

Department of Defense
Army Working Capital Fund
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	\$ 773,593,746.90	\$ 370,711,256.66
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	0.00	0.00
3. Accounts Receivable (Note 5)	271,852,070.28	427,140,172.91
4. Other Assets (Note 6)	3,179,549.00	0.00
5. Total Intragovernmental Assets	<u>\$ 1,048,625,366.18</u>	<u>\$ 797,851,429.57</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable, Net (Note 5)	18,352,762.54	13,167,166.00
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	18,936,085,610.48	16,664,044,022.63
F. General Property, Plant and Equipment, Net (Note 10)	1,288,575,883.30	1,214,471,866.72
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	283,927,238.95	356,467,894.15
2. TOTAL ASSETS	<u><u>\$ 21,575,566,861.45</u></u>	<u><u>\$ 19,046,002,379.07</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 73,996,348.26	\$ 83,481,399.69
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	58,986,917.59	56,897,564.78
4. Total Intragovernmental Liabilities	<u>\$ 132,983,265.85</u>	<u>\$ 140,378,964.47</u>
B. Accounts Payable (Note 12)	\$ 513,575,887.11	\$ 347,393,523.01
C. Military Retirement and Other Federal Employment Benefits (Note 17)	262,499,476.04	286,523,171.16
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	417,837,413.18	753,613,506.39
4. TOTAL LIABILITIES	<u><u>\$ 1,326,896,042.18</u></u>	<u><u>\$ 1,527,909,165.03</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	0.00	0.00
C. Cumulative Results of Operations - Earmarked Funds	0.00	0.00
D. Cumulative Results of Operations - Other Funds	20,248,670,819.27	17,518,093,214.04
6. TOTAL NET POSITION	<u><u>\$ 20,248,670,819.27</u></u>	<u><u>\$ 17,518,093,214.04</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 21,575,566,861.45</u></u>	<u><u>\$ 19,046,002,379.07</u></u>

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

	2007 Consolidated	2006 Consolidated
1. Program Costs		
A. Gross Costs	\$ 3,922,944,545.49	\$ 3,898,408,313.33
B. (Less: Earned Revenue)	(4,658,816,850.76)	(4,242,533,306.30)
C. Net Program Costs	<u>\$ (735,872,305.27)</u>	<u>\$ (344,124,992.97)</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>\$ (735,872,305.27)</u></u>	<u><u>\$ (344,124,992.97)</u></u>

Department of Defense
Army Working Capital Fund
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	\$ 0.00	\$ 19,316,704,797.17
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	19,316,704,797.17
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	16,336,000.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00 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	0.00
5.C. Imputed financing from costs absorbed by others	0.00	37,146,978.89
5.D. Other (+/-)	0.00	142,610,737.94
6. Total Financing Sources	0.00	196,093,716.83
7. Net Cost of Operations (+/-)	0.00	(735,872,305.27)
8. Net Change	0.00	931,966,022.10
9. Cumulative Results of Operations	0.00	20,248,670,819.27
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
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	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	16,336,000.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(16,336,000.00)
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	20,248,670,819.27

Department of Defense
Army Working Capital Fund
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	\$ 19,316,704,797.17
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	19,316,704,797.17
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	16,336,000.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash	0.00	0.00
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	0.00
5.C. Imputed financing from costs absorbed by others	0.00	37,146,978.89
5.D. Other (+/-)	0.00	142,610,737.94
6. Total Financing Sources	0.00	196,093,716.83
7. Net Cost of Operations (+/-)	0.00	(735,872,305.27)
8. Net Change	0.00	931,966,022.10
9. Cumulative Results of Operations	0.00	20,248,670,819.27
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
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	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	16,336,000.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(16,336,000.00)
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	20,248,670,819.27

Department of Defense
Army Working Capital Fund
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	\$ 0.00	\$ 17,091,034,493.69
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	17,091,034,493.69
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash 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	0.00
5.C. Imputed financing from costs absorbed by others	0.00	37,346,582.83
5.D. Other (+/-)	0.00	45,587,144.55
6. Total Financing Sources	0.00	82,933,727.38
7. Net Cost of Operations (+/-)	0.00	(344,124,992.97)
8. Net Change	0.00	427,058,720.35
9. Cumulative Results of Operations	0.00	17,518,093,214.04
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
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	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	17,518,093,214.04

Department of Defense
Army Working Capital Fund
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	\$ 17,091,034,493.69
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	17,091,034,493.69
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	0.00
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash 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	0.00
5.C. Imputed financing from costs absorbed by others	0.00	37,346,582.83
5.D. Other (+/-)	0.00	45,587,144.55
6. Total Financing Sources	0.00	82,933,727.38
7. Net Cost of Operations (+/-)	0.00	(344,124,992.97)
8. Net Change	0.00	427,058,720.35
9. Cumulative Results of Operations	0.00	17,518,093,214.04
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
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	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	0.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	0.00
14. Total Budgetary Financing Sources	0.00	0.00
15. Unexpended Appropriations	0.00	0.00
16. Net Position	0.00	17,518,093,214.04

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

	<u>2007 Combined</u>	<u>2006 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 1,791,465,388.74	\$ 1,176,499,262.52
2. Recoveries of prior year unpaid obligations	269,857,062.73	226,337,651.93
3. Budget authority		
3.A. Appropriation	16,336,000.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	7,961,048,917.00	8,439,759,562.62
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	3,117,040,884.78	3,103,136,605.66
3.D.1.b. Change in receivables from Federal sources	39,519,381.09	45,670,141.81
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(21,664,571.87)	9,135,068.34
3.D.2.b. Without advance from Federal sources	2,809,018,016.78	1,133,610,441.39
3.D.3. Anticipated for rest of year, without advances	680,973,167.36	823,328,562.97
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>14,602,271,795.14</u>	<u>13,554,640,382.79</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	(2,317,504,795.14)	(2,121,513,382.79)
7. Total Budgetary Resources	<u><u>\$ 14,346,089,451.47</u></u>	<u><u>\$ 12,835,963,914.45</u></u>

