

Department of Defense
Department of the Army
CONSOLIDATED BALANCE SHEET
As of December 31, 2006 and 2005

| | 2007 Consolidated | 2006 Consolidated |
|--|-------------------------------------|-------------------------------------|
| 1. ASSETS (Note 2) | | |
| A. Intragovernmental: | | |
| 1. Fund Balance with Treasury (Note 3) | | |
| a. Entity | \$ 194,270,530,421.98 | \$ 93,452,671,986.80 |
| b. Non-Entity Seized Iraqi Cash | 30,055,057.10 | 57,715,612.99 |
| c. Non-Entity-Other | 186,176,227.89 | 228,356,240.53 |
| 2. Investments (Note 4) | 3,260,835.75 | 3,426,477.97 |
| 3. Accounts Receivable (Note 5) | 453,233,244.59 | 527,059,473.65 |
| 4. Other Assets (Note 6) | 499,682,611.25 | 783,755,497.60 |
| 5. Total Intragovernmental Assets | <u>\$ 195,442,938,398.56</u> | <u>\$ 95,052,985,289.54</u> |
| B. Cash and Other Monetary Assets (Note 7) | \$ 1,764,500,402.96 | \$ 1,327,243,671.01 |
| C. Accounts Receivable, Net (Note 5) | 550,546,194.78 | 651,546,896.69 |
| D. Loans Receivable (Note 8) | 15,310,064.55 | 0.00 |
| E. Inventory and Related Property, Net (Note 9) | 36,710,692,139.23 | 38,031,453,797.04 |
| F. General Property, Plant and Equipment, Net (Note 10) | 85,295,999,205.88 | 122,557,460,761.02 |
| G. Investments (Note 4) | 0.00 | 0.00 |
| H. Other Assets (Note 6) | 5,268,781,589.74 | 3,979,714,009.41 |
| 2. TOTAL ASSETS | <u><u>\$ 325,048,767,995.70</u></u> | <u><u>\$ 261,600,404,424.71</u></u> |
| 3. LIABILITIES (Note 11) | | |
| A. Intragovernmental: | | |
| 1. Accounts Payable (Note 12) | \$ 1,710,323,438.02 | \$ 1,937,783,223.26 |
| 2. Debt (Note 13) | 25,764,072.55 | 0.00 |
| 3. Other Liabilities (Note 15 & 16) | 3,123,859,595.95 | 2,704,635,312.01 |
| 4. Total Intragovernmental Liabilities | <u>\$ 4,859,947,106.52</u> | <u>\$ 4,642,418,535.27</u> |
| B. Accounts Payable (Note 12) | \$ 10,559,828,261.37 | \$ 10,006,576,614.63 |
| C. Military Retirement and Other Federal Employment Benefits (Note 17) | 1,461,097,881.90 | 1,663,649,828.85 |
| D. Environmental and Disposal Liabilities (Note 14) | 44,409,572,400.00 | 39,571,390,000.00 |
| E. Loan Guarantee Liability (Note 8) | 12,934,051.97 | 12,393,845.32 |
| F. Other Liabilities (Note 15 & Note 16) | 8,107,463,964.44 | 6,821,413,356.29 |
| 4. TOTAL LIABILITIES | <u><u>\$ 69,410,843,666.20</u></u> | <u><u>\$ 62,717,842,180.36</u></u> |
| 5. NET POSITION | | |
| A. Unexpended Appropriations - Earmarked Funds (Note 23) | \$ 0.00 | \$ 0.00 |
| B. Unexpended Appropriations - Other Funds | 195,715,305,127.63 | 85,168,744,912.79 |
| C. Cumulative Results of Operations - Earmarked Funds | 40,862,790.24 | 38,720,865.48 |
| D. Cumulative Results of Operations - Other Funds | 59,881,756,411.63 | 113,675,096,466.08 |
| 6. TOTAL NET POSITION | <u><u>\$ 255,637,924,329.50</u></u> | <u><u>\$ 198,882,562,244.35</u></u> |
| 7. TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 325,048,767,995.70</u></u> | <u><u>\$ 261,600,404,424.71</u></u> |

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CONSOLIDATED STATEMENT OF NET COST
 For the periods ended December 31, 2006 and 2005

| | 2007 Consolidated | 2006 Consolidated |
|---|------------------------------------|------------------------------------|
| 1. Program Costs | | |
| A. Gross Costs | \$ 47,203,312,123.54 | \$ 42,025,219,743.88 |
| B. (Less: Earned Revenue) | (2,305,417,630.08) | (2,181,077,568.02) |
| C. Net Program Costs | <u>\$ 44,897,894,493.46</u> | <u>\$ 39,844,142,175.86</u> |
| 2. Cost Not Assigned to Programs | 0.00 | 0.00 |
| 3. (Less: Earned Revenue Not Attributable to Programs) | 0.00 | 0.00 |
| 4. Net Cost of Operations | <u><u>\$ 44,897,894,493.46</u></u> | <u><u>\$ 39,844,142,175.86</u></u> |

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended December 31, 2006 and 2005

| | 2007 Earmarked Funds | 2007 All Other Funds |
|--|----------------------|----------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 42,791,897.32 | \$ 67,447,512,433.98 |
| 2. Prior Period Adjustments: | | |
| 2.A. Changes in accounting principles (+/-) | 0.00 | 0.00 |
| 2.B. Corrections of errors (+/-) | 0.00 | 0.00 |
| 3. Beginning balances, as adjusted | 42,791,897.32 | 67,447,512,433.98 |
| 4. Budgetary Financing Sources: | | |
| 4.A. Other adjustments (rescissions, etc.) | 0.00 | 0.00 |
| 4.B. Appropriations used | 0.00 | 39,094,284,256.82 |
| 4.C. Nonexchange revenue | 2,101,415.19 | 0.00 |
| 4.D. Donations and forfeitures of cash and cash equivalents | 491,018.68 0.00 | 0.00 0.00 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 0.00 |
| 4.F. Other budgetary financing sources | 0.00 | 0.00 |
| 5. Other Financing Sources: | | |
| 5.A. Donations and forfeitures of property | 0.00 | 0.00 |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | 330,292,330.55 |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 216,537,380.17 |
| 5.D. Other (+/-) | (611,964.09) | (2,312,885,073.29) |
| 6. Total Financing Sources | 1,980,469.78 | 37,328,228,894.25 |
| 7. Net Cost of Operations (+/-) | 3,909,576.86 | 44,893,984,916.60 |
| 8. Net Change | (1,929,107.08) | (7,565,756,022.35) |
| 9. Cumulative Results of Operations | 40,862,790.24 | 59,881,756,411.63 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 88,826,492,215.66 |
| 11. Prior Period Adjustments: | | |
| 11.A. Changes in accounting principles | 0.00 | 0.00 |
| 11.B. Corrections of errors | 0.00 | 0.00 |
| 12. Beginning balances, as adjusted | 0.00 | 88,826,492,215.66 |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 145,234,255,324.91 |
| 13.B. Appropriations transferred-in/out | 0.00 | 1,120,196,878.00 |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (371,355,034.12) |
| 13.D. Appropriations used | 0.00 | (39,094,284,256.82) |
| 14. Total Budgetary Financing Sources | 0.00 | 106,888,812,911.97 |
| 15. Unexpended Appropriations | 0.00 | 195,715,305,127.63 |
| 16. Net Position | 40,862,790.24 | 255,597,061,539.26 |

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended December 31, 2006 and 2005

| | 2007 Eliminations | 2007 Consolidated |
|--|-------------------|----------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 0.00 | \$ 67,490,304,331.30 |
| 2. Prior Period Adjustments: | | |
| 2.A. Changes in accounting principles (+/-) | 0.00 | 0.00 |
| 2.B. Corrections of errors (+/-) | 0.00 | 0.00 |
| 3. Beginning balances, as adjusted | 0.00 | 67,490,304,331.30 |
| 4. Budgetary Financing Sources: | | |
| 4.A. Other adjustments (rescissions, etc.) | 0.00 | 0.00 |
| 4.B. Appropriations used | 0.00 | 39,094,284,256.82 |
| 4.C. Nonexchange revenue | 0.00 | 2,101,415.19 |
| 4.D. Donations and forfeitures of cash | 0.00 | 491,018.68 |
| and cash equivalents | 0.00 | 0.00 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 0.00 |
| 4.F. Other budgetary financing sources | 0.00 | 0.00 |
| 5. Other Financing Sources: | | |
| 5.A. Donations and forfeitures of property | 0.00 | 0.00 |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | 330,292,330.55 |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 216,537,380.17 |
| 5.D. Other (+/-) | 0.00 | (2,313,497,037.38) |
| 6. Total Financing Sources | 0.00 | 37,330,209,364.03 |
| 7. Net Cost of Operations (+/-) | 0.00 | 44,897,894,493.46 |
| 8. Net Change | 0.00 | (7,567,685,129.43) |
| 9. Cumulative Results of Operations | 0.00 | 59,922,619,201.87 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 88,826,492,215.66 |
| 11. Prior Period Adjustments: | | |
| 11.A. Changes in accounting principles | 0.00 | 0.00 |
| 11.B. Corrections of errors | 0.00 | 0.00 |
| 12. Beginning balances, as adjusted | 0.00 | 88,826,492,215.66 |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 145,234,255,324.91 |
| 13.B. Appropriations transferred-in/out | 0.00 | 1,120,196,878.00 |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (371,355,034.12) |
| 13.D. Appropriations used | 0.00 | (39,094,284,256.82) |
| 14. Total Budgetary Financing Sources | 0.00 | 106,888,812,911.97 |
| 15. Unexpended Appropriations | 0.00 | 195,715,305,127.63 |
| 16. Net Position | 0.00 | 255,637,924,329.50 |

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended December 31, 2006 and 2005

| | 2006 Earmarked Funds | 2006 All Other Funds |
|--|----------------------|-----------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 38,147,811.51 | \$ 115,204,475,637.47 |
| 2. Prior Period Adjustments: | | |
| 2.A. Changes in accounting principles (+/-) | 0.00 | 0.00 |
| 2.B. Corrections of errors (+/-) | 0.00 | 0.00 |
| 3. Beginning balances, as adjusted | 38,147,811.51 | 115,204,475,637.47 |
| 4. Budgetary Financing Sources: | | |
| 4.A. Other adjustments (rescissions, etc.) | 0.00 | 0.00 |
| 4.B. Appropriations used | 0.00 | 38,583,836,464.01 |
| 4.C. Nonexchange revenue | 2,064,557.14 | 0.00 |
| 4.D. Donations and forfeitures of cash and cash equivalents | 121,135.42 0.00 | 0.00 0.00 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 0.00 |
| 4.F. Other budgetary financing sources | 0.00 | (18,286,829.10) |
| 5. Other Financing Sources: | | |
| 5.A. Donations and forfeitures of property | 0.00 | 0.00 |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | 52,409,630.76 |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 253,136,029.62 |
| 5.D. Other (+/-) | 0.00 | (557,944,929.41) |
| 6. Total Financing Sources | 2,185,692.56 | 38,313,150,365.88 |
| 7. Net Cost of Operations (+/-) | 1,612,638.59 | 39,842,529,537.27 |
| 8. Net Change | 573,053.97 | (1,529,379,171.39) |
| 9. Cumulative Results of Operations | 38,720,865.48 | 113,675,096,466.08 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 74,704,745,376.80 |
| 11. Prior Period Adjustments: | | |
| 11.A. Changes in accounting principles | 0.00 | 0.00 |
| 11.B. Corrections of errors | 0.00 | 0.00 |
| 12. Beginning balances, as adjusted | 0.00 | 74,704,745,376.80 |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 47,804,059,000.00 |
| 13.B. Appropriations transferred-in/out | 0.00 | 1,279,523,000.00 |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (35,746,000.00) |
| 13.D. Appropriations used | 0.00 | (38,583,836,464.01) |
| 14. Total Budgetary Financing Sources | 0.00 | 10,463,999,535.99 |
| 15. Unexpended Appropriations | 0.00 | 85,168,744,912.79 |
| 16. Net Position | 38,720,865.48 | 198,843,841,378.87 |

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended December 31, 2006 and 2005

| | 2006 Eliminations | 2006 Consolidated |
|--|-------------------|-----------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 0.00 | \$ 115,242,623,448.98 |
| 2. Prior Period Adjustments: | | |
| 2.A. Changes in accounting principles (+/-) | 0.00 | 0.00 |
| 2.B. Corrections of errors (+/-) | 0.00 | 0.00 |
| 3. Beginning balances, as adjusted | 0.00 | 115,242,623,448.98 |
| 4. Budgetary Financing Sources: | | |
| 4.A. Other adjustments (rescissions, etc.) | 0.00 | 0.00 |
| 4.B. Appropriations used | 0.00 | 38,583,836,464.01 |
| 4.C. Nonexchange revenue | 0.00 | 2,064,557.14 |
| 4.D. Donations and forfeitures of cash | 0.00 | 121,135.42 |
| and cash equivalents | 0.00 | 0.00 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 0.00 |
| 4.F. Other budgetary financing sources | 0.00 | (18,286,829.10) |
| 5. Other Financing Sources: | | |
| 5.A. Donations and forfeitures of property | 0.00 | 0.00 |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | 52,409,630.76 |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 253,136,029.62 |
| 5.D. Other (+/-) | 0.00 | (557,944,929.41) |
| 6. Total Financing Sources | 0.00 | 38,315,336,058.44 |
| 7. Net Cost of Operations (+/-) | 0.00 | 39,844,142,175.86 |
| 8. Net Change | 0.00 | (1,528,806,117.42) |
| 9. Cumulative Results of Operations | 0.00 | 113,713,817,331.56 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 74,704,745,376.80 |
| 11. Prior Period Adjustments: | | |
| 11.A. Changes in accounting principles | 0.00 | 0.00 |
| 11.B. Corrections of errors | 0.00 | 0.00 |
| 12. Beginning balances, as adjusted | 0.00 | 74,704,745,376.80 |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 47,804,059,000.00 |
| 13.B. Appropriations transferred-in/out | 0.00 | 1,279,523,000.00 |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (35,746,000.00) |
| 13.D. Appropriations used | 0.00 | (38,583,836,464.01) |
| 14. Total Budgetary Financing Sources | 0.00 | 10,463,999,535.99 |
| 15. Unexpended Appropriations | 0.00 | 85,168,744,912.79 |
| 16. Net Position | 0.00 | 198,882,562,244.35 |

Department of Defense
 Department of the Army
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended December 31, 2006 and 2005

| | 2007 Combined | 2006 Combined |
|--|-----------------------------------|----------------------------------|
| | <hr/> | <hr/> |
| BUDGETARY FINANCING ACCOUNTS | | |
| BUDGETARY RESOURCES: | | |
| 1. Unobligated balance, brought forward, October 1 | \$ 17,409,233,909.06 | \$ 15,477,291,031.75 |
| 2. Recoveries of prior year unpaid obligations | 8,052,358,397.07 | 6,080,565,202.51 |
| 3. Budget authority | | |
| 3.A. Appropriation | 147,219,592,080.35 | 99,612,201,653.67 |
| 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 | 4,509,758,827.25 | 4,509,977,379.75 |
| 3.D.1.b. Change in receivables from Federal sources | (161,278,396.47) | (6,001,603.21) |
| 3.D.2 Change in unfilled customer orders | | |
| 3.D.2.a. Advance received | (23,615,160.67) | 22,531,040.92 |
| 3.D.2.b. Without advance from Federal sources | 5,206,955,181.63 | 1,508,722,882.93 |
| 3.D.3. Anticipated for rest of year, without advances | 1,282,843,744.29 | 183,073,475.00 |
| 3.D.4. Previously unavailable | 0.00 | 0.00 |
| 3.D.5. Expenditure transfers from trust funds | 0.00 | 0.00 |
| 3.E. Subtotal | <hr/> 158,034,256,276.38 | <hr/> 105,830,504,829.06 |
| 4. Nonexpenditure transfers, net, anticipated and actual | 1,120,196,878.00 | 1,279,523,000.00 |
| 5. Temporarily not available pursuant to Public Law | (1,981,302,000.00) | (51,804,798,000.00) |
| 6. Permanently not available | (371,355,034.12) | (35,746,000.00) |
| 7. Total Budgetary Resources | <hr/> <hr/> \$ 182,263,388,426.39 | <hr/> <hr/> \$ 76,827,340,063.32 |

