

Department of Defense
 Department of the Army
CONSOLIDATED STATEMENT OF NET COST
 For the periods ended March 31, 2007 and 2006

	2007 Consolidated	2006 Consolidated
1. Program Costs		
A. Gross Costs	\$ 88,415,577,181.59	\$ 83,086,786,576.81
B. (Less: Earned Revenue)	(4,807,116,778.10)	(4,834,360,581.48)
C. Net Program Costs	<u>\$ 83,608,460,403.49</u>	<u>\$ 78,252,425,995.33</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>\$ 83,608,460,403.49</u></u>	<u><u>\$ 78,252,425,995.33</u></u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2007 and 2006

	2007 Earmarked Funds	2007 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 42,791,897.32	\$ 67,447,512,433.98
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	42,791,897.32	67,447,512,433.98
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	83,825,006,478.42
4.C. Nonexchange revenue	427,718.42	11,417.43
4.D. Donations and forfeitures of cash and cash equivalents	847,150.00 0.00	125,896.84 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	782,027,989.72
5.C. Imputed financing from costs absorbed by others	0.00	452,478,655.67
5.D. Other (+/-)	10,735,997.39	(4,133,593,835.64)
6. Total Financing Sources	12,010,865.81	80,926,056,602.44
7. Net Cost of Operations (+/-)	6,216,359.30	83,602,244,044.19
8. Net Change	5,794,506.51	(2,676,187,441.75)
9. Cumulative Results of Operations	48,586,403.83	64,771,324,992.23
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 88,826,492,215.66
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	88,826,492,215.66
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	155,330,135,328.00
13.B. Appropriations transferred-in/out	0.00	1,416,213,010.00
13.C. Other adjustments (rescissions, etc)	0.00	(416,832,034.12)
13.D. Appropriations used	0.00	(83,825,006,478.42)
14. Total Budgetary Financing Sources	0.00	72,504,509,825.46
15. Unexpended Appropriations	0.00	161,331,002,041.12
16. Net Position	48,586,403.83	226,102,327,033.35

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For the periods ended March 31, 2007 and 2006

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 67,490,304,331.30
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	67,490,304,331.30
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	83,825,006,478.42
4.C. Nonexchange revenue	0.00	439,135.85
4.D. Donations and forfeitures of cash and cash equivalents	0.00	973,046.84
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	782,027,989.72
5.C. Imputed financing from costs absorbed by others	0.00	452,478,655.67
5.D. Other (+/-)	0.00	(4,122,857,838.25)
6. Total Financing Sources	0.00	80,938,067,468.25
7. Net Cost of Operations (+/-)	0.00	83,608,460,403.49
8. Net Change	0.00	(2,670,392,935.24)
9. Cumulative Results of Operations	0.00	64,819,911,396.06
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 88,826,492,215.66
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	88,826,492,215.66
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	155,330,135,328.00
13.B. Appropriations transferred-in/out	0.00	1,416,213,010.00
13.C. Other adjustments (rescissions, etc)	0.00	(416,832,034.12)
13.D. Appropriations used	0.00	(83,825,006,478.42)
14. Total Budgetary Financing Sources	0.00	72,504,509,825.46
15. Unexpended Appropriations	0.00	161,331,002,041.12
16. Net Position	0.00	226,150,913,437.18

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2007 and 2006

	2006 Earmarked Funds	2006 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 35,139,702.65	\$ 115,207,483,746.33
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	35,139,702.65	115,207,483,746.33
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	76,021,143,575.28
4.C. Nonexchange revenue	5,096,167.10	0.00
4.D. Donations and forfeitures of cash and cash equivalents	1,532,173.84 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	369,803,579.98
4.F. Other budgetary financing sources	0.00	(814,483,588.47)
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	83,391,539.69
5.C. Imputed financing from costs absorbed by others	0.00	471,895,920.46
5.D. Other (+/-)	(4,826.44)	(1,477,166,032.15)
6. Total Financing Sources	6,623,514.50	74,654,584,994.79
7. Net Cost of Operations (+/-)	1,030,840.66	78,251,395,154.67
8. Net Change	5,592,673.84	(3,596,810,159.88)
9. Cumulative Results of Operations	40,732,376.49	111,610,673,586.45
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 74,704,745,376.80
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	74,704,745,376.80
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	131,680,991,000.00
13.B. Appropriations transferred-in/out	0.00	2,818,512,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(1,339,567,909.00)
13.D. Appropriations used	0.00	(76,021,143,575.28)
14. Total Budgetary Financing Sources	0.00	57,138,791,515.72
15. Unexpended Appropriations	0.00	131,843,536,892.52
16. Net Position	40,732,376.49	243,454,210,478.97