Department of Defense
Army Working Capital Fund
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	\$ 0.00	\$ 0.00
8.B. Reimbursable	5,471,767,791.31	5,652,468,030.05
8.C. Subtotal	<u>5,471,767,791.31</u>	<u>5,652,468,030.05</u>
9. Unobligated balance:		
9.A. Apportioned	8,874,321,660.16	7,183,495,884.40
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>8,874,321,660.16</u>	<u>7,183,495,884.40</u>
10. Unobligated balance not available	0.00	0.00
11. Total status of budgetary resources	<u>\$ 14,346,089,451.47</u>	<u>\$ 12,835,963,914.45</u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	9,555,895,815.55	10,331,508,447.06
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ (4,097,979,163.74)</u>	<u>\$ (4,181,756,579.12)</u>
12.C. Total unpaid obligated balance	<u>5,457,916,651.81</u>	<u>6,149,751,867.94</u>
13. Obligations incurred net (+/-)	<u>\$ 5,471,767,791.31</u>	<u>\$ 5,652,468,030.05</u>
14. Less: Gross outlays	(3,213,461,754.48)	(3,364,890,935.48)
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	<u>0.00</u>	<u>0.00</u>
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(269,857,062.73)</u>	<u>(226,337,651.93)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(2,848,537,397.87)	(1,179,280,583.20)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	11,544,344,789.65	12,392,747,889.70
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(6,946,516,561.61)</u>	<u>(5,361,037,162.32)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>4,597,828,228.04</u>	<u>7,031,710,727.38</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	3,213,461,754.48	3,364,890,935.48
19.B. Less: Offsetting collections	(3,095,376,312.91)	(3,112,271,674.00)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
19.D. Net Outlays	<u>\$ 118,085,441.57</u>	<u>\$ 252,619,261.48</u>

Department of Defense
Army Working Capital Fund
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	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	0.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>0.00</u>	<u>0.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

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

	2007 Combined	2006 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 0.00	\$ 0.00
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>0.00</u>	<u>0.00</u>
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>0.00</u>	<u>0.00</u>
10. Unobligated balance not available	0.00	0.00
11. Total Status of Budgetary Resources	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</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>\$ 0.00</u>	<u>\$ 0.00</u>
14. Less: Gross outlays	0.00	0.00
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	0.00	0.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>0.00</u>	<u>0.00</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	0.00	0.00
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	<u>0.00</u>	<u>0.00</u>
19.D. Net Outlays	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

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

	2007 Consolidated	2006 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 5,471,767,791.31	\$ 5,652,468,030.05
2. Less: Spending authority from offsetting collections and recoveries (-)	(6,213,770,773.51)	(4,517,889,909.13)
3. Obligations net of offsetting collections and recoveries	(742,002,982.20)	1,134,578,120.92
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	(742,002,982.20)	1,134,578,120.92
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	0.00
8. Imputed financing from costs absorbed by others	37,146,978.89	37,346,582.83
9. Other (+/-)	142,610,737.94	45,587,144.55
10. Net other resources used to finance activities	179,757,716.83	82,933,727.38
11. Total resources used to finance activities	\$ (562,245,265.37)	\$ 1,217,511,848.30
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(1,954,225,793.62)	(2,029,777,369.52)
12b. Unfilled Customer Orders	2,787,353,444.91	1,142,745,509.73
13. Resources that fund expenses recognized in prior periods	(25,150,883.89)	(23,857,312.82)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	(1,864,717,732.22)	(2,080,017,045.46)
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 (+/-)	(142,610,737.94)	(45,587,144.55)
17. Total resources used to finance items not part of the net cost of operations	\$ (1,199,351,702.76)	\$ (3,036,493,362.62)
18. Total resources used to finance the net cost of operations	\$ (1,761,596,968.13)	\$ (1,818,981,514.32)

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

	2007 Consolidated	2006 Consolidated
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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	695,210.28	1,051,347.65
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 695,210.28	<hr/> 1,051,347.65
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	7,421,244.73	16,105,104.12
26. Revaluation of assets or liabilities (+/-)	37,658,282.73	281,711,299.48
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	1,109,421,852.83	1,292,289,063.55
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(129,471,927.71)	(116,300,293.45)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 1,025,029,452.58	<hr/> 1,473,805,173.70
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ 1,025,724,662.86	<hr/> \$ 1,474,856,521.35
30. Net Cost of Operations	<hr/> <hr/> \$ (735,872,305.27)	<hr/> <hr/> \$ (344,124,992.97)

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

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

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

The AWCF is unable to fully implement all elements of Federal GAAP and OMB Circular A-136 due to limitations of its financial and nonfinancial management processes and systems. The Army derives its reported values and information for major asset and liability categories largely from nonfinancial feeder systems, such as inventory and logistics systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of Federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, AWCF cannot currently implement every aspect of Federal GAAP and OMB Circular A-136. The AWCF continues to implement processes and system improvements addressing the limitations of its financial and nonfinancial feeder systems. As of year-end fiscal year (FY) 2005, AWCF has agreed with eight auditor-identified financial statement material weaknesses: (1) financial management systems and processes; (2) inventory; (3) general property, plant, and equipment; (4) intragovernmental transactions and eliminations; (5) accounting adjustments; (6) accounts payable; (7) Statement of Net Cost; and (8) Statement of Financing.

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

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

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

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

1.D. Basis of Accounting

The AWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. For FY 2006, AWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many AWCF financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for Federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

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

financial information as required by Federal GAAP, some of AWCF financial data will be based on budgetary transactions (obligations, disbursements, collections), and nonfinancial feeder systems. For example, most financial information presented on the Statement of Net Costs is based on accrued costs; however, some of the financial information is based on obligations and disbursements.

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

1.E. Revenues and Other Financing Sources

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

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because AWCF 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 and accounts payable. Expenditures for capital and other long-term assets are not recognized as expenses in AWCF operations until depreciated, as in the case of property, plant, and equipment. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

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

1.G. Accounting for Intragovernmental Activities

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

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

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

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

To prepare reliable financial statements, transactions occurring between components or activities within AWCF must be eliminated for consolidated financial reporting purposes. However, AWCF cannot accurately identify all intragovernmental transactions by its related components or activities because AWCF systems do not track buyer and seller data needed to match related transactions. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of AWCF. Beginning in FY 1999, seller entities within AWCF provided summary seller-side balances for revenue, accounts receivable, transfers-in/out, and unearned revenue to the buyer-side internal AWCF accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. The AWCF intragovernmental balances are then eliminated. The DoD and AWCF are developing long-term system improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

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 AWCF is unable to fully reconcile intragovernmental transactions with all federal partners, the AWCF is able to reconcile balances pertaining to 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.