Department of Defense
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COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended December 31, 2006 and 2005

| | 2007 Combined | 2006 Combined |
|---|-------------------------------------|------------------------------------|
| Status of Budgetary Resources: | | |
| 8. Obligations incurred: | | |
| 8.A. Direct | \$ 65,595,718,030.13 | \$ 43,808,464,591.58 |
| 8.B. Reimbursable | 3,568,192,397.07 | 3,745,163,904.75 |
| 8.C. Subtotal | <u>69,163,910,427.20</u> | <u>47,553,628,496.33</u> |
| 9. Unobligated balance: | | |
| 9.A. Apportioned | 109,971,587,281.23 | 27,131,027,854.85 |
| 9.B. Exempt from apportionment | 4,080,529.99 | 34,955,742.93 |
| 9.C. Subtotal | <u>109,975,667,811.22</u> | <u>27,165,983,597.78</u> |
| 10. Unobligated balance not available | 3,123,810,187.97 | 2,107,727,969.21 |
| 11. Total status of budgetary resources | <u><u>\$ 182,263,388,426.39</u></u> | <u><u>\$ 76,827,340,063.32</u></u> |
| Change in Obligated Balance: | | |
| 12. Obligated balance, net | | |
| 12.A. Unpaid obligations, brought forward, October 1 | 93,609,036,018.47 | 80,720,879,554.62 |
| 12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1 | <u>\$ (17,136,556,737.91)</u> | <u>\$ (16,351,456,802.92)</u> |
| 12.C. Total unpaid obligated balance | 76,472,479,280.56 | 64,369,422,751.70 |
| 13. Obligations incurred net (+/-) | <u>\$ 69,163,910,427.20</u> | <u>\$ 47,553,628,496.33</u> |
| 14. Less: Gross outlays | (50,603,471,803.51) | (46,479,818,188.12) |
| 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>(8,052,358,397.07)</u> | <u>(6,080,565,202.51)</u> |
| 17. Change in uncollected customer payments from Federal sources (+/-) | (5,045,676,785.16) | (1,502,721,279.72) |
| 18. Obligated balance, net, end of period | | |
| 18.A. Unpaid obligations | 104,117,116,245.09 | 75,714,124,660.32 |
| 18.B. Less: Uncollected customer payments (+/-) from Federal sources (-) | <u>(22,182,233,523.07)</u> | <u>(17,854,178,082.64)</u> |
| 18.C. Total, unpaid obligated balance, net, end of period | <u>81,934,882,722.02</u> | <u>57,859,946,577.68</u> |
| Net Outlays | | |
| 19. Net Outlays: | | |
| 19.A. Gross outlays | 50,603,471,803.51 | 46,479,818,188.12 |
| 19.B. Less: Offsetting collections | (4,486,143,666.58) | (4,532,508,420.67) |
| 19.C. Less: Distributed Offsetting receipts | 25,223,945.92 | (62,931,387.77) |
| 19.D. Net Outlays | <u><u>\$ 46,142,552,082.85</u></u> | <u><u>\$ 41,884,378,379.68</u></u> |

Department of Defense
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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended December 31, 2006 and 2005

| | <u>2007 Combined</u> | <u>2006 Combined</u> |
|--|--------------------------------|-------------------------------|
| NONBUDGETARY FINANCING ACCOUNTS | | |
| BUDGETARY RESOURCES | | |
| 1. Unobligated balance, brought forward, October 1 | \$ 1,292,396.72 | \$ 1,525,335.32 |
| 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 | 14,359,610.55 | 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 | 81,254.25 | 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>14,440,864.80</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 |
| 7. Total Budgetary Resources | <u><u>\$ 15,733,261.52</u></u> | <u><u>\$ 1,525,335.32</u></u> |

Department of Defense
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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended December 31, 2006 and 2005

| | 2007 Combined | 2006 Combined |
|---|--------------------------------|-------------------------------|
| Status of Budgetary Resources: | | |
| 8. Obligations incurred: | | |
| 8.A. Direct | \$ 15,310,064.55 | \$ 0.00 |
| 8.B. Reimbursable | 0.00 | 0.00 |
| 8.C. Subtotal | <u>15,310,064.55</u> | <u>0.00</u> |
| 9. Unobligated balance: | | |
| 9.A. Apportioned | 341,942.72 | 1,525,335.32 |
| 9.B. Exempt from apportionment | 0.00 | 0.00 |
| 9.C. Subtotal | <u>341,942.72</u> | <u>1,525,335.32</u> |
| 10. Unobligated balance not available | 81,254.25 | 0.00 |
| 11. Total Status of Budgetary Resources | <u><u>\$ 15,733,261.52</u></u> | <u><u>\$ 1,525,335.32</u></u> |
| Change in Obligated Balance: | | |
| 12. Obligated balance, net | | |
| 12.A. Unpaid obligations, brought forward, October 1 | 0.00 | 0.00 |
| 12.B. Less: Uncollected customer payments 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>\$ 15,310,064.55</u> | <u>\$ 0.00</u> |
| 14. Less: Gross outlays | (15,310,064.55) | 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 (+/-) | (81,254.25) | 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>(81,254.25)</u> | <u>0.00</u> |
| 18.C. Total, unpaid obligated balance, net, end of period | <u>(81,254.25)</u> | <u>0.00</u> |
| Net Outlays | | |
| 19. Net Outlays: | | |
| 19.A. Gross outlays | 15,310,064.55 | 0.00 |
| 19.B. Less: Offsetting collections | 0.00 | 0.00 |
| 19.C. Less: Distributed Offsetting receipts | 0.00 | 0.00 |
| 19.D. Net Outlays | <u><u>\$ 15,310,064.55</u></u> | <u><u>\$ 0.00</u></u> |

Department of Defense
Department of the Army
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2006 and 2005

| | 2007 Consolidated | 2006 Consolidated |
|---|------------------------------------|-----------------------------------|
| | <hr/> | <hr/> |
| Resources Used to Finance Activities: | | |
| Budgetary Resources Obligated | | |
| 1. Obligations incurred | \$ 69,179,220,491.75 | \$ 47,553,628,496.33 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | (17,584,260,103.06) | (12,115,794,902.90) |
| 3. Obligations net of offsetting collections and recoveries | 51,594,960,388.69 | 35,437,833,593.43 |
| 4. Less: Offsetting receipts (-) | 25,223,945.92 | (62,931,387.77) |
| 5. Net obligations | <hr/> 51,620,184,334.61 | <hr/> 35,374,902,205.66 |
| Other Resources | | |
| 6. Donations and forfeitures of property | 0.00 | 0.00 |
| 7. Transfers in/out without reimbursement (+/-) | 330,292,330.55 | 52,409,630.76 |
| 8. Imputed financing from costs absorbed by others | 216,537,380.17 | 253,136,029.62 |
| 9. Other (+/-) | (2,313,497,037.38) | (557,944,929.41) |
| 10. Net other resources used to finance activities | <hr/> (1,766,667,326.66) | <hr/> (252,399,269.03) |
| 11. Total resources used to finance activities | <hr/> \$ 49,853,517,007.95 | <hr/> \$ 35,122,502,936.63 |
| Resources Used to Finance Items not Part of the Net Cost of Operations | | |
| 12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided | | |
| 12a. Undelivered Orders (-) | (10,911,785,234.63) | 4,950,490,639.21 |
| 12b. Unfilled Customer Orders | 5,183,340,020.96 | 1,531,253,923.85 |
| 13. Resources that fund expenses recognized in prior periods | (731,458,803.92) | (288,956,964.51) |
| 14. Budgetary offsetting collections and receipts that do not affect net cost of operations | (25,142,691.67) | 62,931,387.77 |
| 15. Resources that finance the acquisition of assets | (2,734,642,583.21) | (7,467,204,869.03) |
| 16. Other resources or adjustments to net obligated resources that do not affect net cost of operations | | |
| 16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-) | 0.00 | 0.00 |
| 16b. Other (+/-) | 1,983,204,706.83 | 505,535,298.65 |
| 17. Total resources used to finance items not part of the net cost of operations | <hr/> \$ (7,236,484,585.64) | <hr/> \$ (705,950,584.06) |
| 18. Total resources used to finance the net cost of operations | <hr/> \$ 42,617,032,422.31 | <hr/> \$ 34,416,552,352.57 |

Department of Defense
Department of the Army
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended December 31, 2006 and 2005

| | 2007 Consolidated | 2006 Consolidated |
|---|----------------------------------|----------------------------------|
| | <hr/> | <hr/> |
| Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period: | | |
| Components Requiring or Generating Resources in Future Period: | | |
| 19. Increase in annual leave liability | 209,846,542.86 | 135,820,061.78 |
| 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 (+/-) | 433,750,919.06 | 18,495,210.00 |
| 24. Total components of Net Cost of Operations that will require or generate resources in future periods | <hr/> 643,597,461.92 | <hr/> 154,315,271.78 |
| Components not Requiring or Generating Resources: | | |
| 25. Depreciation and amortization | 1,961,680,468.59 | 4,896,929,972.47 |
| 26. Revaluation of assets or liabilities (+/-) | 8,040,033.98 | 317,313.36 |
| 27. Other (+/-) | | |
| 27a. Trust Fund Exchange Revenue | 0.00 | (27,702.40) |
| 27b. Cost of Goods Sold | 0.00 | 0.00 |
| 27c. Operating Material & Supplies Used | 0.00 | 0.00 |
| 27d. Other | (332,455,893.34) | 376,054,968.08 |
| 28. Total components of Net Cost of Operations that will not require or generate resources | <hr/> 1,637,264,609.23 | <hr/> 5,273,274,551.51 |
| 29. Total components of net cost of operations that will not require or generate resources in the current period | <hr/> \$ 2,280,862,071.15 | <hr/> \$ 5,427,589,823.29 |
| 30. Net Cost of Operations | <hr/> <hr/> \$ 44,897,894,493.46 | <hr/> <hr/> \$ 39,844,142,175.86 |

| | |
|----------------|--|
| Note 1. | Significant Accounting Policies |
|----------------|--|

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of the Army, as required by the “Chief Financial Officers Act of 1990,” 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 Army General Fund in accordance with the “DoD Financial Management Regulation,” Office of Management and Budget Circular (OMB) A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Army General Fund is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable.

The Army General Fund is unable to fully implement all elements of GAAP and the OMB Circular A-136, due to limitations of its financial management processes and systems and nonfinancial systems and processes that feed into the financial statements. The Army General Fund derives its reported values and information for major asset and liability categories, largely from nonfinancial systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of Federal Appropriations rather than preparing financial statements in accordance with GAAP. The Army General Fund continues to implement process and system improvements addressing these limitations many of which are detailed below. The Army General Fund currently has agreed with 13 auditor identified financial statement material weaknesses: (1) Financial Management Systems, (2) Accounting Adjustments, (3) Intragovernmental Transactions and Eliminations, (4) Abnormal Account Balances, (5) Accounts Receivable, (6) Inventory and Related Property, (7) Property, Plant, and Equipment, (8) Accounts Payable, (9) Environmental Liabilities, (10) Statement of Net Cost, (11) Statement of Budgetary Resources, (12) Statement of Financing., and (13) Fund Balance with Treasury.

1.B. Mission of the Reporting Entity

The Army mission is to support the National Security and Defense Strategies by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission encompasses the intent of Congress, as defined in Title 10 of the U.S. Code, to preserve the peace and security, and provide for the defense, of the U.S., the territories, commonwealths, and possessions of the U.S., and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 230-year life of the Army, but the environment and nature of conflict have undergone many changes over that same time, especially with

the Global War on Terror. This has required the Army to undergo a simultaneous transformation process in the way that it fights and in the way that it trains and equips its Soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the Nation's domestic and international security obligations today and into the future.

1.C. Appropriations and Funds

The Army General Fund receives its appropriations and funds as general, trust, special, and deposit funds. The Army General Fund uses appropriations and funds to execute their missions and report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operations and maintenance, research and development, procurement, and military construction accounts.

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

Special fund accounts are used to record government receipts reserved for a specific purpose.

Earmarked funds are made up of certain special and trust funds that are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The Army General Fund is acting as an agent or a custodian for funds awaiting distribution, for example payroll taxes.

The Army is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Effective for FY 2007, all financial activity related to allocation transfers is reported in the financial statements of the parent. The exception to this rule for Army is allocation transfers from the Executive Office of the President (EOP), for whom the Army is the child in the allocation transfer but, per Office of Management and Budget guidance, will report all activity relative to these allocation transfers in the Army financial statements. In addition to these funds, the Army allocates funds, as the parent, to Armament Retooling and Manufacturing Support (ARMS) Initiative for USDA, and receives allocation transfers, as the child, from the EOP, Federal Highway Administration (FHWA) and United States Department of Agriculture (USDA). As a parent entity, amounts reported on Army General Fund's net

cost of operations, changes in net position, and budgetary resources includes financial activity being performed by EOP, FHWA and USDA.

1.D. Basis of Accounting

For FY 2007, the Army General Fund's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Army General Fund's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of the Army General Fund's legacy systems were designed to record information on a budgetary basis.

The Department has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until all of the Army General Fund's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, the Army General Fund's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, the DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government and Performance and Results Act (GPRA). The DoD is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

The Army General Fund receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Army General Fund recognizes revenue as a result of costs incurred or services provided to other Federal agencies and the public. Full cost pricing is the Army General Fund's standard policy for services provided as required by OMB Circular A-25. The Army General Fund recognizes revenue when earned within the constraints of current system capabilities. In other instances, revenue is recognized when bills are issued.

The Army General Fund does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Statement of Financing. The U.S. has cost sharing agreements with other countries. 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 in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Army General Fund's financial and nonfinancial 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, accounts payable, environmental liabilities, and unbilled revenue. The Army General Fund's expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to migrate towards the consumption method for recognizing OM&S expenses.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within the DoD or between two or more federal agencies. However, the Army General Fund, cannot accurately identify most of its intragovernmental transactions by customer because the Army General Fund's systems do not track buyer and seller data needed to match related transactions. Seller entities within the DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intra-DoD intragovernmental balances are then eliminated. The Army General Fund properly eliminates the revenue results from intra-DoD sales of capitalized assets. The DoD is 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.

The Department of the Treasury Financial Management Service (FMS), is responsible for eliminating transactions between the DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government” and the Treasury’s “Federal Intragovernmental Transactions Accounting Policy Guide,” provide guidance for reporting and reconciling intragovernmental balances. While the Army General Fund is unable to fully reconcile intragovernmental transactions with all federal partners, the Army General Fund is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal

Employees' Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the Office of Personnel Management (OPM). The DoD's proportionate share of public debt and related expenses to the federal government are not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through 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.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Army General Fund sells defense articles and services to foreign governments and international organizations under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, the DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the U.S. Government. Payment is required in advance.

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

The Army General Fund's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Services, the U.S. Army Corps of Engineers (USACE) and the Department of State's financial service centers process the majority of the Army General Fund's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between the Army General Fund's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

Cash is the total of cash resources under the control of the DoD, which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of

both purchased and nonpurchased foreign currencies held in foreign currency fund accounts.

The majority of cash and all foreign currency is classified as nonentity and, therefore, is restricted. Amounts reported consist primarily of cash and foreign currency held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Cash seized during Operation Iraqi Freedom is restricted for use to assist the Iraqi people and support the restoration of Iraq.

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

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD 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).

The Army General Fund bases the estimate of uncollectible accounts receivable from the public on a percentage of aged receivables by category. The allowance is calculated by using 50 percent of aged receivables except foreign debt and debt as reported in the Defense Debt Management System in the 180-day to 2-year category and 100 percent of aged receivables in the greater than 2-year category.

1.L. Direct Loans and Loan Guarantees

The Army also operates a loan guarantee program designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

1.M. Inventories and Related Property

Most of the Army General Fund's inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains

and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, the Army General Fund has transitioned, and is continuing to transition, the inventory to the moving average cost method. Army General Fund is uncertain of the percentage of inventory now being reported from systems that have transitioned to moving average cost functionality. However, since the on-hand balances which transitioned were not, for the most part, baselined to auditable historical cost, the reported values remain noncompliant with SFFAS 3 and GAAP.

The Army General Fund manages only military or government specific materiel under normal conditions. Items commonly used in and are available from the commercial sector are not managed in the Army General Fund materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Army General Fund holds materiel based on military need and support for contingencies. Therefore, the DoD does not attempt to account separately for "inventory held for sale" and "inventory held in reserve for future sale" based on SFFAS No. 3 definitions.

Related property includes operating materials and supplies (OM&S). The OM&S, including munitions not held for sale, are valued at standard purchase price. The DoD uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Army General Fund uses the purchase method. Under this method, materials and supplies are expensed when purchased. During FY 2007, the Army General Fund expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user.

The Army General Fund determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Army General Fund recognizes condemned material as "Excess, Obsolete, and Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned material is zero. Potentially redistributed material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in the "Held for Use" or "Held for Repair" categories according to its condition.

Past audits identified uncertainties about completeness and existence of reported values of inventory. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the Army General Fund. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. It is more economical to repair than to procure these inventory items. Because the Army General Fund often relies on weapon systems and machinery no longer in production, the Army General Fund supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer. The work in process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including amounts withheld from payment to ensure performance, and amounts paid to other government plants for accrued costs of end items of material ordered but not delivered. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

1.N. Investments

The Army General Fund reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Army General Fund's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Army General Fund invests in nonmarketable securities. The two types of nonmarketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

1.O. General Property, Plant and Equipment

The Department is moving away from a standard capitalization threshold for all categories (e.g. real property, military equipment, etc.) of General Property Plant and Equipment (PP&E) to one that is specific for each individual category.

The capitalization threshold was revised from \$100,000 to \$20,000 for real property. The Army will validate existing real property values and implement sustainable business process prior to incorporating the revised capitalization threshold for financial

statement reporting. The current \$100,000 capitalization threshold remains unchanged for the remaining General PP&E categories.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of \$15,000, \$25,000, and \$50,000 for fiscal years 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below \$100,000 were written off General Fund financial statements in FY 1998.

When it is in the best interest of the government, the Army General Fund provides government property to contractors to complete contract work. The Army General Fund either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, it must be reported on the Army General Fund's Balance Sheet.

The DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Army General Fund reports only government property in the possession of contractors that is maintained in the Army General Fund's property systems. The DoD has issued new property accountability and reporting requirements that require Army General Fund Components to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with Federal accounting standards.

The SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," established generally accepted accounting principles for valuing and reporting military equipment (e.g. ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard provided for the use of estimated historical cost for valuing military equipment if obtaining actual historical cost information is not practical. The Department estimated historical cost using Bureau of Economic Analysis (BEA) estimates to calculate the value of the military equipment for reporting periods from October 1, 2002 through March 31, 2006.