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2007 and 2006

	2006 Eliminations	2006 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 115,242,623,448.98
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	115,242,623,448.98
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	76,021,143,575.28
4.C. Nonexchange revenue	0.00	5,096,167.10
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	1,532,173.84 0.00
4.E. Transfers-in/out without reimbursement	0.00	369,803,579.98
4.F. Other budgetary financing sources	0.00	(814,483,588.47)
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	83,391,539.69
5.C. Imputed financing from costs absorbed by others	0.00	471,895,920.46
5.D. Other (+/-)	0.00	(1,477,170,858.59)
6. Total Financing Sources	0.00	74,661,208,509.29
7. Net Cost of Operations (+/-)	0.00	78,252,425,995.33
8. Net Change	0.00	(3,591,217,486.04)
9. Cumulative Results of Operations	0.00	111,651,405,962.94
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 74,704,745,376.80
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	74,704,745,376.80
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	131,680,991,000.00
13.B. Appropriations transferred-in/out	0.00	2,818,512,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(1,339,567,909.00)
13.D. Appropriations used	0.00	(76,021,143,575.28)
14. Total Budgetary Financing Sources	0.00	57,138,791,515.72
15. Unexpended Appropriations	0.00	131,843,536,892.52
16. Net Position	0.00	243,494,942,855.46

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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended March 31, 2007 and 2006

	<u>2007 Combined</u>	<u>2006 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 17,409,233,909.06	\$ 15,477,291,031.75
2. Recoveries of prior year unpaid obligations	10,525,876,702.18	10,776,101,345.50
3. Budget authority		
3.A. Appropriation	155,336,863,283.15	131,688,432,976.68
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	9,517,413,748.19	9,526,493,107.72
3.D.1.b. Change in receivables from Federal sources	214,271,548.75	62,434,291.31
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(17,191,512.35)	70,672,965.95
3.D.2.b. Without advance from Federal sources	6,455,520,486.49	3,675,820,884.42
3.D.3. Anticipated for rest of year, without advances	792,989,141.14	822,712,139.73
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>172,299,866,695.37</u>	<u>145,846,566,365.81</u>
4. Nonexpenditure transfers, net, anticipated and actual	1,416,213,010.00	2,818,512,000.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(416,832,034.12)	(1,339,567,909.00)
7. Total Budgetary Resources	<u><u>\$ 201,234,358,282.49</u></u>	<u><u>\$ 173,578,902,834.06</u></u>

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COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2007 and 2006

	2007 Combined	2006 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 117,810,832,816.41	\$ 95,222,670,795.48
8.B. Reimbursable	8,913,455,048.26	8,882,208,094.46
8.C. Subtotal	<u>126,724,287,864.67</u>	<u>104,104,878,889.94</u>
9. Unobligated balance:		
9.A. Apportioned	70,641,831,412.60	66,661,044,191.17
9.B. Exempt from apportionment	4,336,029.85	37,378,908.72
9.C. Subtotal	<u>70,646,167,442.45</u>	<u>66,698,423,099.89</u>
10. Unobligated balance not available	3,863,902,975.37	2,775,600,844.23
11. Total status of budgetary resources	<u><u>\$ 201,234,358,282.49</u></u>	<u><u>\$ 173,578,902,834.06</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	93,609,036,018.47	80,720,879,554.62
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ (17,136,556,737.91)</u>	<u>\$ (16,351,456,802.92)</u>
12.C. Total unpaid obligated balance	76,472,479,280.56	64,369,422,751.70
13. Obligations incurred net (+/-)	<u>\$ 126,724,287,864.67</u>	<u>\$ 104,104,878,889.94</u>
14. Less: Gross outlays	(99,826,905,466.73)	(90,768,140,626.00)
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	<u>(10,525,876,702.18)</u>	<u>(10,776,101,345.50)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(6,669,792,035.24)	(3,738,255,175.73)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	109,980,541,714.23	83,281,516,473.06
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(23,806,348,773.15)</u>	<u>(20,089,711,978.65)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>86,174,192,941.08</u>	<u>63,191,804,494.41</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	99,826,905,466.73	90,768,140,626.00
19.B. Less: Offsetting collections	(9,500,222,235.84)	(9,597,166,073.67)
19.C. Less: Distributed Offsetting receipts	<u>(49,893,690.47)</u>	<u>(89,378,664.76)</u>
19.D. Net Outlays	<u><u>\$ 90,276,789,540.42</u></u>	<u><u>\$ 81,081,595,887.57</u></u>