1.H. Transactions with Foreign Governments and International Organizations

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

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

The Department of the Treasury accounts maintain AWCF monetary financial resources. The DFAS, Military Services, U.S. Army Corps of Engineers (USACE) disbursing stations as well as the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments for the Federal government worldwide. Each disbursing station prepares monthly reports that provide information to the Department of the Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Department of the Treasury’s system. Differences between AWCF and Department of the Treasury’s records sometime result and are subsequently reconciled. Material disclosures are provided in Note 3. Differences between accounting offices’ detail level records and Department of the Treasury FBWT accounts are disclosed in Note 3, Fund Balance with Treasury, specifically differences caused by in-transit disbursements and unmatched disbursements, which are not recorded in the accounting offices’ detail level records.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivables from other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise from the provision of goods and services to state, local, and foreign governments. Refunds receivable, however, are overpayments by the Federal government in the process of being collected.

An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances by fund type. The AWCF bases the estimate of uncollectible accounts receivable from the public on 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. The allowance is updated annually based on the aged accounts receivable at the end of the 2nd Quarter. The AWCF does not recognize an allowance for estimated uncollectible amounts from other Federal agencies. Claims against other Federal agencies are to be resolved between the agencies (per Code of Federal Regulations 4 CFR 101). Material disclosures are provided in Note 5, Accounts Receivable.

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

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

Approximately 22 percent of the AWCF's inventory value is 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 No. 3 and GAAP.

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

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

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

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

Not applicable.

1.O. General Property, Plant and Equipment

General Property, Plant & Equipment (GPP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds DoD capitalization threshold. The capitalization threshold is \$100 thousand for GPP&E. All GPP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, GPP&E with an acquisition cost of \$15 thousand, \$25 thousand, and \$50 thousand for FY 1993, FY 1994, and FY 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on AWCF financial statements.

For AWCF activities, all GPP&E used in the performance of their mission is categorized as GPP&E, whether or not it meets the definition of any other GPP&E categories. All Army Heritage Assets and Stewardship Land are reported in the Required Supplemental Stewardship Information Report of the Army General Fund.

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

1.P. Advances and Prepayments

The AWCF records payments made prior to the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. The AWCF recognizes advances and prepayments as expenses when it receives the related goods and services.

1.Q. Leases

Not applicable.

1.R. Other Assets

The AWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, AWCF provides financing payments. Real property financing payments are based upon a percentage of completion. In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in progress and are reported on the GPP&E line on the Balance Sheet and in Note 10, GPP&E, Net.

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

Other assets includes 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 to AWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. The AWCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

1.T. Accrued Leave

The AWCF reports as liabilities civilian annual leave that has been accrued and not used as of the balance sheet date. The liability reported at the end of the accounting period reflects the current pay rates.

1.U. Net Position

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

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

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Comparative Data

The financial statements and accompanying notes to the financial statements report the financial position and results of operations as of the end of the 4th Quarter, FY 2006. The DoD requires disclosure of variances exceeding 10 percent (when comparing prior year and current year statements) or two percent of total assets. The required disclosure threshold applies only to the Balance Sheet and Statement of Net Cost. In addition, DoD requires variance disclosure on some items not directly linked to the Balance Sheet or Statement of Net Cost.

1.X. Unexpended Obligations

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

1.Y. Undistributed Disbursements and Collections

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

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

Note 2.	Nonentity Assets
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As of December 31	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 21,575,566,861.45	\$ 19,046,002,379.07
5. Total Assets	\$ 21,575,566,861.45	\$ 19,046,002,379.07

Definitions

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

Entity assets are resources that AWCF has the authority to use or where management is legally obligated to use funds to meet entity obligations.

Note 3.	Fund Balance with Treasury
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As of December 31	2007	2006
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	773,593,746.90	370,711,256.66
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 773,593,746.90	\$ 370,711,256.66
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 773,593,746.90	\$ 370,711,256.66
B. Fund Balance per Army Working Capital Fund	773,593,746.90	370,711,256.66
3. Reconciling Amount		
	\$ 0.00	\$ 0.00

Fluctuations and/or Abnormalities

Fund Balance with Treasury increased \$402.9 million, or 109 percent, primarily due to the following:

In 2nd Quarter, FY 2006, the Army Working Capital Fund (AWCF) received a warrant for \$106.5 million in accordance with DoD Appropriation Act, 2006, P.L. 109-148. Of this, AWCF distributed \$42.5 million for war reserves and Army combat uniforms to the Supply Management (SMA) business area and \$64.0 million to the Industrial Operations (IO) business area for industrial mobilization capacity.

In 3rd Quarter, FY 2006, AWCF received a warrant for \$348.3 million in accordance with Emergency Supplemental Appropriations Act for Defense, the Global on Terror, and Hurricane Recovery, 2006, P.L. 109-234. Of this warrant, the SMA business area received \$92.1 million for war reserves and \$255.0 million for inventory augmentation. The IO business area received \$1.2 million for fuel cost increases.

In the 4th quarter, FY 2006, funds were appropriated to the Defense-Wide Defense Working Capital Fund in title IX, Division A of the Department of Defense Appropriations Act, 2006, P.L. 109-148. The IO business area received \$4.7 million for fuel cost increases.

In the 1st Quarter, FY 2007, AWCF received a warrant for \$16.3 million in accordance with DoD Appropriations Act 2007, P.L. 109-289. These funds were distributed to the SMA business area, with \$10.1 million for repairable items and \$6.2 million for mobilization.

The \$475.8 million in appropriations received, as discussed above, were offset by disbursements that exceeded collections by \$72.9 million between the 1st Quarter, FY 2006 and 1st Quarter, FY 2007.