Effective 3rd Quarter, FY 2006, the Department replaced the BEA estimation methodology with an estimation methodology for military equipment based on internal Departmental records. The Department initially identified the universe of military equipment by accumulating information relating to program funding and associated

military equipment, equipment useful life, program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure information, and information related to acquisition and disposals.

1.P. Advances and Prepayments

The Army General Fund records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. The Army General Fund recognizes advances and prepayments as expenses when it receives the related goods and services.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), the Army General Fund records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The Army General Fund records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the governmental's incremental borrowing rate at the inception of the lease. The Army General Fund as the lessee receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by the Army General Fund in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one-year leases. The Army General Fund expects to continue to reduce the level of owned assets while increasing the number of leased assets. The Army General Fund will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

The Army General Fund conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army General Fund provides financing payments. One type of financing payment that the Army General Fund makes for real property is based upon a percentage of completion. In

accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line on the Balance Sheet and in the related note.

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and contract financing payments, that are not reported elsewhere on the Department's Balance Sheet.

Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisitions Regulations Supplement (DFARS) authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments for real property and ships are reported as Construction in Progress in Note 10.

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. The uncertainty will be resolved when one or more future events occur or fail to occur. The Army General Fund 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. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The Army General Fund'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.

Other liabilities arise as a result of anticipated disposal costs for the Army General Fund's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when

the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon the DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government." The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. Such amounts are developed in conjunction with, and not easily identifiable separately from, environmental disposal costs.

1.T. Accrued Leave

The Army General Fund reports as liabilities military leave and civilian earned leave except sick leave that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. 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 the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfer in and out of assets without reimbursement.

1.V. Treaties for Use of Foreign Bases

The Army General Fund has the use the land, building, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Army General Fund purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the Army General Fund continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. This takes place after negotiations between the U.S. and the host country have determined the amount to be paid the U.S. for such capital investments.

1.W. Comparative Data

Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or ten percent from the prior period presented, but no less than \$100 thousand, are explained within the notes to the financial statements.

1.X. Unexpended Obligations

The Army General Fund 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 and services not yet delivered.

1.Y. Undistributed Disbursements and Collection

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. In-transit payments are those payments that have been made to other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The 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. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The Army General Fund follows this procedure. Unsupported undistributed collections and disbursements represents collections and disbursements that are not in agreement with accounting records. These are normally reconciled in the following month.

1.Z. Development Fund for Iraq

On June 28, 2004, transfer of power from the Coalition Provisional Authority (CPA) to the Interim Iraqi Government (IIG) occurred. Prior to transfer, the CPA was responsible for the management and accounting of the Development Fund for Iraq (DFI). Ongoing resolution of issues surrounding transfers of approximately \$1.7 billion of DFI assets, including \$86 million transferred from IIG to the Multi-National Force-Iraq in August 2004, will require additional disclosure in future financial statements. The Army General Fund has established a plan to reconcile and account for these amounts and record DFI funds received. As of the 1st Quarter, FY 2007, Army General Fund has reconciled the \$86 million transferred from IIG. The Army General Fund has recorded a total of \$136 million in DFI assets, which includes the \$86 million reconciled and a \$50 million transfer in 1st Quarter, FY 2005. See Note 22 for additional discussion on DFI.

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

| As of December 31 | 2007 | 2006 |
|------------------------------------|-----------------------|-----------------------|
| 1. Intragovernmental Assets | | |
| A. Fund Balance with Treasury | \$ 216,231,284.99 | \$ 286,071,853.52 |
| B. Accounts Receivable | 0.00 | 0.00 |
| C. Total Intragovernmental Assets | \$ 216,231,284.99 | \$ 286,071,853.52 |
| 2. Nonfederal Assets | | |
| A. Cash and Other Monetary Assets | \$ 1,764,500,402.96 | \$ 1,327,243,671.01 |
| B. Accounts Receivable | 28,683,593.97 | 57,406,087.74 |
| C. Other Assets | 0.00 | 0.00 |
| D. Total Nonfederal Assets | \$ 1,793,183,996.93 | \$ 1,384,649,758.75 |
| 3. Total Nonentity Assets | \$ 2,009,415,281.92 | \$ 1,670,721,612.27 |
| 4. Total Entity Assets | \$ 323,039,352,713.78 | \$ 259,929,682,812.44 |
| 5. Total Assets | \$ 325,048,767,995.70 | \$ 261,600,404,424.71 |

Fluctuations and/or Abnormalities

Total Nonentity Assets increased \$338.7 million, or 20 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily caused by an increase in cash and other monetary assets, which increased \$437.3 million due to advances from the Republic of Korea received during 3rd and 4th Quarter, FY 2006 for engineering and construction work to be done by the U.S. Army Corps of Engineers. In addition, Fund Balance with Treasury decreased \$69.8 million, or 24 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to decreases in Nonentity Seized Iraqi Cash and Nonentity Other.

Balance sheet presentation of Fund Balance with Treasury

The Fund Balance with Treasury shown on the schedule above is comprised of Non-Entity Seized Iraqi Cash and Non-Entity-Other.

Non-Entity Seized Iraqi Cash decreased \$27.7 million, or 48 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to disbursements in support of the Iraqi people throughout the fiscal year. Disbursements will continue until all cash is liquidated. A breakout of the disbursements is reflected in Note 22.

Non-Entity-Other includes development funds for Iraq and deposit funds. Fund Balance with Treasury Non-Entity-Other decreased \$42.2 million, or 18 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007, primarily caused by a decrease in the Army Member Savings Deposit accounts of \$94.1 million as a result of transferring accrued funds to the account steward, the

Department of the Navy, in 4th Quarter, FY 2006. The Department of the Navy is responsible for making the disbursements to the military service members. The funds also decreased due to \$20.9 million in development fund for Iraq disbursements for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. In addition, the funds increased due to the recording of receipt accounts and Thrift Savings Plan suspense accounts as nonentity for the first time in 3rd Quarter, FY 2006. Army General Fund erroneously excluded receipt accounts from the Army fund balance with treasury in 1st Quarter, FY 2006 resulting in a \$30.8 million increase. In addition, Army General Fund implemented Office of the Secretary of Defense guidance to reclassify Thrift Savings Plan suspense accounts as nonentity resulting in a \$34.3 million increase.

Definitions

Nonentity assets are assets for which the Army General Fund maintains stewardship accountability and responsibility to report, but are not available for the Army General Fund's operation.

Nonentity Fund Balance with Treasury consists of deposit funds, seized Iraqi cash, and development fund for Iraq. Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. Development fund for Iraq consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds.

Nonentity Cash and Other Monetary Assets consist of cash held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Foreign currency is valued using the Department of the Treasury prevailing rate of exchange.

Nonentity Nonfederal Accounts Receivable are primarily from cancelled year appropriations. These receivables will be returned to the Department of the Treasury as miscellaneous receipts once collected.

Army member savings deposit accounts are fixed high interest savings accounts available to service members that are serving in the Balkans, Operation Iraqi Freedom or Operation Enduring Freedom.

| | |
|----------------|-----------------------------------|
| Note 3. | Fund Balance with Treasury |
|----------------|-----------------------------------|

As of December 31

| | 2007 | 2006 |
|--|------------------------------|-------------------------------|
| 1. Fund Balances | | |
| A. Appropriated Funds | \$ 194,211,602,146.43 | \$ 93,363,798,002.31 |
| B. Revolving Funds | 14,723,289.43 | 45,270,000.87 |
| C. Trust Funds | 1,584,089.62 | 863,195.21 |
| D. Special Funds | 42,620,896.50 | 42,740,788.41 |
| E. Other Fund Types | 216,231,284.99 | 286,071,853.52 |
| F. Total Fund Balances | <u>\$ 194,486,761,706.97</u> | <u>\$ 93,738,743,840.32</u> |
| 2. Fund Balances Per Treasury Versus Agency | | |
| A. Fund Balance per Treasury | \$ 193,151,445,802.58 | \$ 54,487,483,611.42 |
| B. Fund Balance per Army | 194,486,761,706.97 | 93,738,743,840.32 |
| 3. Reconciling Amount | <u>\$ (1,335,315,904.39)</u> | <u>\$ (39,251,260,228.90)</u> |

Fluctuations and/or Abnormalities

Entity Fund Balance with Treasury, as presented on the Balance Sheet, increased \$100.8 billion, or 108 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to \$97.4 billion received in 1st Quarter, FY 2007 greater than funds received in 1st Quarter, FY 2006 under the continuing resolution. In FY 2007 the authorization bill for all appropriations except for Army Family Housing and Military Construction were signed before the end of the 1st Quarter.

Reconciling Amount

The Army General Fund reports an additional \$1.3 billion in Fund Balance with Treasury than reported by the Department of Treasury primarily due to the reporting of \$1.3 billion in continuing resolution funds for Army family housing and military construction accounts.

Vested Iraqi Cash

The Army General Fund has collected \$1.7 billion of Vested Iraqi Cash which is included in the \$194.2 billion in appropriated funds. These funds are Iraqi funds in U.S. banks that were frozen by Executive Order, vested in the Department of the Treasury, and authorized for use to benefit the people of Iraq. Vested Iraqi Cash disbursed in support of the Iraqi people as follows:

| | |
|--|---------------------|
| (Amounts in thousands) | <u>Amount</u> |
| Collected | \$ 1,724,131 |
| Disbursed | |
| Iraqi Salaries | \$ 1,184,791 |
| Repair/Reconstruction/Humanitarian Assistance | 148,923 |
| Iraqi Ministry Operations (Ministry of Finance, Defense, etc.) | <u>356,818</u> |
| Total Disbursed | <u>\$ 1,690,532</u> |
| Remaining Funds | <u>\$ 33,599</u> |

Other Fund Types

Other Fund Types consists of deposit funds, seized Iraqi cash, and development fund for Iraq. Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. Development fund for Iraq consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds.

Status of Fund Balance with Treasury

| As of December 31 | 2007 | 2006 |
|---|------------------------|------------------------|
| 1. Unobligated Balance | | |
| A. Available | \$ 108,691,715,066.13 | \$ 26,983,338,304.71 |
| B. Unavailable | 3,123,891,442.22 | 2,107,727,969.21 |
| 2. Obligated Balance not yet Disbursed | \$ 104,117,116,245.09 | \$ 75,714,124,660.32 |
| 3. Nonbudgetary FBWT | \$ 739,597,718.05 | \$ 6,791,185,251.48 |
| 4. NonFBWT Budgetary Accounts | \$ (22,185,558,764.52) | \$ (17,857,585,823.44) |
| 5. Total | \$ 194,486,761,706.97 | \$ 93,738,790,362.28 |

Fluctuations and/or Abnormalities

Total Status of Fund Balance with Treasury increased \$100.7 billion, or 107 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to \$97.4 billion received in 1st Quarter, FY 2007 greater than funds received in 1st Quarter, FY 2006 under the continuing resolution. In FY 2007 the authorization bill for all appropriations except for Army Family Housing and Military Construction were signed before the end of the 1st Quarter.

Definitions

The Status of Fund Balance with Treasury consists of unobligated balances and obligated amounts not yet disbursed. 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 Fund Balance with Treasury, 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. Army General Fund does not have any restrictions on unobligated balances.

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.

Nonbudgetary Fund Balance with Treasury includes entity and nonentity Fund Balance with Treasury accounts which do not have budgetary authority, such as unavailable receipt accounts, clearing accounts and Iraqi custodial accounts.

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

Disclosures Related to Suspense/Budget Clearing Accounts

| As of December 31 | 2005 | 2006 | 2007 | (Decrease)/ Increase from FY 2006 - 2007 |
|---|--------------------------|--------------------------|--------------------------|--|
| Account | | | | |
| F3845 – Personal Property Proceeds | \$ 1,001,780.57 | \$ 1,154,281.49 | \$ 359,269.15 | (795,012.34) |
| F3875 – Disbursing Officer Suspense | 480,653,707.62 | 536,994,027.01 | 574,350,117.07 | 37,356,090.06 |
| F3880 – Lost or Cancelled Treasury Checks | 14,133,445.70 | 8,094,372.42 | 10,591,808.94 | 2,497,436.52 |
| F3882 – Uniformed Services Thrift Savings Plan Suspense | 7,545.85 | 25,360,929.22 | 33,927,741.68 | 8,566,812.46 |
| F3885 – Interfund/IPAC Suspense | (101,715,414.21) | (30,885,006.26) | (61,934,816.46) | (31,049,810.20) |
| F3886 – Thrift Savings Plan Suspense | 7,453,515.76 | 8,855,089.64 | 388,248.19 | (8,466,841.45) |
| Total | \$ 401,534,581.29 | \$ 549,573,693.52 | \$ 557,682,368.57 | 8,108,675.05 |

Definitions

The F3845 suspense account represents the balance of proceeds from the sale of personal property.

The F3875 suspense clearing account represents the Disbursing Officer's suspense, which includes military pay's Federal Income tax withholding monies.

The F3880 suspense account represents the balance of Treasury checks that have either been lost by the payee and need to be reissued, have never been cashed by the payee, or have been cancelled by the Department of the Treasury and need to be transferred to the original appropriation.

The F3882 suspense account was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the Thrift Savings Plan deductions by the National Finance Center and the posting of these amounts in the military accounting systems in the following month.

The F3885 suspense account includes the Interfund and Intragovernmental Payment and Collections (IPAC) suspense.

The F3886 suspense account includes payroll deductions for civilian employees Thrift Savings Plan.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

| As of December 31 | 2005 | 2006 | 2007 | (Decrease)/ Increase from FY 2006 to 2007 |
|---|---------------------|---------------------|---------------------|---|
| 1. Total Problem Disbursements, Absolute Value | | | | |
| A. Unmatched Disbursements (UMDs) | \$ 152,663,948.82 | \$ 237,052,184.38 | \$ 69,193,079.34 | (167,859,105.04) |
| B. Negative Unliquidated Obligations (NULO) | 60,287,430.50 | 75,491,877.83 | 205,185,031.01 | 129,693,153.18 |
| 2. Total In-transit Disbursements, Net | \$ 2,215,933,060.64 | \$ 2,075,928,290.96 | \$ 2,691,669,749.38 | 615,741,458.42 |

Fluctuations and/or Abnormalities

Absolute UMDs decreased \$167.9 million, or 71 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to a change in process in FY 2006 where contingency disbursing stations in Iraq and Kuwait process payments via an electronic file rather than shipping vouchers via postal service. Consequently, the unmatched disbursements decreased due to the enhanced timing of posting disbursements into the accounting system and with the Department of the Treasury. In addition, changes were completed to an Automatic Reject Control System during FY 2006, which led to quicker isolation of problems, implementation of corrective actions, and an increase of the automatic posting rate of Mechanization of Contract Administration Services disbursements.

Absolute NULO increased \$129.7 million, or 172 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to Military Pay operations change in procedure in 1st Quarter FY 2007. NULOs are no longer moved to the obligation at summary level, they are moved at the lowest level of detail as possible.

Net In-transit disbursements increased \$615.7 million, or 30 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to implementation of the new Interfund Funds Control Module. This system replaces the Installation Supply Buffer that was used to process supply obligations. The decision was made by Army and Defense Finance Accounting Service that the best course of action was to wait until obligations for logistic transactions processed before releasing Interfund Bills. During the 1st Quarter, FY 2007 Interfund Fund Bills were not processed to avoid duplicate obligations. The processing of the backlog of bills started in December 2006, therefore this issue has been resolved.

Definitions

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

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

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

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

Aged UMDs, NULOs, and In-transits

The Army General Fund absolute value of UMDs, NULOs and \$328.1 million in aged in-transit net disbursements, out of \$2.7 billion total, represent problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30-day aging category. After 30 days, they are considered problem disbursements.