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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended March 31, 2007 and 2006

	<u>2007 Combined</u>	<u>2006 Combined</u>
NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Unobligated balance, brought forward, October 1	\$ 1,292,396.72	\$ 1,525,335.32
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	16,508,567.00	11,711,937.00
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	162,508.50	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	12,000.00	100,000.00
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>16,683,075.50</u>	<u>11,811,937.00</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>\$ 17,975,472.22</u></u>	<u><u>\$ 13,337,272.32</u></u>

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CONSOLIDATED STATEMENT OF FINANCING
For the periods ended March 31, 2007 and 2006

	2007 Consolidated	2006 Consolidated
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Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 126,739,963,283.83	\$ 104,116,315,114.54
2. Less: Spending authority from offsetting collections and recoveries (-)	(26,696,053,481.76)	(24,111,522,594.90)
3. Obligations net of offsetting collections and recoveries	100,043,909,802.07	80,004,792,519.64
4. Less: Offsetting receipts (-)	(49,893,690.47)	(89,378,664.76)
5. Net obligations	<hr/> 99,994,016,111.60	<hr/> 79,915,413,854.88
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	782,027,989.72	83,391,539.69
8. Imputed financing from costs absorbed by others	452,478,655.67	471,895,920.46
9. Other (+/-)	(4,122,857,838.25)	(1,477,170,858.59)
10. Net other resources used to finance activities	<hr/> (2,888,351,192.86)	<hr/> (921,883,398.44)
11. Total resources used to finance activities	<hr/> \$ 97,105,664,918.74	<hr/> \$ 78,993,530,456.44
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 (-)	(18,244,543,246.45)	(2,356,738,385.72)
12b. Unfilled Customer Orders	6,438,328,974.14	3,746,493,850.37
13. Resources that fund expenses recognized in prior periods	(1,504,619,760.57)	(936,081,492.21)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	50,056,198.97	89,378,664.76
15. Resources that finance the acquisition of assets	(7,674,182,816.30)	(12,743,045,407.00)
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 (+/-)	3,345,458,610.47	1,393,779,318.90
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ (17,589,502,039.74)	<hr/> \$ (10,806,213,450.90)
18. Total resources used to finance the net cost of operations	<hr/> \$ 79,516,162,879.00	<hr/> \$ 68,187,317,005.54

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CONSOLIDATED STATEMENT OF FINANCING

For the periods ended March 31, 2007 and 2006

	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	15,308,846.37	275,393,303.14
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 (+/-)	555,098,478.29	111,103,836.87
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 570,407,324.66	<hr/> 386,497,140.01
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	3,987,830,276.71	8,564,622,553.31
26. Revaluation of assets or liabilities (+/-)	20,274,149.46	360,431.61
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	(25,449.04)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(486,214,226.34)	1,113,654,313.90
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 3,521,890,199.83	<hr/> 9,678,611,849.78
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ 4,092,297,524.49	<hr/> \$ 10,065,108,989.79
30. Net Cost of Operations	<hr/> <hr/> \$ 83,608,460,403.49	<hr/> <hr/> \$ 78,252,425,995.33

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

These financial statements have been prepared to report the financial position and results of operations of the Army General Fund, as required by the “Chief Financial Officers Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. The financial statements have been prepared from the books and records of the Army General Fund in accordance with the “DoD Financial Management Regulation,” Office of Management and Budget Circular (OMB) A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Army General Fund is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable.