Status of Fund Balance with Treasury

As of December 31	2007	2006
1. Unobligated Balance		
A. Available	\$ 8,193,348,492.80	\$ 6,360,167,321.43
B. Unavailable	0.00	0.00
2. Obligated Balance not yet Disbursed	\$ 11,544,344,789.65	\$ 12,392,747,889.70
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (18,964,099,535.55)	\$ (18,382,203,954.47)
5. Total	\$ 773,593,746.90	\$ 370,711,256.66

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

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with contract authority, customer orders, and appropriations.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received or goods or services that have been received but not yet disbursed.

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

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

There are no restrictions on unobligated balances.

The \$19.0 billion in NonFBWT Budgetary Accounts consists of unobligated balances available and obligated balances not yet disbursed.

Fluctuations and/or Abnormalities

Unobligated Balance available increased \$1.8 billion, or 29 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. This change is primarily attributable to increased unfilled orders in the IO business area for repair of military equipment. The IO business area reported \$1.5 billion more orders during the 1st Quarter, FY 2007 than in the 1st Quarter, FY 2006.

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	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

The Suspense/Budget Clearing Accounts shown above are maintained and reported by the Army General Fund. Some transactions relating to AWCF may be in suspense accounts, but are not identifiable. When they are identified to AWCF, they will be transferred from the suspense/clearing account to the correct Department of the Treasury appropriation.

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)	\$ 37,976,920.00	\$ 7,232,245.20	\$ 2,934,456.87	(4,297,788.33)
B. Negative Unliquidated Obligations (NULO)	3,521,866.17	5,521,742.32	3,671,306.85	(1,850,435.47)
2. Total In-transit Disbursements, Net	\$ 263,594,749.45	\$ 186,699,525.93	\$ 285,911,270.16	99,211,744.23

Definitions

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

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

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

Fluctuations and/or Abnormalities

Unmatched Disbursements (UMD) decreased \$4.3 million, or 60 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. This decrease is attributed to system and process improvements implemented in 1st Quarter, FY 2007 at Defense Finance and Accounting Service (DFAS)-St. Louis. These improvements allow for quicker isolation of problems and expedite the corrective process. DFAS-St. Louis worked with the Logistics Modernization Program (LMP) to receive better information enabling them to match Mechanization of Contract Administration Services (MOCAS) disbursements to LMP obligations in more timely manner.

Negative Unliquidated Obligations (NULO) decreased \$1.9 million, or 34 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. This decrease is attributed to changes made in 1st Quarter, FY 2006 by DFAS-St. Louis that streamlined the error correction process. DFAS-St. Louis worked with the LMP to receive better information enabling them to match MOCAS disbursements to LMP obligations in more timely manner.

Net In-transit Disbursements increased \$99.2 million, or 53 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 DFAS that the best course of action was to wait until obligations for logistics transactions processed before releasing Interfund Bills. During the 1st Quarter, FY 2007, Interfund bills were not processed to avoid duplicate obligations. This issue has been resolved and the processing of the backlog of bills started in December, 2006.

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	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Investments					
A. Total 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	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Not applicable.

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	\$ 271,852,070.28	N/A	\$ 271,852,070.28	\$ 427,140,172.91
2. Nonfederal Receivables (From the Public)	\$ 25,868,682.04	\$ (7,515,919.50)	\$ 18,352,762.54	\$ 13,167,166.00
3. Total Accounts Receivable	\$ 297,720,752.32	\$ (7,515,919.50)	\$ 290,204,832.82	\$ 440,307,338.91

Fluctuations and/or Abnormalities

Intragovernmental Receivables, Net decreased \$155.3 million, or 36 percent from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. Decreases of \$86.1 million in the Industrial Operations business area were primarily related to more timely receipt of proper billing information in the 1st Quarter, FY 2007 than 1st Quarter, FY 2006. Insufficient billing detail delayed collection of intragovernmental accounts receivable in 1st Quarter, FY 2006. Reductions of \$15.4 million at Anniston Army Depot, and \$7.9 million at Blue Grass Army Depot were primarily attributable to less research needed to prepare and release bills for work performed. The AWCF has authority to commence critical work upon receipt of a Commander's Commencement Order (CCO) before the actual work order is received. Revenue from these orders remains in receivable until actual funding that provides proper billing data is put in place. Reductions of \$18.7 million at Red River Army Depot and \$14.9 million at Letterkenny Army Depot primarily resulted from less CCO outstanding at the end of the 1st Quarter, FY 2007 than at the end of 1st Quarter, FY 2006. Corpus Christi Army Depot reported \$16.3 million less intragovernmental receivables during 1st Quarter, FY 2007 than 1st Quarter, FY 2006. This reduction was primarily attributable to less surcharge on orders received during FY 2007. Decreases in the Supply Management business area of \$63.1 million were primarily attributable to a change in billing criteria. During the 3rd Quarter, FY 2006 AWCF accelerated the billing cycle. Previously, AWCF did not bill the customer until seven days after preparation of the material release order. The customer is now billed after two days.

Nonfederal Receivables, Net increased \$5.2 million, or 39 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The increase is primarily attributable to a \$4.9 million contract overpayment by DFAS Columbus. This receivable is in a current status.

Aged Accounts Receivable

As of December 31	2007		4th Quarter 2006	
CATEGORY	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
Nondelinquent				
Current	\$ 284,628,973.45	\$ 18,638,216.04	\$ 254,993,276.00	\$ 11,930,056.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 815,486.00	\$ 1,041,425.00	\$ 1,821,886.00	\$ 195,593.00
31 to 60 days	1,355,141.00	107,543.00	373,659.00	617.00
61 to 90 days	177,000.00	709,580.00	119,276.00	19,235.00
91 to 180 days	647,641.00	629,818.00	64,926.00	27,200.00
181 days to 1 year	247,651.00	245,674.00	116,621.00	303,069.00
Greater than 1 year and less than or equal to 2 years	(21,459.00)	3,896,556.00	78,806.00	3,821,542.00
Greater than 2 years and less than or equal to 6 years	30,048.00	817.00	83,072.00	3,447.00
Greater than 6 years and less than or equal to 10 years	0.00	7,139.00	0.00	7,098.00
Greater than 10 years	0.00	591,914.00	0.00	588,092.00
Subtotal	\$ 287,880,481.45	\$ 25,868,682.04	\$ 257,651,522.00	\$ 16,895,949.00
Less Supported Undistributed Collections	27,239,353.24	0.00	21,939,395.00	0.00
Less Eliminations	(43,267,764.41)	0.00	(36,586,207.00)	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 271,852,070.28	\$ 25,868,682.04	\$ 243,004,710.00	\$ 16,895,949.00

The table above identifies aged accounts receivable groups for AWCF as reported in AWCF Monthly Receivable Data (MRD) Reports.