Note 4. Investments and Related Interest

| As of December 31 | 2007 | | | | |
|---|-----------------|---------------------|--------------------------------|------------------|-------------------------|
| | Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
| 1. Intragovernmental Securities | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | \$ 0.00 | | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2. Medicare Eligible Retiree Health Care Fund | 0.00 | | 0.00 | 0.00 | 0.00 |
| 3. US Army Corps of Engineers | 0.00 | | 0.00 | 0.00 | 0.00 |
| 4. Other Funds | 3,231,987.72 | effective interest | 13,024.48 | 3,245,012.20 | 3,238,285.07 |
| 5. Total Nonmarketable, Market-Based | 3,231,987.72 | | 13,024.48 | 3,245,012.20 | 3,238,285.07 |
| B. Accrued Interest | 15,823.55 | | | 15,823.55 | 15,823.55 |
| C. Total Intragovernmental Securities | \$ 3,247,811.27 | | \$ 13,024.48 | \$ 3,260,835.75 | \$ 3,254,108.62 |
| 2. Other Investments | | | | | |
| A. Total Other Investments | \$ 0.00 | | \$ 0.00 | \$ 0.00 | N/A |
| As of December 31 | 2006 | | | | |
| | Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
| 3. Intragovernmental Securities | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | \$ 0.00 | | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2. Medicare Eligible Retiree Health Care Fund | 0.00 | | 0.00 | 0.00 | 0.00 |
| 3. US Army Corps of Engineers | 0.00 | | 0.00 | 0.00 | 0.00 |
| 4. Other Funds | 3,406,593.98 | effective interest | 2,171.82 | 3,408,765.80 | 3,402,386.17 |
| 5. Total Nonmarketable, Market-Based | 3,406,593.98 | | 2,171.82 | 3,408,765.80 | 3,402,386.17 |
| B. Accrued Interest | 17,712.17 | | | 17,712.17 | 17,712.17 |
| C. Total Intragovernmental Securities | \$ 3,424,306.15 | | \$ 2,171.82 | \$ 3,426,477.97 | \$ 3,420,098.34 |
| 4. Other Investments | | | | | |
| A. Total Other Investments | \$ 0.00 | | \$ 0.00 | \$ 0.00 | N/A |

Relevant Information for Comprehension

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

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the Department of the Treasury, which uses the cash for general government purposes. The Department of the Treasury securities are issued to Army General Fund as evidence of its receipts. Treasury securities are an asset to Army General Fund and a liability to the Department of the Treasury. Because Army General Fund and the Department of the Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. The Department of the Treasury securities provides Army General Fund with authority to draw upon the Department of the Treasury to make future benefit payments or other expenditures. When Army General Fund requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

| | |
|----------------|----------------------------|
| Note 5. | Accounts Receivable |
|----------------|----------------------------|

| As of December 31 | 2007 | | | 2006 |
|--|---------------------|--|--------------------------|--------------------------|
| | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net | Accounts Receivable, Net |
| 1. Intragovernmental Receivables | \$ 453,233,244.59 | N/A | \$ 453,233,244.59 | \$ 527,059,473.65 |
| 2. Nonfederal Receivables (From the Public) | \$ 591,462,307.43 | \$ (40,916,112.65) | \$ 550,546,194.78 | \$ 651,546,896.69 |
| 3. Total Accounts Receivable | \$ 1,044,695,552.02 | \$ (40,916,112.65) | \$ 1,003,779,439.37 | \$ 1,178,606,370.34 |

Fluctuations and/or Abnormalities

Intragovernmental Receivables decreased \$73.8 million, or 14 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to increased use of Department of Treasury's Intragovernmental Payment and Collections (IPAC) System. IPAC allows intragovernmental transactions to be processed more quickly which helps to lower the receivables balances.

Net Nonfederal Receivables (From the Public) decreased \$101.0 million, or 16 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. All of the decrease is identified to Non FMS Foreign Government Indebtedness. Collection action was taken during 1st Quarter, FY 2007. The Army network has been made aware of the OSD metric criteria and is facilitating aggressive collection actions.

Relevant Information for Comprehension

Nonfederal Receivables (From the Public) consists of accounts receivable, refunds receivable, claims receivable, and interest receivable. The following schedule illustrates the major contributors to Gross Amount Due from Nonfederal Accounts Receivable (From the Public), by type of debt:

| <u>Type of Debt (Amount in thousands)</u> | |
|---|------------------|
| Military Pay (In Service Debt Only) | \$122,905 |
| Civilian Pay (In Service Debt Only) | 27,950 |
| Individual Out-of-Service | 206,018 |
| Contractor Debt | 32,165 |
| Vendor Debt | 4,271 |
| Non Appropriated Funds | 46,906 |
| Foreign Military Sales (FMS) | 687 |
| Non FMS Foreign Government Indebtedness | 83,178 |
| Sales of Goods & Services (Excluding Referrals to CDS - Columbus) | 9,649 |
| Travel Pay Debt | 5,893 |
| Interest, Penalty and Administrative | 10,024 |
| Other | 41,816 |
| Subtotal | <u>\$591,462</u> |
| Undistributed Collections Public | <u>0</u> |
| Gross Nonfederal Accounts Receivable (Public) | <u>\$591,462</u> |

Aged Accounts Receivable

| As of December 31 | 2007 | | 2006 | |
|---|----------------------------|--------------------------|----------------------------|--------------------------|
| | Intragovernmental | Nonfederal | Intragovernmental | Nonfederal |
| CATEGORY | | | | |
| Nondelinquent | | | | |
| Current | \$ 1,169,772,289.00 | \$ 339,041,192.00 | \$ 1,311,916,443.00 | \$ 454,201,738.00 |
| Noncurrent | 0.00 | 0.00 | 0.00 | 0.00 |
| Delinquent | | | | |
| 1 to 30 days | \$ (132,675.00) | \$ 21,274,423.00 | \$ 1,400,023.00 | \$ 1,269,648.00 |
| 31 to 60 days | 306,692.00 | 11,883,029.00 | 834,349.00 | 10,480,639.00 |
| 61 to 90 days | (7,387,609.00) | 42,967,665.00 | 2,486,088.00 | 20,183,749.00 |
| 91 to 180 days | 136,817.00 | 32,239,008.00 | 4,041,523.00 | 25,400,531.00 |
| 181 days to 1 year | 2,488,014.00 | 37,070,075.00 | 6,506,215.00 | 20,894,645.00 |
| Greater than 1 year and less than or equal to 2 years | 257,326.00 | 45,092,804.00 | 2,713,880.00 | 40,033,600.00 |
| Greater than 2 years and less than or equal to 6 years | 724.00 | 44,853,088.00 | 0.00 | 51,564,782.00 |
| Greater than 6 years and less than or equal to 10 years | 0.00 | 14,652,103.00 | 0.00 | 117,830,258.00 |
| Greater than 10 years | 0.00 | 2,388,920.00 | 0.00 | 10,527,692.00 |
| Subtotal | \$ 1,165,441,578.00 | \$ 591,462,307.00 | \$ 1,329,898,521.00 | \$ 752,387,282.00 |
| Less Supported Undistributed Collections | (10,235,966.00) | 0.00 | (35,470,026.00) | (23,421.00) |
| Less Eliminations | (701,972,369.00) | 0.00 | (937,245,964.00) | 0.00 |
| Less Other | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | \$ 453,233,243.00 | \$ 591,462,307.00 | \$ 357,182,531.00 | \$ 752,363,861.00 |

The table above identifies aged accounts receivable groups for Army General Fund as reported in the Monthly Receivable Data Reports. The accounts receivable aging schedule prior year column represents 4th Quarter, FY 2006 ending balances, rather than the ending balances as of 1st Quarter, FY 2006. Therefore, the prior year accounts receivable balance on the aging schedule will not agree with either the prior year balance on the Balance Sheet or the prior year balance in the first schedule in this note.

The credit receivables (abnormal balances) are the results of systemic problems that will be corrected during the 2nd Quarter, FY 2007.

Delinquent Intragovernmental Receivables

The 1-30 day category decreased \$1.5 million, or 110 percent attributed to the increased use of Departments of Treasury's Intra-governmental Payment and Collections (IPAC) system. The credit balance is the result of an over collection from the Department of Health and Human Service (HHS). Refund to HHS is expected during 2nd Quarter FY 2007.

The 31-60 day category decreased \$528 thousand, or 63 percent attributed to the increased use of Departments of Treasury's IPAC system.

The 61-90 day category decreased \$9.8 million, or 397 percent attributed to the increased use of Departments of Treasury's IPAC system. The credit balance is the result of an over collection from the HHS. Refund to HHS is expected during 2nd Quarter FY 2007.

The 91-180 day category decreased \$3.9 million, or 97 percent attributed to the increased use of Departments of Treasury's IPAC system.

The 181 day to 1year category decreased \$4.0 million, or 62 percent attributed to the increased use of Departments of Treasury's IPAC system.

The 1-2 year category decreased \$2.5 million, or 91 percent attributed to the increased use of Departments of Treasury's IPAC system.

Delinquent Nonfederal Receivables

There are delinquent nonfederal accounts receivables of \$252.4 million in the following collections stages:

- \$11.6 million - Deferment/Contract Appeals Board litigation
- \$79.8 million - Department of the Treasury's litigation board
- \$4.7 million - Bankruptcy court
- \$4.5 million - Department of Justice
- \$143.4 million – The Army is actively pursuing these accounts with expected collection during the 2nd Quarter, FY 2007.

Acquisition Cross Service Agreements (ACSA) are authorized by Subchapter I, Chapter 138, Title 10 of the United States Code as support agreements between the U.S. government and governments of other North Atlantic Treaty Organization (NATO) countries.

The 1-30 day category increased \$20.0 million, or 1,576 percent attributed to ACSA debt. The January bills cover the 1st Quarter, FY 2007. Collection is expected during the 2nd Quarter, FY 2007.

The 31-60 day category increased \$1.4 million, or 13 percent attributed to ACSA debt. The January bills cover the 1st Quarter, FY 2007. Collection is expected during the 2nd Quarter, FY 2007.

The 61-90 day category increased \$22.8 million, or 113 percent attributed to ACSA debt. The January bills cover the 1st Quarter, FY 2007. Collection is expected during the 2nd Quarter, FY 2007.

The 91-180 day category increased \$6.8 million, or 27 percent attributed to ACSA debt. The January bills cover the 1st Quarter, FY 2007. Collection is expected during the 2nd Quarter, FY 2007.

The 181 day to 1 year category increased \$16.2 million, or 77 percent attributed to ACSA debt. The January bills cover the 1st Quarter, FY 2007. Collection is expected during the 2nd Quarter, FY 2007.

The 1-2 year category increased \$5.1 million, or 13 percent attributed to ACSA debt. The January bills cover the 1st Quarter, FY 2007. Collection is expected during the 2nd Quarter, FY 2007.

The 2-6 year category decreased \$6.7 million, or 13 percent due to resolution of accounts receivable during the 1st Quarter, FY 2007 that were in litigation, with the Deferment Contract Appeals Board, Department of Treasury, bankruptcy court or Department of Justice.

The 6-10 year category decreased \$103.2 million, or 88 percent during 1st Quarter, FY 2007 due to the resolution of accounts receivable that were in litigation, with the Deferment Contract Appeals Board, Department of Treasury, bankruptcy court or Department of Justice.

The greater than 10 year category decreased \$8.1 million, or 77 percent due to the resolution of accounts receivable that were in litigation, with the Deferment Contract Appeals Board, Department of Treasury, bankruptcy court or Department of Justice.

Relevant Information

The majority of both intragovernmental and nonfederal accounts receivable are in current status. Nondelinquent accounts receivable are receivables not yet due under the contract or billing documents pertaining to the receivable. The Intragovernmental portion of the nondelinquent accounts receivable consists of \$1.2 billion and the Nonfederal portion consists of \$340.0 million. Current nondelinquent accounts receivable are those that are due in the next 12 months. Noncurrent nondelinquent accounts receivable are those amounts that are due beyond the next 12 months.

Delinquent accounts receivable shall be aged from the date the account is considered delinquent as outlined in the DoD Financial Management Regulations (FMR). To collect delinquent accounts receivable, the Army follows the DoD concept of operations for collections, which requires follow-up actions at 30-day intervals with ordering activities.

According to Volume 6B, Chapter 10, paragraph 100703 of the DoD FMR, which requires that the undistributed amount be omitted from the Aged Receivables schedule. Therefore, they are deducted from the bottom of the aging schedule.

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

| As of December 31 | 2007 | 2006 |
|--|---------------------|---------------------|
| 1. Intragovernmental Other Assets | | |
| A. Advances and Prepayments | \$ 499,682,611.25 | \$ 783,755,497.60 |
| B. Other Assets | 0.00 | 0.00 |
| C. Total Intragovernmental Other Assets | \$ 499,682,611.25 | \$ 783,755,497.60 |
| 2. Nonfederal Other Assets | | |
| A. Outstanding Contract Financing Payments | \$ 4,882,926,921.02 | \$ 3,617,686,808.55 |
| B. Other Assets (With the Public) | 385,854,668.72 | 362,027,200.86 |
| C. Total Nonfederal Other Assets | \$ 5,268,781,589.74 | \$ 3,979,714,009.41 |
| 3. Total Other Assets | \$ 5,768,464,200.99 | \$ 4,763,469,507.01 |

Fluctuation and/or Abnormalities

Intragovernmental advances and prepayments decreased \$284.1 million, or 36 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The entire decrease is a result of advances with the Department of Interior being returned to the Army during the 1st Quarter, FY 2007.

Nonfederal Other Assets increased \$1.3 billion, or 32 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to \$839.5 million in outstanding contract financing payments for the procurement of Patriot Missiles and Bradley Combat Vehicles in support of the Global War on Terrorism during FY 2006 and \$402.2 million in Mechanization of Contract Administration Services (MOCAS) contingent financing payments in the 4th Quarter, FY 2006.

Other Assets (with the public) largely consists of military pay and travel advances.

Other Relevant Information for Comprehension

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Department that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Department is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The Contract Financing Payment balance of \$4.9 billion is comprised of \$4.5 billion in contract financing payments and an additional \$402.2 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product.

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

| As of December 31 | 2007 | 2006 |
|---|---------------------|---------------------|
| 1. Cash | \$ 987,874,566.73 | \$ 951,802,236.94 |
| 2. Foreign Currency | 776,625,836.23 | 375,441,434.07 |
| 3. Other Monetary Assets | 0.00 | 0.00 |
| 4. Total Cash, Foreign Currency, & Other Monetary Assets | \$ 1,764,500,402.96 | \$ 1,327,243,671.01 |

Fluctuations and/or Abnormalities

Cash and Other Monetary Assets increased \$437.3 million, or 33 percent, from 1st Quarter, FY 2006, to 1st Quarter, FY 2007, due to an increase in advances during 3rd and 4th Quarter, FY 2006 from the Republic of Korea for engineering and construction work to be done by the U.S. Army Corps of Engineers. Construction projects include upgrading electrical systems, water and sewer systems, housing, schools, fences, and bridges on various bases in Korea.

Definitions

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

Foreign Currency –The total U.S. dollar equivalent of purchased and non-purchased foreign currencies held in foreign currency fund accounts.

Other Monetary Assets - Gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury and is not used by Army General Fund.

Other Information Related to Cash and Other Monetary Assets

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

Breakdown of Cash

Cash and foreign currency are broken down into the elements shown in the table below:

| (Amount in thousands) | Negotiable Instruments & U.S. \$ | Foreign Currency |
|---------------------------------|---|-----------------------------|
| Cash on Deposit in Bank | \$261,774 | \$773,198 |
| Cash on Hand | 293,018 | 2,319 |
| Cash – Undeposited Collections | 589 | 0 |
| Custody of Contingency Cash | 0 | 0 |
| Cash in Transit | 3,219 | 0 |
| Cash – Other | 4,369 | 0 |
| Cash adjustments | <u>2,028</u> | <u>0</u> |
| Total Cash on Hand | \$564,997 | \$775,517 |
| Total Cash in Custody of Agents | <u>422,877</u> | <u>1,109</u> |
| Total Cash | <u>\$987,874</u> | <u>\$776,626</u> |

The amount reported as Cash in the Custody of Agents, \$422.9 million, reflects cash provided to the disbursing agents. However, due to inherent timing differences based on location, this amount is not properly reduced by agent disbursements thus causing the Disbursing Officer's cash to be subject to overstatement.

| | |
|----------------|---|
| Note 8. | Direct Loan and/or Loan Guarantee Programs |
|----------------|---|

As of December 31

Direct Loan and/or Loan Guarantee Programs

Direct Loan and/or Loan Guarantee Programs

The Army operates the Armament Retooling & Manufacturing Support Initiative Loan Guarantee programs.

The Federal Credit Reform Act of 1990 governs all amended loan guarantee commitments made after FY 1991 resulting in loan guarantees.

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows:

- Payments by the Army to cover defaults and delinquencies, interest subsidies, or other payments; offset by
- Payments to the Army including origination and other fees, penalties, and recoveries.

Armament Retooling and Manufacturing Support Initiative

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

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

Direct Loans Obligated After FY 1991

| As of December 31 | 2007 | | 2006 | |
|---|-----------|-------------|-----------|-------------|
| Loan Programs | | | | |
| 1. Military Housing Privatization Initiative | | | | |
| A. Loans Receivable Gross | \$ | 0.00 | \$ | 0.00 |
| B. Interest Receivable | | 0.00 | | 0.00 |
| C. Foreclosed Property | | 0.00 | | 0.00 |
| D. Allowance for Subsidy Cost (Present Value) | | 0.00 | | 0.00 |
| <hr/> | | | | |
| E. Value of Assets Related to Direct Loans | \$ | 0.00 | \$ | 0.00 |
| <hr/> | | | | |
| 2. Foreign Military Financing Account | | | | |
| 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 |
| <hr/> | | | | |
| E. Value of Assets Related to Direct Loans | \$ | 0.00 | \$ | 0.00 |
| <hr/> | | | | |
| 3. Total Loans Receivable | \$ | 0.00 | \$ | 0.00 |

Not applicable.

Total Amount of Direct Loans Disbursed

| As of December 31 | 2007 | 2006 |
|--|----------------|----------------|
| Direct Loan Programs | | |
| 1. Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 |
| 2. Foreign Military Financing Account | 0.00 | 0.00 |
| 3. Total | \$ 0.00 | \$ 0.00 |

Not applicable.

Subsidy Expense for Post FY 1991 Direct Loan

As of December 31

| 2007 | Interest Differential | Defaults | Fees | Other | Total |
|--|-----------------------|---------------------------|-----------------------|-------------------|---------|
| 1. New Direct Loans Disbursed: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Foreign Military Financing Account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2006 | Interest Differential | Defaults | Fees | Other | Total |
| 2. New Direct Loans Disbursed: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Foreign Military Financing Account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2007 | Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total |
| 3. Direct Loan Modifications and Reestimates: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Foreign Military Financing Account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2006 | Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total |
| 4. Direct Loan Modifications and Reestimates: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Foreign Military Financing Account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | | 2007 | 2006 | | |
| 5. Total Direct Loan Subsidy Expense: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | 0.00 | 0.00 | 0.00 |
| Foreign Military Financing Account | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Not applicable.