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

1.B. Mission of the Reporting Entity

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

This mission has been unchanged for the 230-year life of the Army, but the environment and nature of conflict have undergone many changes over that same time, especially with the Global War on Terror. This has required the Army to undergo a simultaneous

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

1.C. Appropriations and Funds

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

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

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

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

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

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

The Army General Fund is a party to allocation transfers with other federal agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule will apply to specific funds for which the OMB has directed that all activity will be reported in the financial statements of the child to the transfer. Exceptions include all Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Army General Fund is a party to allocation transfers as the child for the following fund, meeting the OMB exception, and all related activity is thus included in the Army's financial statements: EOP Iraq Relief and Reconstruction Fund.

The Army General Fund allocates funds, as the parent, to the Department of Agriculture for procurement funds, the Department of Transportation for military construction and operations and maintenance funds for Active Army and Army National Guard. All activity related to these parent transfers is included in the Army General Fund's financial statements.

1.D. Basis of Accounting

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

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

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

1.E. Revenues and Other Financing Sources

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

constraints of current system capabilities. In other instances, revenue is recognized when bills are issued.

The Army General Fund does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Statement of Financing. The U.S. has cost sharing agreements with other countries. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Army General Fund's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. The Army General Fund's expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to migrate towards the consumption method for recognizing OM&S expenses.

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, the Army General Fund cannot accurately identify most of its intragovernmental transactions by customer because the Army General Fund's systems do not track buyer and seller data needed to match related transactions. Seller entities within DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD balances are then eliminated. The Army General Fund properly eliminates the revenue results from intraDoD sales of capitalized assets. The DoD is developing long-term system improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources.

The U.S. Treasury Financial Management Service (FMS), is responsible for eliminating transactions between 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 U.S. Treasury’s “Federal Intragovernmental Transactions Accounting Policy Guide,” provide guidance for reporting and reconciling intragovernmental balances. While the Army General Fund is unable to fully reconcile intragovernmental transactions with all federal partners, the Army General Fund is able to reconcile balances pertaining to investments in federal securities, borrowings from

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Foreign Currency

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

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

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

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based on the estimate of uncollectible accounts receivable from the public on a percentage of aged receivables by category. The allowance is calculated by using 50% 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% of aged receivables in the greater than 2-year category. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

1.L. Direct Loans and Loan Guarantees

The Army General Fund operates the Armament Retooling and Manufacturing Support (ARMS) loan guarantee program to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities. The legal authority authorizing ARMS loan guarantee program is Title 10, United States Code 4551-4555.

1.M. Inventories and Related Property

Most of the Army General Fund inventories are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost

data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, the Army General Fund will be transitioning the inventory valuation to the moving average cost method to comply with SFFAS No. 3 and GAAP.

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

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

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

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

Past audits identified uncertainties about completeness and existence of reported values of inventory. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the Army General Fund. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. It is more economical to repair than to procure these inventory items. Because the Army General Fund often relies on weapon systems and machinery no longer in production, the Army General Fund supports a process that encourages the repair and rebuilding of certain

items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer. The work in process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including amounts withheld from payment to ensure performance, and amounts paid to other government plants for accrued costs of end items of material ordered but not delivered. Work in process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

1.N. Investments

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

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

1.O. General Property, Plant and Equipment

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

Effective 3rd Quarter, FY 2006, DoD replaced the BEA estimation methodology with an estimation methodology for military equipment based on internal records. The DoD initially identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions and disposals to create a baseline. The military equipment baseline is updated using expenditure information and information related to acquisition and disposals.

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

In FY 2006, the capitalization threshold was revised from \$100,000 to \$20,000 for real property. The Army General Fund will validate existing real property values and implement sustainable business processes prior to incorporating the revised capitalization threshold for financial statement reporting. The current \$100,000 capitalization threshold remains unchanged for the remaining General PP&E categories.

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

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

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

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

1.P. Advances and Prepayments

It is DoD policy to record payments in advance of the receipt of goods and services as advances or prepayments and report the advances as an asset on the Balance Sheet, and to

recognize the expense and/or proper asset classification when it receives the related goods and services.