The accounts receivable aging schedule prior year column represents 4th Quarter, FY 2006 ending balances, rather than the ending balances as 1st Quarter, FY 2006. Therefore, the prior year accounts receivable on the aging schedule will not agree with the prior year balance on the Balance Sheet nor the prior year balance in the first schedule in this note.

The balances reported as supported undistributed collections are abnormal. Abnormalities are due to differences between the Department of the Treasury and AWCF field reported collections. Some of these collections were previously reported by the former Army Information Services business area which closed at the end of FY 2003. The AWCF did not properly close out and transfer existing collection balances to the Supply Management business area. AWCF is still working to resolve the current abnormal balance of \$27.2 million.

Delinquent Intragovernmental Receivables

The 1-30 day category decreased \$1.0 million, or 55 percent, primarily due to receivables at Red River Army Depot that aged due to insufficient billing detail. These receivables are now reported in the 31-60 day category.

The 31-60 day category increased \$981.5 thousand, or 263 percent, primarily due to the receivables at Red River Army Depot that aged due to insufficient billing detail described above.

The 91-180 day category increased \$582.7 thousand, or 898 percent, primarily due to \$293 thousand in disputed bills with other governmental entities in the Industrial Operations business area and \$142.3 thousand due to insufficient billing detail.

The 181 day to 1 year category increased \$131 thousand, or 112 percent, primarily due to invalid receivables recorded in the Logistics Modernization Program (LMP). The LMP has an open problem report on this situation and corrective action is pending.

The 1-2 year category decreased \$100 thousand, or 127 percent. The negative balance is due to ongoing LMP correction activities.

The 2-6 year category decreased \$53 thousand, or 64 percent, primarily due to ongoing LMP correction activities.

Delinquent Public Receivables

The 1-30 day category increased \$845.8 thousand, or 432 percent, primarily due to manual bills for which Industrial Operations business area is awaiting receipt of payment.

The 31-60 day category increased \$106.9 thousand, or 17,330 percent, primarily due to manual bills for which Industrial Operations business area is awaiting receipt of payment.

The 61-90 day category increased \$690.3 thousand, or 3,589 percent, primarily due to contractor debt that is administered by the DFAS-Columbus debt management office for collection.

The 91-180 category increased \$602.6 thousand, or 2,216 percent, primarily due to contractor debt that is administered by the DFAS-Columbus debt management office for collection.

The 2-6 year category decreased \$2.6 thousand, or 76 percent, due to collections of debt by the DFAS-Denver debt management office.

Relevant Information

Nondelinquent Current accounts receivable are those that are due in the next 12 months. Nondelinquent Noncurrent accounts receivable are those amounts that are due beyond the next 12 months. Delinquent accounts receivable are aged from the date in which the account is considered delinquent.

To collect delinquent accounts receivable, the AWCF follows DoD concept of operations for collections, which requires follow-up actions at 30-day intervals with ordering activities.

The majority of accounts receivable due from the public are in a current status. The \$7.2 million in delinquent accounts receivable from the public includes \$1.1 million that is not available for collection due to bankruptcy, appeal, or litigation. Other delinquent debt includes \$539.5 thousand in out-of-service debt being pursued by the Defense Debt Management Service-Denver and \$4.3 million in contractor debt being pursued by the Contractor Debt Management Service-Columbus. Remaining delinquent debt is being pursued by the AWCF.

Note 6.	Other Assets
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As of December 31	2007	2006
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 3,179,549.00	\$ 0.00
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 3,179,549.00	\$ 0.00
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 154,135,974.55	\$ 354,415,708.25
B. Other Assets (With the Public)	129,791,264.40	2,052,185.90
C. Total Nonfederal Other Assets	\$ 283,927,238.95	\$ 356,467,894.15
3. Total Other Assets	\$ 287,106,787.95	\$ 356,467,894.15

Fluctuations and/or Abnormalities

Intragovernmental Other Assets increased from \$0 to \$3.2 million from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The entire balance in Intragovernmental Other Assets Advances and Prepayments is based upon unearned revenue reported by the Defense Reutilization and Marketing Office (DRMO). The DRMO bills Army Working Capital Fund (AWCF) at the beginning of each quarter for hazardous waste removal work that DRMO expects to perform in that quarter for the Supply Management (SMA) business area. The \$3.2 million advance represents the amount DRMO billed over the amount of actual revenue earned. This account balance is dictated by trading partner seller-side rules as described in Note 1.G.

Nonfederal Other Assets decreased \$72.5 million, or 20 percent, due to decreased contract financing payments of \$34.4 million from the Aviation and Missile Command to the Lockheed Martin Corporation and \$23.6 million to the Raytheon Company by the Tank-automotive and Armaments Command. However, these numbers cannot be verified because there was an error in the amount of the contract holdback computation in the Commodity Command Standard System during the 1st Quarter, FY 2007. Corrective actions are expected during 2nd Quarter, FY 2007.

Other Assets (With the Public) consists of travel advances and prepaid expenses.

Other Disclosures

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 Nonfederal Other Assets Outstanding Contract Financing Payments balance of \$154.1 million is comprised of \$118.6 million in contract financing payments and an additional \$35.5 million in estimated future funded payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7.	Cash and Other Monetary Assets
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As of December 31	2007	2006
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency	0.00	0.00
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

Not applicable.