Subsidy Rate for Direct Loans

| As of December 31 | Interest Differential | Defaults | Fees and other Collections | Other | Total |
|--|-----------------------|----------|----------------------------|-------|-------|
| Direct Loan Programs | | | | | |
| 1. Military Housing Privatization Initiative | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 2. Foreign Military Financing Account | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

Not applicable.

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

| As of December 31 | 2007 | 2006 |
|---|----------------|----------------|
| 1. Beginning Balance of the Subsidy Cost Allowance | \$ 0.00 | \$ 0.00 |
| 2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component | | |
| A. Interest Rate Differential Costs | \$ 0.00 | \$ 0.00 |
| B. Default Costs (Net of Recoveries) | 0.00 | 0.00 |
| C. Fees and Other Collections | 0.00 | 0.00 |
| D. Other Subsidy Costs | 0.00 | 0.00 |
| E. Total of the above Subsidy Expense Components | \$ 0.00 | \$ 0.00 |
| 3. Adjustments | | |
| A. Loan Modifications | \$ 0.00 | \$ 0.00 |
| B. Fees Received | 0.00 | 0.00 |
| C. Foreclosed Property Acquired | 0.00 | 0.00 |
| D. Loans Written Off | 0.00 | 0.00 |
| E. Subsidy Allowance Amortization | 0.00 | 0.00 |
| F. Other | 0.00 | 0.00 |
| G. Total of the above Adjustment Components | \$ 0.00 | \$ 0.00 |
| 4. Ending Balance of the Subsidy Cost Allowance before Re-estimates | \$ 0.00 | \$ 0.00 |
| 5. Add or Subtract Subsidy Re-estimates by Component | | |
| A. Interest Rate Re-estimate | \$ 0.00 | \$ 0.00 |
| B. Technical/Default Reestimate | 0.00 | 0.00 |
| C. Total of the above Reestimate Components | \$ 0.00 | \$ 0.00 |
| 6. Ending Balance of the Subsidy Cost Allowance | \$ 0.00 | \$ 0.00 |

Not applicable.

Defaulted Guaranteed Loans from Post FY 1991 Guarantees

| As of December 31 | 2007 | 2006 |
|--|-------------------------|----------------|
| Loan Guarantee Program(s) | | |
| 1. Military Housing Privatization Initiative | | |
| A. Defaulted Guaranteed Loans Receivable, Gross | \$ 0.00 | \$ 0.00 |
| B. Interest Receivable | 0.00 | 0.00 |
| C. Foreclosed Property | 0.00 | 0.00 |
| D. Allowance for Subsidy Cost (Present Value) | 0.00 | 0.00 |
| E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net | \$ 0.00 | \$ 0.00 |
| 2. Armament Retooling & Manufacturing Support Initiative | | |
| A. Defaulted Guaranteed Loans Receivable, Gross | \$ 14,407,200.02 | \$ 0.00 |
| B. Interest Receivable | 902,864.53 | 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 | \$ 15,310,064.55 | \$ 0.00 |
| 3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable | \$ 15,310,064.55 | \$ 0.00 |

The Defaulted Guaranteed Loans Receivable, Gross, increased \$14.4 million, or 100 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to a November 2006 payment on a loss claim to a bank for a defaulted loan to make fire retardant, moisture resistant, laminated particleboard/hybrid panels from 100 percent recycled “post consumer” waste wood.

The Interest Receivable increased \$902.9 thousand, or 100 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to a defaulted loan that was paid in November 2006.

| |
|-------------------------------------|
| Guaranteed Loans Outstanding |
|-------------------------------------|

| As of December 31 | Outstanding Principal of Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
|--|---|---|
| Guaranteed Loans Outstanding | | |
| 1. Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 |
| 2. Armament Retooling & Manufacturing Support Initiative | \$ 20,507,617.97 | \$ 18,231,875.27 |
| 3. Total | \$ 20,507,617.97 | \$ 18,231,875.27 |
| 2007 | | |
| New Guaranteed Loans Disbursed | | |
| 1. Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 |
| 2. Armament Retooling & Manufacturing Support Initiative | \$ 0.00 | \$ 0.00 |
| 3. Total | \$ 0.00 | \$ 0.00 |
| 2006 | | |
| New Guaranteed Loans Disbursed | | |
| 1. Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 |
| 2. Armament Retooling & Manufacturing Support Initiative | \$ 739,852.83 | \$ 692,822.09 |
| 3. Total | \$ 739,852.83 | \$ 692,822.09 |

The New Guaranteed Loans Disbursed and Principal Guaranteed decreased \$739.9 thousand, or 100 percent and \$692.8 thousand, or 100 percent respectively, due to a FY 2005 loan closing and disbursement of a FY 2004 loan obligation that was disbursed in FY 2006.

Liabilities for Post FY 1991 Loan Guarantees, Present Value

| As of December 31 | 2007 | 2006 |
|--|-------------------------|-------------------------|
| Loan Guarantee Program(s) | | |
| 1. Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 |
| 2. Armament Retooling & Manufacturing Support Initiative | 12,934,051.97 | 12,393,845.32 |
| 3. Total | \$ 12,934,051.97 | \$ 12,393,845.32 |

For additional information, see the Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees.

Subsidy Expense for Post FY 1991 Loan Guarantees

As of December 31

| 2007 | Interest Differential | Defaults | Fees | Other | Total |
|---|-----------------------|---------------------------|-----------------------|-------------------|----------------|
| 1. New Loan Guarantees Disbursed: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Armament Retooling & Manufacturing Support Initiative | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2006 | Interest Differential | Defaults | Fees | Other | Total |
| 2. New Loan Guarantees Disbursed: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Armament Retooling & Manufacturing Support Initiative | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2007 | Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total |
| 3. Modifications and Reestimates: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Armament Retooling & Manufacturing Support Initiative | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2006 | Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total |
| 4. Modifications and Reestimates: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Armament Retooling & Manufacturing Support Initiative | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| | 2007 | 2006 | | | |
| 5. Total Loan Guarantee: | | | | | |
| Military Housing Privatization Initiative | \$ 0.00 | \$ 0.00 | | | |
| Armament Retooling & Manufacturing Support Initiative | 0.00 | 0.00 | | | |
| Total | \$ 0.00 | \$ 0.00 | | | |

Not applicable.

Subsidy Rates for Loan Guarantees

| As of December 31 | Interest Supplements | Defaults | Fees and other Collections | Other | Total |
|--|----------------------|----------|----------------------------|-------|--------|
| Loan Guarantee Programs: | | | | | |
| 1. Military Housing Privatization Initiative | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 2. Armament Retooling & Manufacturing Support Initiative | 0.00% | 20.00% | 0.00% | 0.00% | 20.00% |

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

| As of December 31 | 2007 | 2006 |
|---|------------------|------------------|
| 1. Beginning Balance of the Loan Guarantee Liability | \$ 12,852,797.72 | \$ 12,393,845.32 |
| 2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component | | |
| A. Interest Supplement Costs | \$ 0.00 | \$ 0.00 |
| B. Default Costs (Net of Recoveries) | 0.00 | 0.00 |
| C. Fees and Other Collections | 0.00 | 0.00 |
| D. Other Subsidy Costs | 0.00 | 0.00 |
| E. Total of the above Subsidy Expense Components | \$ 0.00 | \$ 0.00 |
| 3. Adjustments | | |
| A. Loan Guarantee Modifications | \$ 0.00 | \$ 0.00 |
| B. Fees Received | 0.00 | 0.00 |
| C. Interest Supplements Paid | 0.00 | 0.00 |
| D. Foreclosed Property and Loans Acquired | 0.00 | 0.00 |
| E. Claim Payments to Lenders | 0.00 | 0.00 |
| F. Interest Accumulation on the Liability Balance | 81,254.25 | 0.00 |
| G. Other | 0.00 | 0.00 |
| H. Total of the above Adjustments | \$ 81,254.25 | \$ 0.00 |
| 4. Ending Balance of the Loan Guarantee Liability before Reestimates | \$ 12,934,051.97 | \$ 12,393,845.32 |
| 5. Add or Subtract Subsidy Reestimates by Component | | |
| A. Interest Rate Reestimate | 0.00 | 0.00 |
| B. Technical/default Reestimate | 0.00 | 0.00 |
| C. Total of the above Reestimate Components | \$ 0.00 | \$ 0.00 |
| 6. Ending Balance of the Loan Guarantee Liability | \$ 12,934,051.97 | \$ 12,393,845.32 |

The Interest Accumulation on the Liability Balance increased \$81.2 thousand, or 100 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to the implementation of Department of the Treasury guidance requiring an estimate of accrued interest revenue occurred during FY 2006. The methodology for the calculation uses the prior year's actual accrued interest earned from the Department of the Treasury and allocates it based on the number of months that have occurred in the fiscal year. This process will take place for each interim quarter until the actual amount is received at fiscal year-end.

Administrative Expenses

Administrative Expenses are limited to separately identified expenses administered to direct and guaranteed loans. Administrative Expenses for the ARMS is a fee paid to the U.S. Department of Agriculture RBS for administering the loan guarantees under the ARMS, which is a joint program. There were no administrative expenses in 1st Quarter, FY 2007.

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

As of December 31

| | 2007 | 2006 |
|---|-----------------------------|-----------------------------|
| 1. Inventory, Net | \$ 85,565,394.29 | \$ 98,687,541.96 |
| 2. Operating Materials & Supplies, Net | 36,625,126,744.94 | 37,932,766,255.08 |
| 3. Stockpile Materials, Net | 0.00 | 0.00 |
| 4. Total | <u>\$ 36,710,692,139.23</u> | <u>\$ 38,031,453,797.04</u> |

Inventory, Net

As of December 31

| | 2007 | | | 2006 | Valuation Method |
|--|-------------------------|-------------------------|----------------------|-------------------------|------------------|
| | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | Inventory, Net | |
| 1. Inventory Categories | | | | | |
| A. Available and Purchased for Resale | \$ (7,793,434.17) | \$ 17,086,508.48 | 9,293,074.31 | \$ 9,158,726.03 | LAC |
| B. Held for Repair | 0.00 | 0.00 | 0.00 | 0.00 | |
| C. Excess, Obsolete, and Unserviceable | 20,245.00 | (20,245.00) | 0.00 | 0.00 | NRV |
| D. Raw Materials | 0.00 | 0.00 | 0.00 | 0.00 | |
| E. Work in Process | 76,272,319.98 | 0.00 | 76,272,319.98 | 89,528,815.93 | SP |
| F. Total | \$ 68,499,130.81 | \$ 17,066,263.48 | 85,565,394.29 | \$ 98,687,541.96 | |

Legend for Valuation Methods:

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

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

Restrictions of Inventory Use, Sale, or Disposition

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

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

Other Information

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

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

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

Managers determine which items are more costly to repair than replace. Items retained for management purposes are coded condemned. The net value of these items is zero, and is shown as excess, obsolete, and unserviceable. The category includes all material held for sale. Economically repairable material is categorized as held for repair.

The Army General Fund expects a year-to-year decrease in CAWCF Inventory as the program progresses toward its final closeout. The CAWCF program managers are uncertain as to the final closeout date. Effective September 30, 1998, CAWCF officially stopped the acceptance of new orders for the procurement of conventional ammunitions.

Operating Materials and Supplies, Net

As of December 31

| | 2007 | | | 2006 | Valuation Method |
|--|----------------------|-----------------------|----------------------|----------------------|------------------|
| | OM&S Gross Value | Revaluation Allowance | OM&S, Net | OM&S, Net | |
| 1. OM&S Categories | | | | | |
| A. Held for Use | \$ 36,625,126,744.84 | \$ 0.00 | \$ 36,625,126,744.84 | \$ 37,932,766,255.08 | LAC |
| B. Held for Repair | 0.00 | 0.00 | 0.00 | 0.00 | |
| C. Excess, Obsolete, and Unserviceable | 410,452,567.07 | (410,452,566.97) | 0.10 | 0.00 | SP |
| D. Total | \$ 37,035,579,311.91 | \$ (410,452,566.97) | \$ 36,625,126,744.94 | \$ 37,932,766,255.08 | |

Legend for Valuation Methods:

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

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

Relevant Information for Comprehension

Operating Material and Supplies (OM&S) includes spare and repair parts, ammunition, and tactical missiles. The Army General Fund reported \$3.0 billion of OM&S Held for Future Use. This amount represents ammunition held under a host nation treaty agreement and is not intended for use by U.S. Forces. The ammunition is intended for use in defense of the host nation by the host nation. The category Held for Use includes all material able to be issued. Economically repairable material is categorized as held for repair.

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

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

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

There are no restrictions on the use, repair, or disposition of OM&S.

Stockpile Materials, Net

As of December 31

| | 2007 | | | 2006 | | Valuation Method |
|--|----------------------------|------------------------------|--------------------------|--------------------------|------|------------------|
| | Stockpile Materials Amount | Allowance for Gains (Losses) | Stockpile Materials, Net | Stockpile Materials, Net | | |
| 1. Stockpile Materials Categories | | | | | | |
| A. Held for Sale | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | 0.00 | |
| B. Held in Reserve for Future Sale | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| C. Total | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | 0.00 | |

Legend for Valuation Methods:

LAC= Latest Acquisition Cost

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

Note 10. General PP&E, Net

| As of December 31 | 2007 | | | | | 2006 |
|--|---|-----------------|------------------------------|--|-----------------------------|------------------------------|
| | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value | Prior FY Net Book Value |
| 1. Major Asset Classes | | | | | | |
| A. Land | N/A | N/A | \$ 524,740,099.85 | N/A | \$ 524,740,099.85 | \$ 475,030,668.83 |
| B. Buildings, Structures, and Facilities | S/L | 20 Or 40 | 46,585,843,311.57 | \$ (29,742,728,740.54) | 16,843,114,571.03 | 14,916,092,294.05 |
| C. Leasehold Improvements | S/L | lease term | 15,937,638.00 | (11,492,557.00) | 4,445,081.00 | 2,947,448.00 |
| D. Software | S/L | 2-5 Or 10 | 528,053,589.19 | (264,771,636.20) | 263,281,952.99 | 349,352,707.62 |
| E. General Equipment | S/L | 5 or 10 | 3,583,994,603.22 | (2,395,064,493.79) | 1,188,930,109.43 | 1,249,446,853.16 |
| F. Military Equipment | S/L | Various | 99,064,261,738.00 | (39,831,773,875.00) | 59,232,487,863.00 | 98,870,000,000.00 |
| G. Assets Under Capital Lease | S/L | lease term | 166,616,689.13 | (149,234,808.96) | 17,381,880.17 | 25,850,318.85 |
| H. Construction-in- Progress | N/A | N/A | 7,200,463,184.41 | N/A | 7,200,463,184.41 | 6,649,298,395.51 |
| I. Other | | | 21,154,464.00 | 0.00 | 21,154,464.00 | 19,442,075.00 |
| J. Total General PP&E | | | <u>\$ 157,691,065,317.37</u> | <u>\$ (72,395,066,111.49)</u> | <u>\$ 85,295,999,205.88</u> | <u>\$ 122,557,460,761.02</u> |

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Fluctuations and/or Abnormalities

General property plant and equipment decreased \$37.3 billion, or 30 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to the change in valuation method for military equipment that occurred in 3rd Quarter, FY 2006.

Other includes the projected value of forest product sales (timber reserve).

Currently, there are no restrictions for General PP&E.

Military Equipment

In accordance with the requirements of SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," beginning in FY 2003, the Army capitalized military equipment into General PP&E at estimated historical cost using information obtained from the Bureau of Economic Analysis (BEA). In FY 2006 the Army began valuing these assets using actual expenditure data and moved away from the BEA cost-estimation methodology. The move from the BEA model was made at 3rd quarter FY 2006, thus FY 2007 values for military equipment above are based on actual data, however FY 2006 comparative balances for quarters 1 and 2 were not restated.

The Department changed its method of valuing military equipment in 3rd Quarter, FY 2006. Previously, military equipment was valued using BEA data. Beginning with the 3rd Quarter, FY 2006, military equipment is valued based on internal records.

Other Information Related to Heritage Assets and Stewardship Land

The mission of the Department of Defense, including the Army, is to provide the military forces needed to deter war and protect the security of the United States by organizing, training, supplying, equipping and mobilizing forces for assignment in support of that mission. Executing this mission requires efficient and effective use of resources in a manner that ensures operational and environmental sustainability, while respecting the history and heritage that reflect and support the military mission. The Army has stewardship responsibilities for Heritage Assets that date not only from the military history of the land, but from prior historic and prehistoric occupations. The Army relies upon Heritage Assets, such as historic buildings, and stewardship land for daily use in administration, housing or training soldiers. Those heritage assets not currently employed as “multi-use,” such as archeological collections or museum collections, are important items that embody the multi-faceted history of the land, the military, the local communities and the nation - the heritage that the Department of Defense defends.

The Army’s policy for managing cultural resources and heritage assets are published in Army Regulations 200-4 and 870-20. These policies provide in-depth procedures for managing the Army’s cultural resources and museum collections. The Army Regulations take into account the Army’s responsibilities under various legal compliance requirements such as the National Historic Preservation Act, the Native American Graves Protection and Repatriation Act, the National Environmental Policy Act, the Archeological Resources Protection Act, among others. The regulations provide guidance to all active Army, Army Reserves and National Guard units and installations as to the appropriate policies, responsibilities, procedures and requirements affecting heritage assets. These policies are designed to ensure that Army installations and commanders make informed decisions regarding the cultural resources under their stewardship in compliance with public laws, in support of the military mission and consistent with sound principles of cultural resource management.

The DoD Financial Management Regulation defines the categories of heritage assets reported by each of the military services.

