent, those components within the line with variances greater than 10 percent are noted below:

Earned – Change in receivables from Federal sources increased by \$97.6 million, or 90 percent.

Change in unfilled customer orders – Advance received increased by \$9.9 million, or 94 percent.

Change in unfilled customer orders – Without advance from Federal sources increased by \$415.3 million, or 44 percent.

Anticipated for rest of year, without advances decreased \$268.4 million, or 17 percent.

Non-expenditure transfers, net, anticipated and actual decreased \$94.1 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. No budgetary authority was transferred in to or out of the AWCF during the 2nd Quarter, FY 2006.

Permanently not available increased by \$4.7 billion, or 100 percent, from 2nd Quarter, FY 2005 to 2nd 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. In September 2005, the OUSD(C) issued instructions to begin reporting permanently not available.

Unobligated Balance Apportioned increased \$1.8 billion, or 45 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This change is attributable to decreased obligations for inventory replacement primarily in the Supply Management business area. Obligations in previous years contribute to current period inventory increases on the balance sheet. Because of the increased inventory levels, the AWCF did not need to obligate funds for additional inventory purchases during this reporting period.

Change in uncollected customer payments from Federal sources increased \$512.8 million, or 49 percent, from 2nd Quarter FY, 2005 to 2nd Quarter, FY 2006. This line includes unfilled customer orders without advances and reimbursements and other income earned - receivable. The Industrial Operations experienced the majority of this increase in unfilled customer orders without advances primarily from the Supply Management business area and the Army General Fund.

Obligated balance, net, end of period unpaid obligations increased \$1.6 billion, or 14 percent, from 2nd Quarter FY, 2005 to 2nd Quarter, FY 2006. The AWCF began FY 2006 with \$1.4 billion more unpaid obligations than FY 2005 which accounts for the majority of the increase.

### **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 \$10.1 billion reimbursable obligations for apportionment category B.

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

The AWCF receives funding resource authorizations throughout the fiscal year on the Approved Operating Budget authorization documents. The Supply Management business area initially received operating authority of \$8.1 billion and capital purchases authority of \$36.8 million. The current authorization for operating authority is \$8.5 billion and capital purchases authorization remains the same. Additionally, the Supply Management business area received a \$23.2 million appropriation for war reserves and \$19.3 million for Army combat uniforms. The Industrial Operations business area initially received authorization of \$3.2 billion for anticipated reimbursements and \$117.1 million for capital purchases. The current authorization for anticipated reimbursements is \$5.1 billion and capital purchases authority is \$122 million. In addition, the Industrial Operations business area received a \$64 million appropriation for industrial mobilization capacity. Increases to the funding authority bring the AWCF in line with the FY 2007 President's Budget.

#### **Note Reference**

For additional line item discussion, see:

Note 1, Significant Accounting Policies

Note 5, Accounts Receivable

Note 12, Accounts Payable

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

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



<b>Note 21.</b>	<b>Disclosures Related to the Statement of Financing</b>
-----------------	--

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 \$794.8 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.

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

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

Liabilities not covered by budgetary resources as shown on the balance sheet are displayed in Note 11. They represent liabilities that have been incurred but funds have not yet been obligated. Changes in these liabilities represent future funded expenses, i.e. expenses that have been incurred but not obligated, and are posted to the components requiring or generating resources in future periods section of the Statement of Financing. Annual leave liability for the AWCF is an exception. Annual leave for the AWCF is considered as a covered liability as funds were generated to cover the leave liability when it was earned but funds were not obligated. Therefore it does not appear in Note 11 but does appear on the increase in leave liability line as the funds will need to be obligated when the leave is paid. An exception to this is for leave balances accounted for by Logistics Modernization Program (LMP). The LMP obligates the leave when earned, so it does not appear in either place.

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

Other resources transfers-in/out without reimbursement, increased by \$297.3 thousand, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. During FY 2003, a policy decision was published stating that the preponderance of use principle did not apply to land, and that all land should be on the books of the Army General Fund. As a result of this decision, the AWCF transferred previously unreported land values at Tobyhanna Army Depot and Watervliet Arsenal to the Army General Fund.

Other resources other, decreased \$84 million or 100 percent, from 2nd Quarter, FY 2005 to 2nd 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.

Change in undelivered orders decreased \$481.5 million, or 23 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This reflects the increased delivery of items ordered in prior years in support of the missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Change in unfilled customer orders increased by \$425.1 million, or 45 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This reflects the increased order volume in support of the missions Operations Enduring Freedom, Iraqi Freedom, and Noble Eagle.

Resources that fund expenses recognized in prior periods increased \$2.1 million, or 18 percent, 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This line reports the decreases in future funded liabilities. The increase is attributable to a decrease in the annual leave liability within the Industrial Operations business area.

Resources that finance the acquisition of assets increased \$851.8 million, or 21 percent, from 2nd Quarter, FY 2005 to 2nd 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 increased by \$84.3 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd 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.

Components requiring or generating resources in future period – increase in annual leave liability decreased by \$21.2 million, or 99 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. Prior to 2nd Quarter, FY 2005, the Supply Management activities reported the annual leave liability in the Army General Fund financial statements. The AWCF began reporting this liability on the 2nd Quarter, FY 2005 financial statements. The 2nd Quarter, FY 2006 increase amount represents normal business fluctuations, whereas the 2nd Quarter, FY 2005 increase amount represents the reporting change to include the Supply Management activities.

Depreciation and amortization increased \$10.9 million, or 32 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This increase is largely attributable to increased depreciation expense associated with software acquisitions at the Aviation and Missile Command and the Tank-automotive and Armament Command.

Revaluation of assets or liabilities increased by \$1.2 billion, or 211 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. During FY 2005, the AWCF off-set inventory-related gains and losses to more accurately reflect the revaluation amounts. The AWCF discontinued this practice in 1st Quarter, FY 2006 because previous unit-of-measure problems associated with inventory values no longer significantly impact this line.

The majority, or 98 percent, of the other other line includes a cost capitalization offset account at Tobyhanna Army Depot, in accordance with a Department of the Treasury regulation requiring the use of this account. The AWCF LMP implemented this procedural change in the 2nd Quarter, FY 2005.

### **Other Disclosures**

During FY 2004, the AWCF 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, 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 \$5.6 billion for CECOM and \$48 million for Tobyhanna Army Depot activities using LMP. The DFAS discontinued preparing this adjustment in 1st Quarter, FY 2006 because previous unit-of-measure problems associated with inventory values no longer significantly impact this line.

### **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

<b>Note 22.</b>	<b>Disclosures Related to the Statement of Custodial Activity</b>
-----------------	---

Not Applicable.

<b>Note 23.</b>	<b>Earmarked Funds</b>
-----------------	------------------------

<b>BALANCE SHEET</b> As of March 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
<b>Total Assets</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>

**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
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>

**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
<b>Net Program Costs</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>
Less Earned Revenues Not Attributable to Programs		0.00		0.00		0.00		0.00
<b>Net Cost of Operations</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>

**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
<b>Change in Net Position</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>
<b>Net Position End of Period</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>

Not applicable.

<b>Note 24.</b>	<b>Other Disclosures</b>
-----------------	--------------------------

As of March 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
2011		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease  
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
--	----	------	----	------	----	------	----	------