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

Direct Loan and/or Loan Guarantee Programs

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
<hr/> <hr/>				

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

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		
Foreign Military Financing Account	0.00	0.00	0.00		

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%

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

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	\$ 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
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00

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	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
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	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00

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	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

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	0.00		
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00		
Total	\$ 0.00	\$ 0.00	0.00		

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%	0.00%	0.00%	0.00%	0.00%

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

Administrative Expenses

Note 9.	Inventory and Related Property
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As of December 31	2007	2006
1. Inventory, Net	\$ 18,936,085,610.48	\$ 16,664,044,022.63
2. Operating Materials & Supplies, Net	0.00	0.00
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 18,936,085,610.48	\$ 16,664,044,022.63

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	\$ 22,809,391,495.65	\$ (7,457,263,109.04)	15,352,128,386.61	\$ 13,905,064,493.86	LAC,MAC
B. Held for Repair	5,336,299,043.48	(1,811,804,972.45)	3,524,494,071.03	2,728,915,924.69	LAC,MAC
C. Excess, Obsolete, and Unserviceable	612,359,042.41	(612,359,042.41)	0.00	0.00	NRV
D. Raw Materials	59,463,152.84	0.00	59,463,152.84	30,063,604.08	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	0.00	AC
F. Total	\$ 28,817,512,734.38	\$ (9,881,427,123.90)	18,936,085,610.48	\$ 16,664,044,022.63	

Legend for Valuation Methods:

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

NRV = Net Realizable Value
 O = Other
 MAC = Moving Average Cost

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

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

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

There are no restrictions on disposition of inventory as related to environmental or other liabilities.

3. Other Information:

Definitions

The Inventory, Net is composed of the categories listed below. Inventory items are assigned to a category based upon the type and condition of the asset.

Inventory Available and Purchased for Resale – spare and repair parts, clothing and textiles, petroleum products, and ammunition.

Inventory Held for Repair – damaged material held as inventory that is more economical to repair than to dispose of.

Excess, Obsolete, and Unserviceable Inventory – condemned materiel that must be retained for management purposes.

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

Fluctuations and/or Abnormalities

Total Inventory increased \$2.3 billion, or 14 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. This increase is detailed in the paragraph below.

The Inventory Available and Purchased for Resale increased \$1.4 billion, or 10 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. Approximately \$728.7 million of the increase is attributable to several performance based logistics contracts established by the Aviation and Missile Command in FY 2004 and FY 2005 to accelerate the replenishment of inventory. The contracts with General Electric Company and Honeywell supply various engines and Sikorsky Aircraft Corporation and Boeing supply airframes and component parts. These contracts will last for another three to five years. Also, the Tank-automotive and Armaments Command has increased inventory levels by \$327.7 million in support of Operation Iraqi Freedom and Operation Enduring Freedom.

Inventory Held for Repair increased \$795.6 million, or 29 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. This increase is attributable to \$285.0 million in aviation parts, \$247.7 million in wheeled and tracked vehicle parts, and \$75.0 million in communication and electronic parts needing repair upon return from Operation Iraqi Freedom and Operation Enduring Freedom.

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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	

Legend for Valuation Methods:

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

Restrictions of Operating Materials and Supplies Use, Sale, or Disposition:

Not applicable

Stockpile Materials, Net

As of December 31	2007			2006	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
1. Stockpile Materials Categories					
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	

Legend for Valuation Methods:

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

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

Restrictions of Stockpile Materials Use, Sale, or Disposition:

Not applicable

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	\$ 0.00	N/A	\$ 0.00	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	2,241,535,537.29	\$ (1,456,597,924.83)	784,937,612.46	788,681,088.09
C. Leasehold Improvements	S/L	lease term	95,213,296.87	(79,653,831.91)	15,559,464.96	18,205,307.84
D. Software	S/L	2-5 Or 10	449,198,918.81	(256,496,221.27)	192,702,697.54	80,543,626.74
E. General Equipment	S/L	5 or 10	1,501,753,682.17	(1,253,069,427.88)	248,684,254.29	272,869,477.28
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in- Progress	N/A	N/A	46,691,854.05	N/A	46,691,854.05	53,688,966.77
I. Other			0.00	0.00	0.00	483,400.00
J. Total General PP&E			<u>\$ 4,334,393,289.19</u>	<u>\$ (3,045,817,405.89)</u>	<u>\$ 1,288,575,883.30</u>	<u>\$ 1,214,471,866.72</u>

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Other Disclosures

There are no known restrictions on the use or convertibility of the Army Working Capital Fund (AWCF) general property, plant, and equipment.

The entire amount shown on the Leasehold Improvements line is for improvements made to facilities at Corpus Christi Army Depot (CCAD). The CCAD, a tenant on a Navy installation, does not maintain a lease with the Navy. The AWCF records improvements made on these facilities as leasehold improvements.

Assets Under Capital Lease

As of December 31	2007	2006
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	\$ 0.00	\$ 0.00

Other Disclosures

The AWCF does not have any Assets Under Capital Lease.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of December 31	2007	2006
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	32,511,972.33	31,502,264.05
D. Total Intragovernmental Liabilities	\$ 32,511,972.33	\$ 31,502,264.05
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	262,499,476.04	286,523,171.16
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	0.00
E. Total Nonfederal Liabilities	\$ 262,499,476.04	\$ 286,523,171.16
3. Total Liabilities Not Covered by Budgetary Resources	\$ 295,011,448.37	\$ 318,025,435.21
4. Total Liabilities Covered by Budgetary Resources	\$ 1,031,884,593.81	\$ 1,209,883,729.82
5. Total Liabilities	\$ 1,326,896,042.18	\$ 1,527,909,165.03

Definitions

Intragovernmental Other Liabilities represents future funded Federal Employees Compensation Act (FECA) liabilities billed to the Army Working Capital Fund (AWCF) by the Department of Labor (DOL). This amount represents amounts paid by the DOL to beneficiaries for which DOL has billed AWCF.

Military Retirement Benefits and Other Employment-Related Actuarial Liabilities represents the FECA actuarial liability as estimated for AWCF by DOL. This amount represents amounts that DOL estimates will be paid to beneficiaries in the future on behalf of AWCF.