Heritage Assets are items that are distinguished by one or more of the following characteristics:

1. Historical or natural significance;
2. Cultural, educational, or artistic importance; or
3. Significant architectural characteristics.

Heritage Assets are expected to be preserved. Heritage Assets shall be reported within the following categories:

Museums: Buildings that house collection-type items including artwork, archeological artifacts, archival materials, and other historical artifacts. The primary use of such buildings shall be the preservation, maintenance, and display of the collection-type Heritage Assets.

Monuments and Memorials: Sites and structures built to honor and preserve the memory of significant individuals and/or events in history.

Cemeteries: Land on which gravesites of prominent historical figures are located.

Archeological Sites Land on which items of significance are located.

Buildings and Structures: Includes buildings and structures that are listed on, or eligible for listing, on the National Register of Historic Places, including Multi-use Heritage Assets. These are buildings other than those used as museums.

Major Collections: Significant collections that are maintained outside of a museum.

| |
|-----------------------------------|
| Assets Under Capital Lease |
|-----------------------------------|

| As of December 31 | 2007 | 2006 |
|--|-------------------------|-------------------------|
| 1. Entity as Lessee, Assets Under Capital Lease | | |
| A. Land and Buildings | \$ 166,070,564.45 | \$ 166,070,564.45 |
| B. Equipment | 546,124.68 | 546,124.68 |
| C. Accumulated Amortization | (149,234,808.96) | (140,766,370.28) |
| D. Total Capital Leases | <u>\$ 17,381,880.17</u> | <u>\$ 25,850,318.85</u> |

Fluctuations and/or Abnormalities

Assets Under Capital Lease decreased by \$8.5 million, or 33 percent, from FY 2006 to FY 2007 due to straight-line amortization of leased assets during FY 2007.

Relevant Information Related to Assets Under Capital Lease

The Army General Fund is the lessee in eight Section 801 Family Housing Leases which consist of two on-post and six off-post housing facilities. These leases have between one and six years remaining on their terms. In addition, the Eighth U.S. Army G3 Aviation leases equipment for a training simulator first reported in 3rd Quarter, FY 2005. As shown in Note 15, the Net Capital Lease Liability is \$29.4 million. Of that net, current liability is valued at \$10 million and non-current liability is \$19.4 million. The future executory and imputed interest costs, as shown in a combined form in Note 15 Capital Lease Liability section, are \$6.7 million and \$5.1 million, respectively. Future executory costs are estimates based on historical data. The imputed interest that was necessary to reduce the net minimum lease payments to the present value was calculated at the incremental borrowing rate at the inception of the leases.

| | |
|-----------------|---|
| Note 11. | Liabilities Not Covered by Budgetary Resources |
|-----------------|---|

| As of December 31 | 2007 | 2006 |
|---|-----------------------------|-----------------------------|
| 1. Intragovernmental Liabilities | | |
| A. Accounts Payable | \$ 0.00 | \$ 0.00 |
| B. Debt | 0.00 | 0.00 |
| C. Other | 421,897,635.35 | 339,210,805.52 |
| D. Total Intragovernmental Liabilities | \$ 421,897,635.35 | \$ 339,210,805.52 |
| 2. Nonfederal Liabilities | | |
| A. Accounts Payable | \$ 309,377,381.32 | \$ 90,193,359.66 |
| B. Military Retirement and Other Federal Employment Benefits | 1,461,097,881.90 | 1,663,649,828.85 |
| C. Environmental Liabilities | 42,188,935,400.00 | 36,562,674,000.00 |
| D. Other Liabilities | 4,842,799,121.72 | 4,480,459,553.60 |
| E. Total Nonfederal Liabilities | \$ 48,802,209,784.94 | \$ 42,796,976,742.11 |
| 3. Total Liabilities Not Covered by Budgetary Resources | \$ 49,224,107,420.29 | \$ 43,136,187,547.63 |
| 4. Total Liabilities Covered by Budgetary Resources | \$ 20,186,736,245.91 | \$ 19,581,654,632.73 |
| 5. Total Liabilities | \$ 69,410,843,666.20 | \$ 62,717,842,180.36 |

Relevant Information for Comprehension

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

Total Liabilities Not Covered by Budgetary Resources

Total Liabilities Not Covered by Budgetary Resources increased \$6.1 billion, or 14 percent as a result of the chemical weapons disposal program liability increasing \$6.7 billion, or 65 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The entire increase is attributable to the initial use of the Army Cost Position in 3rd Quarter, FY 2006 rather than an inflationary adjusted FY 2003 Acquisition Program Baseline. It is expected that the total liability will fluctuate as a result of program execution and revised program cost estimates.

Intragovernmental Liabilities

Intragovernmental Liabilities, Other consists of Unfunded FECA liability, unemployment compensation, and miscellaneous receipt accounts custodial liability.

Nonfederal Liabilities

Nonfederal Other Liabilities, Other consists of employer contributions and payroll taxes, contingent liabilities, contract holdbacks, and custodial liabilities for Iraqi seized cash and development fund for Iraq.

| | |
|-----------------|-------------------------|
| Note 12. | Accounts Payable |
|-----------------|-------------------------|

| As of December 31 | 2007 | | | 2006 |
|--|----------------------|--|----------------------|----------------------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total | Total |
| 1. Intragovernmental Payables | \$ 1,710,323,438.02 | \$ N/A | \$ 1,710,323,438.02 | \$ 1,937,783,223.26 |
| 2. Non-Federal Payables (to the Public) | 10,559,696,445.11 | 131,816.26 | 10,559,828,261.37 | 10,006,576,614.63 |
| 3. Total | \$ 12,270,019,883.13 | \$ 131,816.26 | \$ 12,270,151,699.39 | \$ 11,944,359,837.89 |

Fluctuations and/or Abnormalities

Intragovernmental Payables with entities other than Army General Fund decreased \$227.5 million, or 12 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to decreases of \$146.2 million and \$35.0 million with General Services Administration and the Department of Treasury, respectively. During FY 2006, the Army General Fund adjusted accounts payable to agree with the accounts receivable reported by General Services Administration as well as the Department of Treasury and, therefore, does not have supporting records to determine the reason for the decrease. Efforts are underway to coordinate with these entities outside DoD to obtain proper documentation or adequate reconciliations.

Definitions

Intragovernmental Payables consists of amounts owed to other federal agencies for goods or services ordered and received but not paid. Interest, penalties, and administrative fees are not applicable to intragovernmental payables.

Non-Federal payables (to the Public) are payables for debts owed to individuals and entities outside the federal government.

| | |
|-----------------|-------------|
| Note 13. | Debt |
|-----------------|-------------|

| As of December 31 | 2007 | | | 2006 | |
|---|-------------------------|----------------|-------------------------|----------------|----------------|
| | Beginning Balance | Net Borrowing | Ending Balance | Net Borrowing | Ending Balance |
| 1. Agency Debt (Intragovernmental) | | | | | |
| A. Debt to the Treasury | \$ 25,764,072.55 | \$ 0.00 | \$ 25,764,072.55 | \$ 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 | \$ 25,764,072.55 | \$ 0.00 | \$ 25,764,072.55 | \$ 0.00 | \$ 0.00 |
| 2. Total Debt | \$ 25,764,072.55 | \$ 0.00 | \$ 25,764,072.55 | \$ 0.00 | \$ 0.00 |

Debt to the Treasury increased \$25.8 million, or 100 percent, from 1st Quarter FY 2006 to 1st Quarter, FY 2007 for borrowing authority received from the Department of the Treasury for two loan defaults from FY 2006 related to the Armament Retooling and Manufacturing Support Initiative (ARMS). This initiative is designed to encourage commercial use of Army General Fund's inactive ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities.

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

| As of December 31 | 2007 | | | 2006 |
|---|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Current Liability | Noncurrent Liability | Total | Total |
| 1. Environmental Liabilities-- | | | | |
| Nonfederal | | | | |
| A. Accrued Environmental Restoration Liabilities | | | | |
| 1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) | \$ 373,078,000.00 | \$ 2,436,396,000.00 | \$ 2,809,474,000.00 | \$ 3,114,775,000.00 |
| 2. Active Installations—Military Munitions Response Program (MMRP) | 17,518,000.00 | 3,294,726,000.00 | 3,312,244,000.00 | 5,179,951,000.00 |
| 3. Formerly Used Defense Sites—IRP and BD/DR | 125,339,000.00 | 4,004,559,000.00 | 4,129,898,000.00 | 4,170,694,000.00 |
| 4. Formerly Used Defense Sites--MMRP | 80,935,000.00 | 14,680,958,000.00 | 14,761,893,000.00 | 14,553,579,000.00 |
| B. Other Accrued Environmental Liabilities—Active Installations | | | | |
| 1. Environmental Corrective Action | 39,568,000.00 | 349,795,000.00 | 389,363,000.00 | 379,604,000.00 |
| 2. Environmental Closure Requirements | 2,759,000.00 | 94,088,000.00 | 96,847,000.00 | 96,847,000.00 |
| 3. Environmental Response at Operational Ranges | 22,560,000.00 | 203,440,000.00 | 226,000,000.00 | 304,087,000.00 |
| 4. Other | 0.00 | 25,387,400.00 | 25,387,400.00 | 0.00 |
| C. Base Realignment and Closure (BRAC) | | | | |
| 1. Installation Restoration Program | 25,778,000.00 | 497,908,000.00 | 523,686,000.00 | 523,443,000.00 |
| 2. Military Munitions Response Program | 10,670,000.00 | 789,642,000.00 | 800,312,000.00 | 634,093,000.00 |
| 3. Environmental Corrective Action / Closure Requirements | 3,451,000.00 | 28,825,000.00 | 32,276,000.00 | 54,146,000.00 |
| 4. Other | 181,475,000.00 | 0.00 | 181,475,000.00 | 188,426,000.00 |
| D. Environmental Disposal for Weapons Systems Programs | | | | |
| 1. Nuclear Powered Aircraft Carriers | 0.00 | 0.00 | 0.00 | 0.00 |
| 2. Nuclear Powered Submarines | 0.00 | 0.00 | 0.00 | 0.00 |
| 3. Other Nuclear Powered Ships | 0.00 | 0.00 | 0.00 | 0.00 |
| 4. Other National Defense Weapons Systems | 0.00 | 0.00 | 0.00 | 0.00 |
| 5. Chemical Weapons Disposal Program | 1,337,506,000.00 | 15,783,211,000.00 | 17,120,717,000.00 | 10,371,745,000.00 |
| 6. Other | 0.00 | 0.00 | 0.00 | 0.00 |
| 2. Total Environmental Liabilities | \$ 2,220,637,000.00 | \$ 42,188,935,400.00 | \$ 44,409,572,400.00 | \$ 39,571,390,000.00 |

Other Disclosures

| Others Category Disclosure Comparative Table | | |
|--|-------------------|-------------------|
| (Amounts in thousands) | 2007 | 2006 |
| Other Accrued Environmental Costs - Other | | |
| Low Level Radio Active Waste | \$25,387 | \$ 0 |
| Base Realignment and Closure - Other | | |
| BRAC Unliquidated Liabilities that can not be categorized within BRAC program lines on Note 14 | 181,475 | 188,426 |
| Total | \$ 206,862 | \$ 188,426 |

Amounts are presented in the Note 14 Environmental Liabilities and Disposal Liabilities schedule. See Environmental Disclosures section of this note for additional information.

Fluctuations and Abnormalities

Total Environmental Liabilities increased \$4.8 billion or 12 percent.

Accrued Environmental Restoration Liabilities

Active Installations-Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) decreased \$305.3 million, or 10 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The decrease is due to the use of more refined estimates from site evaluations and installation action plan workshops to determine a more realistic path forward during FY 2006.

Active Installations - Military Munitions Response Program (MMRP) decreased \$1.9 billion, or 36 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The decrease is due to the use of more refined estimates from site evaluations and installation action plan workshops to determine a more realistic path forward. Additionally, the decrease is due to Defense Environmental Restoration Program (DERP) site reclassification to the Base Realignment and Closure (BRAC) program during FY 2006.

Other Accrued Environmental Liabilities – Active Installations

Environmental Response at Operational Ranges decreased \$78.1 million, or 26 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The decrease is due to reduced cost to complete at one installation, Massachusetts Military Reservation (MMR). The decrease in the cost for MMR can be attributed to a number of factors. The use of risk based cost effective remedies and negotiation with regulators has been able to significantly reduce the cost to complete. Included in this is a reduction in the scope of remediation systems, the use of efficient technologies and a reduction in long term monitoring requirements during FY 2006.

Other Accrued Environmental Liabilities – Other increased \$25.4 million, or 100 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to reclassification of various environmental liabilities by the Low Level Radioactive Waste program managers during FY 2006. This information was formerly disclosed on Note 16, Commitments and Contingencies as a possible contingent liability.

Base Realignment and Closure (BRAC)

BRAC - MMRP increased \$166.2 million, or 26 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to the reclassification of 38 DERP active sites to the BRAC MMRP in FY 2006 as a result of the BRAC 2005 law to close active installations.

BRAC - Environmental Corrective Action / Closure Requirements decreased \$21.9 million, or 40 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. This entire decrease is attributable to disbursement of funds to process corrective actions at BRAC installations during FY 2006.

Chemical Demilitarization Program

The Chemical Weapons Disposal Program liability increased \$6.7 billion, or 65 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The entire increase is attributable to the initial use of the Army Cost Position in 3rd Quarter, FY 2006 rather than an inflationary adjusted FY 2003 Acquisition Program Baseline. It is expected that the total liability will fluctuate as a result of program execution and revised program cost estimates.

Environmental Disclosures

| As of December 31 | 2007 | 2006 |
|---|------|------|
| 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 |

The Army General Fund reports zeros in the Environmental Disclosure table for this quarter. The Army General Fund is unable to systematically report and gather information for items presented above. These reporting deficiencies result from system and internal control weaknesses. The Army General Fund will continue coordination with the Office of the Under Secretary of Defense (Comptroller) to address these deficiencies and additionally outline specific tasks and milestones in the Army Chief Financial Officer's Strategic Plan in the future.

In addition to the liabilities reported above, the Army General Fund has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Army General Fund is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

Applicable Laws and Regulations

Defense Environmental Restoration Program

The Army General Fund is required to cleanup contamination resulting from past waste disposal practices, leaks, spills and other past activity prior to 1986 from hazardous substances and wastes that created a public health or environmental risk and prior to FY 2003 from unexploded ordnance (UXO), discarded military munitions, and munitions constituents at other than operational ranges under the DERP, established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code 2701. The Army General Fund is also required to cleanup contamination resulting from waste disposal practices, leaks, spills and other activity after 1986 from hazardous substances and wastes and after FY 2003 from UXO, discarded military munitions, and munitions constituents migrating from an operational range under the Army Compliance Cleanup Program. Applicable laws are as follows for the DERP, Non-DERP, Low Level Radioactive Waste, and the BRAC programs:

- Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- Superfund Amendments and Reauthorization Act
- Clean Water Act
- Safe Drinking Water Act
- Clean Air Act
- Resource Conservation and Recovery Act (RCRA)
- Toxic Substances Control Act (TSCA)
- Low Level Radioactive Waste Policy Amendments
- National Defense Authorization Acts

Chemical Demilitarization Program

There are two primary public laws that require the chemical stockpile and non-stockpile chemical materiel destruction efforts to be carried out as part of the Chemical Demilitarization Program. The first is the 1986 Defense Authorization Act (Public Law (PL) 99-145, as amended by subsequent acts) that directed the DoD to destroy the unitary chemical stockpile while providing for maximum protection of the environment, public, and personnel involved in the destruction effort by April 29, 2004. The deadline for completion of destruction was amended by subsequent acts to April 29, 2007. The second is the 1993 Defense Authorization Act (PL 102-484) which required the establishment of the Non-Stockpile Chemical Material Project to safely dispose of all non-stockpile chemical materiel. The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations. The major regulations applicable to the program are as follows:

- CERCLA
- Clean Water Act
- Clean Air Act
- RCRA
- TSCA

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

DERP, Non-DERP, and BRAC

The Army General Fund uses engineering estimates and independently validated models to estimate environmental liabilities. The Remedial Action Cost Engineering Requirements (RACER) is the Army's preferred model. The Army General Fund relies upon the Air Force, which is the RACER executive agent, to validate the model in accordance with DoD Instruction 5000.61 and primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Army primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project. Once the environmental cost estimates are complete, the Army complies with accounting standards to assign costs to current operating periods.

In compliance with accounting standards, the Army General Fund expenses the costs for cleanup associated with general property, plant, and equipment (PP&E) placed into service prior to October 1, 1997 unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the Army General Fund, expenses the portion of the asset that has passed since the general PP&E was placed into service and systematically recognizes the remaining cost over the life of the asset.

For general PP&E placed into service after September 30, 1997, the Army General Fund is required to expense the associated environmental costs systematically over the life of the asset. The Army expenses the full cost to cleanup contamination for stewardship PP&E at the time the asset is placed into service. The Army General Fund will use two methods for systematic recognition: physical capacity for operating landfills and life expectancy in years for all other assets.

Chemical Demilitarization Program

The basis for calculating environmental liabilities for the Army components of the Chemical Demilitarization Program is a bottoms up estimate developed using parametric, analogous, and engineering methodologies, as appropriate. The schedule component of the estimate is based on analysis of historical processing rates with down time adjustments. The cost methodology is based on the historical costs of the project and utilizes the Army cost analysis community directed Automated Cost Estimating Integrated Tool software as the platform for cost modeling. To the greatest extent possible, actual costs are broken down to produce a site-specific model based on actual or analogous costs. Inclusion of site-specific schedules in the model results in the current working estimate. The estimate and its methodology have been independently reviewed, supported, and approved by the Deputy Assistant Secretary of the Army (Cost and Economics) staff as well as the Army Cost Review Board, the Assistant Secretary of the Army (Financial Management and Comptroller), and the Army Acquisition Executive.