Note 12.	Accounts Payable
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As of December 31	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 73,996,348.26	\$ N/A	\$ 73,996,348.26	\$ 83,481,399.69
2. Nonfederal Payables (to the Public)	513,573,220.95	2,666.16	513,575,887.11	347,393,523.01
3. Total	<u>\$ 587,569,569.21</u>	<u>\$ 2,666.16</u>	<u>\$ 587,572,235.37</u>	<u>\$ 430,874,922.70</u>

Fluctuations and/or Abnormalities

Intragovernmental Payables decreased \$9.5 million, or 11 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The decrease is primarily attributable to an \$8.6 million decrease in payables with the Defense Logistics Agency (DLA). The Army Working Capital Fund (AWCF) is required to follow Department of Defense (DoD) seller rules based on trading partner reported balances. In 1st Quarter, FY 2007, the DLA reported less accounts receivable with AWCF than in 1st Quarter, FY 2006. The AWCF is required to match DLA reported accounts receivable with AWCF accounts payable.

Nonfederal Payables increased \$166.2 million, or 48 percent, from 1st Quarter, FY 2006 to 1st Quarter, FY 2007. The increase is primarily attributable to corrections of abnormal accounts payable balances that were reported by the Logistics Modernization Program (LMP) for the Supply Management business area in FY 2006. As of 1st Quarter, FY 2007, the Communications-Electronics Command continues to report abnormal balances. During FY 2006, the LMP Program Management Office worked with AWCF to initiate systems corrections, which reduced the previously reported abnormal balances. The corrections made between 1st Quarter, FY 2006 and 1st Quarter, FY 2007 reduced the abnormal balance from \$347.3 million to the current abnormal balance of \$80.8 million. This is an unresolved issue that AWCF is continuing to research.

Note 13.	Debt
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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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of December 31	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)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	0.00	0.00	0.00	0.00
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not Applicable

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

Note 15.	Other Liabilities
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As of December 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 85,503.00	\$ 0.00	\$ 85,503.00	\$ 0.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	43,349,296.44	10,837,324.11	54,186,620.55	52,503,773.42
F. Other Liabilities	4,714,794.04	0.00	4,714,794.04	4,393,791.36
G. Total Intragovernmental Other Liabilities	\$ 48,149,593.48	\$ 10,837,324.11	\$ 58,986,917.59	\$ 56,897,564.78
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 97,695,738.70	\$ 0.00	\$ 97,695,738.70	\$ 109,244,212.01
B. Advances from Others	79,754,032.89	0.00	79,754,032.89	69,561,312.03
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	(896,451.97)	0.00	(896,451.97)	(889,227.43)
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	92,612,322.96	0.00	92,612,322.96	88,701,635.33
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	113,158,133.31	35,513,637.29	148,671,770.60	486,995,574.45
J. Total Nonfederal Other Liabilities	\$ 382,323,775.89	\$ 35,513,637.29	\$ 417,837,413.18	\$ 753,613,506.39
3. Total Other Liabilities	\$ 430,473,369.37	\$ 46,350,961.40	\$ 476,824,330.77	\$ 810,511,071.17

Fluctuations and/or Abnormalities

Total Nonfederal Other Liabilities decreased \$335.8 million, or 45 percent, primarily due to a decrease in Nonfederal Other Other Liabilities of \$338.3 million, or 69 percent, from 1st quarter, FY 2006 to 1st quarter, FY 2007. This decrease of \$338.3 million occurred because, in the 1st Quarter, FY 2006, AWCF erroneously included a liability for in-transit inventory that should not have been recorded until the inventory was received at the destination. In September 2006, AWCF began recording the liability in accordance with the terms of the contract. The Logistics Modernization Program (LMP) currently records inventory intransit as other liabilities and is in the process of changing to correctly report this as accounts payable. This will occur in the 2nd Quarter, FY 2007.

The \$896.5 thousand abnormal balance in Nonfederal Deposit Funds and Suspense Accounts is due to differences between the Department of the Treasury and AWCF field reported collections. The majority of this amount results from a balance brought forward that existed prior to FY 2006. The AWCF is working to resolve these differences.

Other Disclosures

Intragovernmental Other Liabilities line consists of employee benefits, including health insurance, life insurance, and retirement payable to the Department of Labor (DOL).

The Nonfederal Other Liabilities line consists of inventory in-transit posted by the LMP, contingent liabilities, contract holdbacks, and employer's contribution for employee benefits.

The AWCF has a delinquent FECA bill due to DOL in the amount of \$19.5 million, which is included in the current FECA Reimbursement to DOL liability of \$43.3 million. The AWCF will pay this delinquent bill in the 2nd Quarter, FY 2007.

Contingent liabilities balance includes \$35.5 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.

Capital Lease Liability

As of December 31	2007				2006	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2007	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2008	0.00	0.00	0.00	0.00	0.00	0.00
C. 2009	0.00	0.00	0.00	0.00	0.00	0.00
D. 2010	0.00	0.00	0.00	0.00	0.00	0.00
E. 2011	0.00	0.00	0.00	0.00	0.00	0.00
F. 2012	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00

Note 16.**Commitments and Contingencies****Relevant Information**

The Army Working Capital Fund (AWCF) is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The AWCF 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 AWCF records Judgment Fund liabilities in Note 15 Other Liabilities, and Note 12 Accounts Payable. See Notes 15 and 12.

Nature of Contingency

The FY 2007 Army Legal Representation Letter outlines one claim against AWCF totaling \$486.7 million for which the Army Office of General Counsel is unable to express an opinion.

The AWCF has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army's financial statements nor are reported in the FY 2007 Army Legal Representation Letter. As of December 31, 2006, AWCF has approximately \$1.1 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, AWCF has coordinated with Army Office of General Counsel to ensure that estimates agree with the legal representation letters and management summary schedule.

Estimate of the Possible Liability

(Amounts in thousands)

Title of Contingent Liabilities

Army Materiel Command

Estimate

\$1,082

Other Information Pertaining to Commitments

The AWCF does not have open contracts citing cancelled appropriations.