Types of Environmental Liabilities and Disposal Liabilities Identified

DERP, Non-DERP, and BRAC

The Army General Fund has environmental clean up requirements for the DERP sites at active installations, BRAC installations, Formerly Used Defense Sites, non-DERP sites at active installations, weapon systems programs, and chemical weapons disposal programs. The DERP and non-DERP sites are required to clean up contamination in coordination with regulatory agencies, other responsible parties, and current property owners. For the Army General Fund, environmental disposal for weapons systems programs consists of chemical weapons disposal.

Chemical Demilitarization Program

The Army, as Executive Agent within the DoD, provides policy, direction, and oversight for the Chemical Demilitarization Program, except at the Pueblo, Colorado and Blue Grass, Kentucky locations. The disposal program for these locations is managed separately by the Program Manager for Assembled Chemical Weapons Alternatives that reports directly to the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics).

The Chemical Demilitarization Program mission is to safely and effectively destroy the entire U.S. stockpile of chemical agents and munitions located at Johnston Island in the Pacific and in Utah, Alabama, Oregon, Arkansas, Indiana, and Maryland in accordance with public law. The Johnston Island facility has completed its mission and facility closure. The Maryland facility has completed the disposal mission and is currently undergoing closure. The other five facilities are currently in operation and working to complete their disposal missions. The Chemical Demilitarization Program mission also includes the safe disposal of non-stockpile chemical materiel. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations, and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance, and disposal. The Chemical Demilitarization Program does not include the mission to recover and dispose of buried chemical weapons.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Army General Fund had changes in estimates resulting from overlooked or previously unknown contaminants, better site characterization with sampling, re-estimation based on different assumptions, and lessons-learned. Environmental liabilities can also change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities

DERP, Non-DERP, and BRAC

The environmental liabilities for the Army General Fund are based on accounting estimates which require certain judgments and assumptions that are believed to be reasonable based upon information available to us at the time of calculating the estimates. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.

In addition to the liabilities reported above, the Army General Fund is uncertain regarding the extent of the liabilities at installations that are realigning or closing as a result of the FY 2005 BRAC round. The Army General Fund is in the process of determining the extent of environmental liabilities at bases due to realign or close; in particular those liabilities associated with unexploded ordnance on training ranges that are due to realign or close.

The Army General Fund is also uncertain regarding the extent of Non-DERP closure environmental liabilities at Active installations. The Army General fund is in the process of determining the extent of environmental liabilities associated with Non-DERP closure requirements.

Chemical Demilitarization Program

The schedules and cost estimates in the approved baseline for this liability estimate are the best available and have been through the formal Acquisition Program Baseline approval process at the time of report submission. It should be noted that they are subject to fact of life changes and impacts from program risks and uncertainties inherent to the task of chemical demilitarization and the political sensitivity of the program. These risks may include processing changes required to meet the operational schedules due to the deteriorating condition of the stockpile and additional schedule time and/or cost to address changes in environmental laws or Congressional requirements.

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

| As of December 31 | 2007 | | | 2006 |
|---|----------------------------|----------------------------|-----------------------------|----------------------------|
| | Current Liability | Noncurrent Liability | Total | Total |
| 1. Intragovernmental | | | | |
| A. Advances from Others | \$ 126,230,009.00 | \$ 0.00 | \$ 126,230,009.00 | \$ 143,243,314.67 |
| B. Deposit Funds and Suspense Account Liabilities | 662,686,313.98 | 0.00 | 662,686,313.98 | 740,889,393.41 |
| C. Disbursing Officer Cash | 1,764,500,402.96 | 0.00 | 1,764,500,402.96 | 1,327,243,671.01 |
| D. Judgment Fund Liabilities | 0.00 | 0.00 | 0.00 | 0.00 |
| E. FECA Reimbursement to the Department of Labor | 176,001,727.30 | 139,058,965.16 | 315,060,692.46 | 300,045,448.32 |
| F. Other Liabilities | 255,382,177.55 | 0.00 | 255,382,177.55 | 193,213,484.60 |
| G. Total Intragovernmental Other Liabilities | \$ 2,984,800,630.79 | \$ 139,058,965.16 | \$ 3,123,859,595.95 | \$ 2,704,635,312.01 |
| 2. Nonfederal | | | | |
| A. Accrued Funded Payroll and Benefits | \$ 870,428,731.95 | \$ 0.00 | \$ 870,428,731.95 | \$ 885,877,720.44 |
| B. Advances from Others | 1,236,529,190.89 | 0.00 | 1,236,529,190.89 | 880,067,865.48 |
| C. Deferred Credits | 0.00 | 0.00 | 0.00 | 0.00 |
| D. Deposit Funds and Suspense Accounts | (4,146.48) | 0.00 | (4,146.48) | 0.00 |
| 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 | 1,414,725,040.79 | 1,414,725,040.79 | 1,318,442,916.98 |
| G. Accrued Unfunded Annual Leave | 3,227,240,841.92 | 0.00 | 3,227,240,841.92 | 2,855,952,755.20 |
| H. Capital Lease Liability | 10,042,403.93 | 19,329,708.55 | 29,372,112.48 | 43,646,216.14 |
| I. Other Liabilities | 781,186,257.43 | 547,985,935.46 | 1,329,172,192.89 | 837,425,882.05 |
| J. Total Nonfederal Other Liabilities | \$ 6,125,423,279.64 | \$ 1,982,040,684.80 | \$ 8,107,463,964.44 | \$ 6,821,413,356.29 |
| 3. Total Other Liabilities | \$ 9,110,223,910.43 | \$ 2,121,099,649.96 | \$ 11,231,323,560.39 | \$ 9,526,048,668.30 |

Fluctuations and/or Abnormalities

Intragovernmental

Intragovernmental Other Liabilities increased \$419.2 million, or 16 percent from 1st Quarter, FY 2006, to 1st Quarter, FY 2007 primarily due to fluctuations in Disbursing Officer Cash. Disbursing Officer Cash increased \$437.3 million, or 33 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 due to an increase in advances during 3rd and 4th Quarter, FY 2006 from the Republic of Korea for engineering and construction work to be done by the U.S. Army Corps of Engineers. Construction projects include upgrading electrical systems, water and sewer systems, housing, schools, fences, and bridges on various bases in Korea.

The Army General Fund has a delinquent bill for Federal Employees Compensation Act (FECA) that is payable to the Department of Labor (DOL) in the amount of \$91.8 million. This is included in the current FECA Reimbursement to DOL liability of \$197.6 million.

Intragovernmental Other Liabilities, Other consists of deposit funds and suspense accounts; unemployment compensation; cancelled accounts receivable; employee benefits for retirement, health and life insurance; and education benefits trust fund.

Nonfederal

Nonfederal Other Liabilities increased \$1.3 billion, or 19 percent, from 1st Quarter, FY 2006, to 1st Quarter, FY 2007 primarily due to reporting of contingent liabilities, accrued unfunded annual leave, and accrued funded payroll and benefits. Beginning in 4th Quarter, FY 2006, the Army began reporting the Mechanization of Contract Administration Services contingent liability for \$491.7 million that was not required to be recognized in prior years. The Accrued Unfunded Annual Leave increased \$371.3 million due to the continued deployment of soldiers in support of Operation Iraqi Freedom restricting the use of annual leave during FY 2007. The Conventional Munitions Disposal increased \$96.3 million in 1st Quarter, FY 2007 due to the variance caused by a significant increase in average cost per ton to demilitarize the organic materials and labor rates/man hours and the new 5-year contract for the support of Operation Iraqi Freedom.

Contingent Liabilities balance includes \$491.7 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payments is made, thereby protecting taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The Department is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance of a satisfactory product. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the Department and the amount of potential future payments are estimable; the Department has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance of a satisfactory product.

Nonfederal Other Liabilities, Other consists of employer contributions and payroll taxes, contingent liabilities, contract holdbacks, and custodial liabilities for Iraqi seized cash and development fund for Iraq.

Capital Lease Liability

| As of December 31 | 2007 | | | | 2006 |
|--|--------------------|---------------|---------|------------------|------------------|
| | Asset Category | | | | |
| | Land and Buildings | Equipment | Other | Total | Total |
| 1. Future Payments Due | | | | | |
| A. 2007 | \$ 12,812,869.72 | \$ 113,079.00 | \$ 0.00 | \$ 12,925,948.72 | \$ 33,856,477.81 |
| B. 2008 | 8,528,654.77 | 155,951.00 | 0.00 | 8,684,605.77 | 8,684,605.77 |
| C. 2009 | 5,375,522.96 | 93,058.00 | 0.00 | 5,468,580.96 | 5,468,580.96 |
| D. 2010 | 5,375,522.96 | 0.00 | 0.00 | 5,375,522.96 | 5,375,522.96 |
| E. 2011 | 4,509,788.83 | 0.00 | 0.00 | 4,509,788.83 | 4,509,788.83 |
| F. 2012 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| G. After 5 Years | 4,172,606.44 | 0.00 | 0.00 | 4,172,606.44 | 4,172,606.44 |
| H. Total Future Lease Payments Due | \$ 40,774,965.68 | \$ 362,088.00 | \$ 0.00 | \$ 41,137,053.68 | \$ 62,067,582.77 |
| I. Less: Imputed Interest Executory Costs | 11,677,215.14 | 87,726.06 | 0.00 | 11,764,941.20 | 18,421,366.64 |
| J. Net Capital Lease Liability | \$ 29,097,750.54 | \$ 274,361.94 | \$ 0.00 | \$ 29,372,112.48 | \$ 43,646,216.13 |
| 2. Capital Lease Liabilities Covered by Budgetary Resources | | | | \$ 20,512,593.55 | \$ 26,374,161.35 |
| 3. Capital Lease Liabilities Not Covered by Budgetary Resources | | | | \$ 8,859,518.93 | \$ 17,272,054.79 |

The Army General Fund is the lessee in eight capital leases for military family housing and one equipment lease. The Office of Management and Budget Circular A-136 directs that any capital leases entered into during FY 1992 or later are required to be fully funded in the first year of the lease.

Capital Lease Liabilities Covered by Budgetary Resources

The present value of the lease payments, \$20.5 million, for leases originating after FY 1991 plus the current portion of the Pre-1992 leases are shown as Covered by Budgetary Resources.

Capital Lease Liabilities Not Covered by Budgetary Resources

The remaining six leases that originated before FY 1992 are funded on a fiscal year basis causing the non-current amounts of \$8.9 million to be shown as Not Covered by Budgetary Resources.

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

Relevant Information for Comprehension

The Army General Fund 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 General Fund 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 General fund records Judgment fund liabilities in Note 12 "Accounts Payable." See Note 12 for details.

Nature of Contingency

The FY 2006 Army Legal Representation Letter outlines claims against the Army General Fund totaling \$28 billion for which the Army Office of General Counsel is unable to express an opinion. The historical payout percentage for these cases is less than one percent. To determine the historical payout, the Army Office of General Counsel divides the total amount reported as a payout in the fiscal year by the total amount of claimed in the Army Legal Representation Letter.

The Army General Fund has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army General Fund's financial statements nor reported in the FY 2006 Army Legal Representation Letter. As of December 31, 2006, the Army General Fund had approximately \$372.3 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Estimates for litigations, claims and assessments are required to be fully supported. Additionally, Army General Fund has coordinated with Army Office of General Counsel to ensure that estimates agree with the legal representation letters and management summary schedule.

| Title of Contingent Liabilities | Estimate |
|--|------------------|
| Litigation Division | \$119,026 |
| Administrative Tort Claims | 100,000 |
| European Environmental Claims | 72,000 |
| Army Environmental Law Division | 45,626 |
| Army Contract Appeals Division | 34,978 |
| Network Enterprise Technology Command | 400 |
| Army Personnel Claims | 245 |
| Total | <u>\$372,275</u> |

(Amounts in thousands)

Other Information Pertaining to Commitments

The Army General Fund has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations, undelivered orders, and cancelled accounts payable. The amount of contractual commitments for 1st Quarter, FY 2007 is presented in the following schedule.

(Amounts in thousands)

Title of Contractual Commitments

| | |
|-----------------------------|----------------|
| Long-term lease obligations | \$29,372 |
| Undelivered orders | \$ 360,705,433 |
| Cancelled accounts payable | \$354,833 |

The Army General Fund is not aware of any future contractual commitments such as: fixed price contracts with escalation, price redetermination, or incentive clauses; contracts authorizing variations in quantities; and contracts where allowable interest may become payable based on contractor claims under the "Disputes" clause contained in contracts which are not already disclosed in Note 15.

Note 17.**Military Retirement and Other Federal Employment Benefits**

| As of December 31 | 2007 | | | | 2006 | |
|--|---------------------------|---------------------------|--|---------------------|---------------------------|------------------|
| | Present Value of Benefits | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Liability | Present Value of Benefits | |
| 1. Pension and Health Actuarial Benefits | | | | | | |
| A. Military Retirement Pensions | \$ 0.00 | | \$ 0.00 | \$ 0.00 | \$ | 0.00 |
| B. Military Retirement Health Benefits | 0.00 | | 0.00 | 0.00 | | 0.00 |
| C. Military Medicare-Eligible Retiree Benefits | 0.00 | | 0.00 | 0.00 | | 0.00 |
| D. Total Pension and Health Actuarial Benefits | \$ 0.00 | | \$ 0.00 | \$ 0.00 | \$ | 0.00 |
| 2. Other Actuarial Benefits | | | | | | |
| A. FECA | \$ 1,461,097,881.90 | 5.31% | \$ 0.00 | \$ 1,461,097,881.90 | \$ | 1,663,649,828.85 |
| B. Voluntary Separation Incentive Programs | 0.00 | | 0.00 | 0.00 | | 0.00 |
| C. DoD Education Benefits Fund | 0.00 | | 0.00 | 0.00 | | 0.00 |
| D. Total Other Actuarial Benefits | \$ 1,461,097,881.90 | | \$ 0.00 | \$ 1,461,097,881.90 | \$ | 1,663,649,828.85 |
| 3. Other Federal Employment Benefits | \$ 0.00 | | \$ 0.00 | \$ 0.00 | \$ | 0.00 |
| 4. Total Military Retirement and Other Federal Employment Benefits: | \$ 1,461,097,881.90 | | \$ 0.00 | \$ 1,461,097,881.90 | \$ | 1,663,649,828.85 |

Actuarial Cost Method Used:

Assumptions:

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

Fluctuations and/or Abnormalities

The Federal Employees Compensation Act (FECA) actuarial liability decreased \$202.6 million, or 12 percent, from 1st Quarter, FY 2006, to 1st Quarter, FY 2007, primarily due to the Army General Fund reporting the U.S. Army Corps of Engineers' liability until 4th Quarter, FY 2006 when the U.S. Army Corps of Engineers reported its own portion of the FECA actuarial liability.

Federal Employees Compensation Act (FECA)

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

Assumptions: The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and

bonds. Cost of living adjustments and medical inflation factors provided by the Department of Labor are also applied to the calculation of projected future benefits.

| | |
|-----------------|---|
| Note 18. | General Disclosures Related to the Statement of Net Cost |
|-----------------|---|

| Intragovernmental Costs and Exchange Revenue | | |
|--|------------------------------|------------------------------|
| As of December 31 | 2007 | 2006 |
| 1. Intragovernmental Costs | \$ 14,251,300,331.68 | \$ 13,118,036,540.49 |
| 2. Public Costs | 32,952,011,791.86 | 28,907,183,203.39 |
| 3. Total Costs | \$ 47,203,312,123.54 | \$ 42,025,219,743.88 |
| 4. Intragovernmental Earned Revenue | \$ (2,026,524,667.13) | \$ (1,932,722,877.11) |
| 5. Public Earned Revenue | (278,892,962.95) | (248,354,690.91) |
| 6. Total Earned Revenue | \$ (2,305,417,630.08) | \$ (2,181,077,568.02) |
| 7. Net Cost of Operations | \$ 44,897,894,493.46 | \$ 39,844,142,175.86 |

Fluctuation and/or Abnormalities

Total Costs increased \$5.2 billion, or 12 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007 primarily due to \$3.9 billion increase in the procurement of equipment for the recapitalization program, multipurpose vehicles, and tactical vehicles in support of global war on terror.

Definitions

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

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

Other Information Regarding Costs

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

The amounts presented in the Consolidated Statement of Net Cost are based on funding, obligation, accrual, and disbursing transactions, which are not always recorded using accrual accounting. Army General Fund's systems do not always record the transactions on an accrual

basis as is required by the Generally Accepted Accounting Principles. The information presented also includes data from non-financial feeder systems to capture all cost and financing sources for the Army General Fund.

The Army General Fund recorded a prior period adjustment due to a change in the methodology for reporting of military equipment. The FY 2006 restatement impacts the value of general property, plant, and equipment and associated accumulated depreciation reported on the balance sheet. The Department has determined that developing the prior year value for the depreciation expense is cost-prohibitive, and thus has elected not to restate the Statement of Net Cost.

Additional Disclosures

The Army accounting system does not capture information relative to Heritage Assets separately and distinctly from normal operations.