Note 17.	Military Retirement and Other Federal Employment Benefits
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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	\$ 262,499,476.04		\$ 0.00	\$ 262,499,476.04	\$ 286,523,171.16
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	\$ 262,499,476.04		\$ 0.00	\$ 262,499,476.04	\$ 286,523,171.16
3. Other Federal Employment Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 262,499,476.04		\$ 0.00	\$ 262,499,476.04	\$ 286,523,171.16

Actuarial Cost Method Used:
 Assumptions:
 Market Value of Investments in Market-based and Marketable Securities:

Actuarial Cost Method Used

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

Assumptions

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

Other Disclosures

The AWCF does not invest in Market-based and Marketable Securities.

The Army Working Capital Fund (AWCF) actuarial liabilities decreased \$24.0 million since the previous calculation at the end of FY 2006.

Actuarial liabilities are computed for employee compensation benefits as mandated by the Federal Employment Compensation Act (FECA). The Office of Personnel Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year. The AWCF computes its portion of the total Army actuarial liability based on the percentage of AWCF FECA expense to the total Army FECA expense.

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	\$ 598,573,317.75	\$ 101,546,732.98
2. Public Costs	3,324,371,227.74	3,796,861,580.35
3. Total Costs	\$ 3,922,944,545.49	\$ 3,898,408,313.33
4. Intragovernmental Earned Revenue	\$ (2,648,401,839.02)	\$ (2,479,225,974.59)
5. Public Earned Revenue	(2,010,415,011.74)	(1,763,307,331.71)
6. Total Earned Revenue	\$ (4,658,816,850.76)	\$ (4,242,533,306.30)
7. Net Cost of Operations	\$ (735,872,305.27)	\$ (344,124,992.97)

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

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

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

While AWCF activities generally record transactions on an accrual basis, as is required by federal generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the Consolidated Statement of Net Cost is primarily based on budgetary obligation, disbursement, or collection transactions, as well as information from non-financial feeder systems. The AWCF is in the process of upgrading its financial and logistical feeder systems to the Logistics Modernization Program to address this issue.

Fluctuations and/or Abnormalities

Net Program Costs decreased \$391.7 million, or 114 percent, between 1st Quarter, FY 2006 and 1st Quarter, FY 2007. The decrease results from an increase in Earned Revenue due to the cancellation of \$371.7 million of materiel return liabilities. A liability is established by AWCF when item managers approve credit for inventory that is being returned by customers. During 1st Quarter, FY 2007 the AWCF could not identify trading partners associated with

the material return liabilities, and therefore cancelled the liabilities. This resulted in reporting an other gain, which increased reported Earned Revenue.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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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	\$ 10,008,078.59	\$ 0.00	\$ 12,423,556.29	\$ 0.00
B. Civilian Health	27,094,126.00	0.00	24,872,302.00	0.00
C. Civilian Life Insurance	44,774.30	0.00	50,724.54	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 37,146,978.89	\$ 0.00	\$ 37,346,582.83	\$ 0.00

Legend:

CSRS – Civil Service Retirement System

FERS – Federal Employees Retirement System

Other Financing Sources: Other represents the net of transfers-in and transfers-out for which trading partners could not be identified.

The eliminations column on the Statement of Net Position reflects zero dollars. The 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.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of December 31	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 10,956,007,203.95	\$ 12,145,194,298.32
2. Available Borrowing and Contract Authority at the End of the Period	12,017,582,973.94	13,021,166,792.15

All Army Working Capital Fund (AWCF) obligations represent reimbursable obligations in apportionment category B. Category B apportionments provide funding for the entire fiscal year without quarterly limitations. Total obligations in 1st Quarter, FY 2006 were \$5.5 billion.

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

In 1st Quarter, FY 2007, AWCF received a warrant for \$16.3 million in accordance with Department of Defense Appropriation Act, 2007, Public Law 109-289. In 1st Quarter, FY 2007, AWCF distributed \$16.3 million for war reserves to the Supply Management business area.

Other Disclosures

There are no legal arrangements affecting the use of unobligated balances of budgetary authority.

The AWCF did not receive any capital infusions beyond the appropriations discussed above.

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

The Army Working Capital Fund (AWCF) budgetary data does not agree with its proprietary expenses and assets capitalized. This results in a difference in net cost between the Statement of Net Cost and the Statement of Financing. Resources that finance the acquisition of assets were adjusted by \$153.9 million to bring the statements into agreement. The differences between budgetary and proprietary data for AWCF were reported as material weaknesses in the FY 2006 AWCF annual financial statement report.

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

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

Other Resources Other consists of other gains and other losses primarily attributable to differences between intragovernmental transfers-in/out for which trading partners could not be identified.

Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations Other consists mostly of other gains and other losses primarily attributable to differences between intragovernmental transfers-in/out for which trading partners could not be identified.

Components Requiring or Generating Resources in future Period Other consists of the increase in the FECA liability.

Components not Requiring or Generating Resources Other consists of cost capitalization offsets.

The AWCF does not have any allocation transfers.

Components Requiring or Generating Resources in Future Period reports \$356.1 thousand decreases in unfunded expenses that were incurred during FY 2007. The cumulative total of unfunded expenses is reported as "Liabilities Not Covered by Budgetary Resources" in Note 11.

Note 22.

Disclosures Related to the Statement of Custodial Activity

Not Applicable.

Note 23.**Earmarked Funds****BALANCE SHEET**As of December 31,
2006Military Retirement
FundMedicare Eligible
Retiree Health Care
FundOther Earmarked
Funds

Eliminations

Total

ASSETS

Fund balance with

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

**LIABILITIES and NET
POSITION**Military Retirement
Benefits and Other
Federal Employment
Benefits

Other Liabilities		0.00		0.00		0.00		0.00		0.00
Unexpended Appropriations		0.00		0.00		0.00		0.00		0.00
Cumulative Results of Operations		0.00		0.00		0.00		0.00		0.00
Total Liabilities and Net Position	\$	0.00								

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

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

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

Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Net Cost of Operations		0.00		0.00		0.00		0.00		0.00
Budgetary Financing Sources		0.00		0.00		0.00		0.00		0.00
Other Financing Sources		0.00		0.00		0.00		0.00		0.00
Change in Net Position	\$	0.00								
Net Position End of Period	\$	0.00								

Not applicable.

Note 24.	Other Disclosures
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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	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2008		0.00		0.00		0.00		0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
2011		0.00		0.00		0.00		0.00
2012		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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Note 25.

Restatements