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

| As of December 31 | 2007 | | 2006 | |
|--|----------------------------------|---------------------------|----------------------------------|---------------------------|
| | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| 1. Prior Period Adjustments | | | | |
| Increases (Decreases) to Net Position Beginning Balance | | | | |
| A. Changes in Accounting Standards | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| B. Errors and Omissions in Prior Year Accounting Reports | 0.00 | 0.00 | 0.00 | 0.00 |
| C. Total Prior Period Adjustments | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2. Imputed Financing | | | | |
| A. Civilian CSRS/FERS Retirement | \$ 56,552,860.10 | \$ 0.00 | \$ 71,592,933.58 | \$ 0.00 |
| B. Civilian Health | 145,168,816.00 | 0.00 | 137,055,646.00 | 0.00 |
| C. Civilian Life Insurance | 350,299.54 | 0.00 | 399,521.27 | 0.00 |
| D. Judgment Fund | 14,465,404.53 | 0.00 | 44,087,928.77 | 0.00 |
| E. IntraEntity | 0.00 | 0.00 | 0.00 | 0.00 |
| F. Total Imputed Financing | \$ 216,537,380.17 | \$ 0.00 | \$ 253,136,029.62 | \$ 0.00 |

Prior Period Adjustments: Errors and Omissions in Prior Year Accounting Reports

Statement of Federal Financial Accounting Standards Number 27, “*Identifying and Reporting Earmarked Funds*,” effective for reporting years after FY 2005, required that DoD modify the Statement of Changes in Net Position. The Federal Accounting Standards Advisory Board determined that restatement of prior comparative balances would not be allowed. To meet the requirement, additional columns were added to separately display gross amounts for earmarked funds, and all other (non-earmarked) funds. In the Statement of Changes in Net Position, all offsetting balances (i.e. transfers-in and transfers out, revenues and expenses) for intra-DoD activity between earmarked and other (non-earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line.

Cumulative Results of Operations

Other Budgetary Financing Sources (All other funds) and Other Financing Sources (Other) represent adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. The net effect of these adjustments is reflected on Other budgetary financing sources and Other Financing Sources on the Statement of Net Position.

Unexpended Appropriations

Appropriations Received (All other funds) on the Statement of Changes in Net Position does not agree with the Appropriations Received on the Statement of Budgetary Resources due to differences between proprietary and budgetary accounting concepts and reporting requirements. The Statement of Budgetary Resources includes \$2.6 million in receipts for Appropriated Trust or Special Fund Receipts that are not included in the Statement of Changes in Net Position.

| | |
|-----------------|--|
| Note 20. | Disclosures Related to the Statement of Budgetary Resources |
|-----------------|--|

| As of December 31 | 2007 | 2006 |
|--|----------------------|----------------------|
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | \$ 95,284,936,657.25 | \$ 66,574,123,413.67 |
| 2. Available Borrowing and Contract Authority at the End of the Period | 14,359,610.55 | 0.00 |

Fluctuations and Abnormalities

In 3rd Quarter, FY 2006, OMB Circular A-136 was updated to require that certain miscellaneous receipts and clearing accounts be distributed back to the agencies fund balance with treasury for reporting purposes. Prior to this change, there was no effect on Fund Balance with Treasury (FBWT), distributed offsetting receipts only consisted of certain receipt accounts and clearing accounts specified by Treasury. Currently, the balances in FBWT related to the clearing accounts are greater than the receipts in the designated receipt accounts. This generated an abnormal balance of \$ 25.2 million on the Statement of Budgetary resources Distributed Offsetting Receipts line.

Undelivered Orders

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

Appropriations Received

Appropriations received increased primarily due to the enactment of Public Law (P.L.) 109-289. In 1st Quarter, FY 2006, all of the Army operated under a Continuing Resolution which limits the amount of funds that are allocated to an activity. In 1st Quarter, FY 2007, the following activities operated under a Continuing Resolution: Military Personnel, Basic Housing Allowance; Operations and Maintenance, Facilities Sustainment, Restoration and Modernization; Environmental Restoration; Military Construction; Family Housing, Operation and Maintenance; Family Housing, Construction and the remainder of the appropriations were covered by P.L. 109-289.

Presentation of Statement of Budgetary Resources

The Statement of Budgetary Resources does not include eliminating entries because the statements are presented as combined and combining. Therefore, a Disaggregated Statement of Budgetary Resources is included in the Required Supplementary Information section of the financial statements.

Breakdown of Apportionment Categories

Office of Management and Budget Circular A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment. Obligations incurred consists of \$62.9 billion in Category A, Direct; \$2.7 billion in Category B, Direct; \$2.6 billion in Category A, Reimbursable; and \$1.0 billion in Category B, Reimbursable. The Nonbudgetary obligations were all Category A, Direct, \$15.3 million. This disclosure agrees with the aggregate of the related information as reported on the Budgetary Execution Report and Obligations Incurred on the Statement of Budgetary Resources.

Terms of Borrowing Authority

Borrowing authority increased due to a loan default relating to the Armament Retooling and Manufacturing Support Initiative (ARMS). This initiative is designed to encourage commercial use of inactive Army General Fund ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army General Fund and Department of Agriculture Rural Business-Cooperative Service (RBS) established a Memorandum of Understanding for the RBS to administer the ARMS Initiative Loan Guarantee Program. The borrowing authority was received from Treasury to pay for a loan 90 percent guaranteed by ARMS to make bullet casings. The loan was defaulted in August 1999 and Army General Fund was in litigation to determine the actual amount of debt owed. In January 2006, Army General Fund used the borrowing authority to pay for the guaranteed loan.

Differences with the Budget of the United States Government

A Nonbudgetary Credit Program Finance Account section allows for a clear distinction between budgetary and nonbudgetary credit program financing. Nonbudgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the United States Government. Separate reporting on the Statement of Budgetary Resources enhances reconciliation of the two sets of information.

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

| | |
|-----------------|--|
| Note 21. | Disclosures Related to the Statement of Financing |
|-----------------|--|

Fluctuations and Abnormalities

In 3rd Quarter, FY 2006, OMB Circular A-136 was updated to require that certain miscellaneous receipts and clearing accounts be distributed back to the agencies fund balance with treasury for reporting purposes. Prior to this change, there was no effect on Fund Balance with Treasury (FBWT). Distributed offsetting receipts only consisted of certain receipt accounts and clearing accounts and only affected a collections account. In 1st Quarter, FY 2007, the balances in FBWT related to the clearing accounts are greater than the receipts in the designated receipt accounts. This generated an abnormal balance of \$25.2 million on the Statement of Financing Distributed Offsetting Receipts line.

The Statement of Financing is intended to explain and define the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. The following Statement of Financing lines are presented as combined instead of consolidated due to intra-agency 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, and
 Unfilled Customer Orders.

Other Resources – Other, and Other resources or adjustments to net obligated resources that do not affect net cost operations – Other include Other Gains and Losses which represents adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. In addition, Other resources or adjustment to net obligated resources that do not affect net cost operations – Other includes transfers in and out without reimbursement.

Other Components Requiring or Generating Resources in Future Period represents increases in future funded expense for various liabilities such as Federal Employment Compensation Act, Judgment Fund, Unemployment Compensation, and Closed Accounts Payable.

Other Components not Requiring or Generating Resources is comprised of Other Expenses not Requiring Budgetary Resources for the Iraqi Relief and Reconstruction Fund. The Iraqi Relief and Reconstruction Fund is a transfer fund where Army General Fund executes the funding on behalf of the Executive Office of the President. The Department of the Treasury requires that the execution for this type of transfer is presented on Army General Fund's financial statements.

Components Requiring or Generating Resources in Future Period reports \$643.6 million increases in unfunded expenses that were incurred during 1st Quarter, FY 2007. The cumulative total of unfunded expenses from all fiscal years is reported as “Liabilities Not Covered by Budgetary Resources” in Note 11.

Other Disclosures

Resources used to Finance Activities, Other consist of the Other Gains and Losses, Non-budgetary. Other resources or adjustments to net obligated resources that do not affect net cost of operations, other consists of Other Gains and Losses and Transfers in without reimbursement. Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period, Other consists of Future Funded Expenses and Future Funded Unemployment. Components not Requiring or Generating Resources, Other consists of the Cost Capitalization Offset, Bad Debt Expense, and Other Expenses Not Requiring Budgetary Resources.

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

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

Development Fund for Iraq (DFI)

The DFI is for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. In 1st Quarter, FY 2007 there were \$2.7 million in disbursements by the Multi-National Force Iraq with no additional deposits. Some of the disbursements for FY 2006 were incorrectly classified. Disbursements during FY 2007 were processed to correct the misclassification which caused negative disbursements for the Electric Sector. As of December 31, 2006, \$16.1 million remains to be disbursed.

| | (Amounts in Thousands) | |
|---|---------------------------|--|
| | During FY 2007 | Cumulative from Inception |
| Source of Collections | | |
| Deposits By Foreign Governments | \$ 0 | \$ 136,000 |
| Disposition of Collections | | |
| Security and Law Enforcement | \$ 0 | \$ 979 |
| Electric Sector | (613) | 44,532 |
| Oil Infrastructure | 0 | 466 |
| Water Resources and Sanitation | 973 | 17,557 |
| Transportation and Telecommunications | 280 | 5,552 |
| Roads, Bridges and Construction | 0 | 5,024 |
| Health Care | 0 | 2,874 |
| Private Sector Development | 0 | 7,181 |
| Education, Refugees, Human Rights, and Governance | 2,087 | 35,739 |
| Total Disbursed on Behalf of Foreign Governments | 2,727 | 119,904 |
| Retained for Future Support of Foreign Governments * | (2,727) | 16,096 |
| Total Disposition of Collections | \$ 0 | \$ 136,000 |
| Net Custodial Collection Activity | \$ 0 | \$ 0 |

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

Seized Assets

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi Government that are used in support of the Iraqi people. In 1st Quarter FY 2007, \$161 thousand was disbursed with no additional seized assets. As of December 31, 2006, \$30.1 million of seized monetary assets remain to be disbursed in support of the Iraqi people as shown in the table below.

| | (Amounts in Thousands) | |
|--|---------------------------|--|
| | During FY 2007 | Cumulative from Inception |
| Source of Collections | | |
| Seized Iraqi Cash | \$ 0 | \$ 927,216 |
| Disposition of Collections | | |
| Iraqi Salaries | \$ 0 | \$ 30,838 |
| Repair/Reconstruction/Humanitarian Assistance | 161 | 526,274 |
| Iraqi Ministry Operations (Ministry of Finance, Defense, etc.) | 0 | 264,737 |
| Fuel/Supplies | 0 | 75,312 |
| Total Disbursed on Behalf of Iraqi People | 161 | 897,161 |
| Retained for Future Support of the Iraqi People | (161) | 30,055 |
| Total Disposition of Collections | <u>\$ 0</u> | <u>\$ 927,216</u> |
| Net Custodial Collection Activity | <u>\$ 0</u> | <u>\$ 0</u> |

Note 23.**Earmarked Funds****BALANCE SHEET**As of December 31,
2006

| | Military Retirement Fund | Medicare Eligible Retiree Health Care Fund | Other Earmarked Funds | Eliminations | Total |
|-------------------------------------|-----------------------------|--|--------------------------|---------------------------|-------------------------|
| ASSETS | | | | | |
| Fund balance with Treasury | \$ 0.00 | \$ 0.00 | \$ 44,546,928.84 | \$ 0.00 | \$ 44,546,928.84 |
| Investments | 0.00 | 0.00 | 3,260,835.75 | 0.00 | 3,260,835.75 |
| Accounts and Interest Receivable | 0.00 | 0.00 | 34,760,271.79 | (22,964,863.00) | 11,795,408.79 |
| Other Assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Assets | \$ 0.00 | \$ 0.00 | \$ 82,568,036.38 | \$ (22,964,863.00) | \$ 59,603,173.38 |

**LIABILITIES and NET
POSITION**

| | | | | | |
|---|----------------|----------------|-------------------------|----------------|-------------------------|
| Military Retirement Benefits and Other Federal Employment Benefits | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Other Liabilities | 0.00 | 0.00 | 41,705,246.14 | 0.00 | 41,705,246.14 |
| Unexpended Appropriations | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cumulative Results of Operations | 0.00 | 0.00 | 40,862,790.24 | 0.00 | 40,862,790.24 |
| Total Liabilities and Net Position | \$ 0.00 | \$ 0.00 | \$ 82,568,036.38 | \$ 0.00 | \$ 82,568,036.38 |

**STATEMENT OF NET
COST**For the period ended
December 31, 2006

| | | | | | |
|--|----------------|----------------|------------------------|----------------|------------------------|
| Program Costs | \$ 0.00 | \$ 0.00 | \$ 3,909,576.86 | \$ 0.00 | \$ 3,909,576.86 |
| Less Earned Revenue | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Program Costs | \$ 0.00 | \$ 0.00 | \$ 3,909,576.86 | \$ 0.00 | \$ 3,909,576.86 |
| Less Earned Revenues Not Attributable to Programs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Cost of Operations | \$ 0.00 | \$ 0.00 | \$ 3,909,576.86 | \$ 0.00 | \$ 3,909,576.86 |

**STATEMENT OF
CHANGES IN NET
POSITION**For the period ended
December 31, 2006

| | | | | | |
|---|----------------|----------------|--------------------------|----------------|--------------------------|
| Net Position Beginning of the Period | \$ 0.00 | \$ 0.00 | \$ 42,791,897.32 | \$ 0.00 | \$ 42,791,897.32 |
| Net Cost of Operations | 0.00 | 0.00 | 3,909,576.86 | 0.00 | 3,909,576.86 |
| Budgetary Financing Sources | 0.00 | 0.00 | 2,592,433.87 | 0.00 | 2,592,433.87 |
| Other Financing Sources | 0.00 | 0.00 | (611,964.09) | 0.00 | (611,964.09) |
| Change in Net Position | \$ 0.00 | \$ 0.00 | \$ (1,929,107.08) | \$ 0.00 | \$ (1,929,107.08) |
| Net Position End of Period | \$ 0.00 | \$ 0.00 | \$ 40,862,790.24 | \$ 0.00 | \$ 40,862,790.24 |

Earmarked Funds

Earmarked Funds represent funds received from outside sources for specific purposes. Army receives earmarked for the following:

- Sale of Hunting and Fishing Permits. Fees are received from individuals for the issuance of special hunting and fishing permits. The funds for this account are used for wildlife, fish, and game conservation and rehabilitation on military reservations. Title 10, United States Code (USC) 670b gives the authority to collect funds for this purpose and distribute the funds for the intended purposes.

- Restoration of Rocky Mountain Arsenal. Funds are received from private industry for the cleanup of contamination areas of Rocky Mountain Arsenal. Public Law (PL) 99-661, Section 1367 provides the authority for this explicit use.

- Royalties for Use of DoD-Military Insignia and Trademarks. Funds are received from the sale of commemorative memorabilia, trademarks, and licensing activities. The funds are used to replenish inventory stock for such items and other related Commemorative Program expenses. The authority to create expenditures originates from Public Law 102-484, Section 378.

- Forest and Wildlife Conservation, Military Reservations. These funds are produced from the sale of forest products that are in excess of operation and maintenance expenses at fiscal year-end for the payment of entitlements to States. The authority and directive for this fund originates from Title 10, USC 2665.

- National Science Center. Funds received from the collection of fees for the use of the National Science Center and use for the operation and maintenance of the National Science Center as authorized under PL 99-145, Defense Authorization Act, 1986, Section 1459.

- Bequest of Major General Fred C. Ainsworth to Walter Reed Army Medical Center. Funds received from interest on investments for the use of purchasing supplies and equipment for the library at Walter Reed Army Medical Center. The Army cannot currently identify the statutory citation that provides authority for the use of this fund. The appropriation for this earmark is 21 X 8063.

- Department of the Army General Gift Fund. Funds are received from private parties and estates and used for various purposes. Title 10, USC 2601 establishes the authority governing the use of this fund.

The Total Earmarked Funds column is shown as consolidated. All intra-DoD activity between earmarked funds and non-earmarked funds has been eliminated from this column, which causes assets to not equal liabilities and net position.

There were no changes in legislation during or subsequent to 1st Quarter, FY 2007 and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

| | |
|-----------------|--------------------------|
| Note 24. | Other Disclosures |
|-----------------|--------------------------|

| As of December 31 | 2007 | | | |
|-------------------|--------------------|-----------|-------|-------|
| | Asset Category | | | |
| | Land and Buildings | Equipment | Other | Total |

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

Future Payments Due
Fiscal Year

| | | | | |
|---------------|-----------------|---------|---------|-----------------|
| 2007 | \$ 4,723,502.13 | \$ 0.00 | \$ 0.00 | \$ 4,723,502.13 |
| 2008 | 4,950,047.72 | 0.00 | 0.00 | 4,950,047.72 |
| 2009 | 3,793,801.84 | 0.00 | 0.00 | 3,793,801.84 |
| 2010 | 2,118,330.11 | 0.00 | 0.00 | 2,118,330.11 |
| 2011 | 66,654.00 | 0.00 | 0.00 | 66,654.00 |
| 2012 | 66,653.50 | 0.00 | 0.00 | 66,653.50 |
| After 5 Years | 15,416,998.75 | 0.00 | 0.00 | 15,416,998.75 |

**Total Future Lease
Payments Due**

| | | | | |
|--|------------------|---------|---------|------------------|
| | \$ 31,135,988.05 | \$ 0.00 | \$ 0.00 | \$ 31,135,988.05 |
|--|------------------|---------|---------|------------------|

| | |
|-----------------|---------------------|
| Note 25. | Restatements |
|-----------------|---------------------|

Not Applicable