1.Q. Leases

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

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

1.R. Other Assets

The Army General Fund conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army General Fund provides financing payments. One type of financing payment that the Army General Fund makes for real property is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line on the Balance Sheet and in the related note.

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and contract financing payments that are not reported elsewhere on the Army General Fund 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 are reported as Construction in Progress in Note 10.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Army General Fund recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

Other liabilities arise as a result of anticipated disposal costs for the Army General Fund assets. This type of liability has two components: environmental and nonenvironmental. The SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires recognition of an anticipated environmental disposal liability when the asset is placed into service. The Army General Fund is working to comply with this requirement. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon DoD policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government." The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. Such amounts are developed in conjunction with, and not easily identifiable separately from, environmental disposal costs.

1.T. Accrued Leave

The Army General Fund reports as liabilities military leave and civilian earned leave except sick leave that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Comparative Data

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

1.X. Unexpended Obligations

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

1.Y. Undistributed Disbursements and Collection

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

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The Army General Fund follows this procedure. Unsupported undistributed collections and disbursements represent collections and disbursements that are not in agreement with accounting records. These are normally reconciled in the following month.

1.Z. Development Fund for Iraq

The Army General Fund has recorded a total of \$136 million in Development Fund for Iraq (DFI) assets. The Army is in the process of requesting U.S. Army Audit Agency to review DFI and the Seized Iraqi Assets account in order to confirm the balances. The Army will eventually turn any unused funds over to the Iraqi government. See Note 22 for additional discussion on DFI.

Note 2.	Nonentity Assets
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As of March 31	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 274,858,824.47	\$ 402,591,049.46
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 274,858,824.47	\$ 402,591,049.46
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 1,515,791,503.88	\$ 1,421,593,176.07
B. Accounts Receivable	18,671,768.35	81,105,694.44
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 1,534,463,272.23	\$ 1,502,698,870.51
3. Total Nonentity Assets	\$ 1,809,322,096.70	\$ 1,905,289,919.97
4. Total Entity Assets	\$ 291,491,157,632.72	\$ 304,381,995,368.12
5. Total Assets	\$ 293,300,479,729.42	\$ 306,287,285,288.09

Balance sheet presentation of Fund Balance with Treasury

The Fund Balance with Treasury of \$274.8 million shown on the schedule above is comprised of Nonentity Seized Iraqi Cash and Nonentity Other.

Nonentity Seized Iraqi Cash decreased \$13.7 million, or 32%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 due to disbursements in support of the Iraqi people throughout the fiscal year. Disbursements will continue until all cash is liquidated. A breakout of the disbursements is reflected in Note 22.

Nonentity Other includes development funds for Iraq and deposit funds. Fund Balance with Treasury Nonentity Other decreased \$114.1 million, or 32%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007, primarily caused by a decrease in the Army Member Savings Deposit accounts of \$96.1 million as a result of transferring accrued funds to the account steward, the Department of the Navy, in 4th Quarter, FY 2006. The Department of the Navy is responsible for making the disbursements to the military service members.

Definitions

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

Nonentity Fund Balance with Treasury consists of deposit funds, seized Iraqi cash, and development fund for Iraq. Deposit funds are generally used to record amounts held temporarily

until paid to the appropriate government or public entity. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. Development fund for Iraq consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered oil-for-food program funds.

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

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

Army Member Savings Deposit accounts are fixed high interest savings accounts available to service members that are serving in the Balkans, Operation Iraqi Freedom, or Operation Enduring Freedom. Army is not a custodian of these accounts, but does act as a pass-through for the deductions.

Note 3.	Fund Balance with Treasury
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As of March 31	2007	2006
1. Fund Balances		
A. Appropriated Funds	\$ 160,432,262,605.27	\$ 137,321,956,361.24
B. Revolving Funds	12,308,016.81	38,750,474.95
C. Trust Funds	1,321,553.25	925,500.30
D. Special Funds	42,149,542.99	39,793,261.27
E. Other Fund Types	274,858,824.47	402,591,049.46
F. Total Fund Balances	\$ 160,762,900,542.79	\$ 137,804,016,647.22
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 160,734,838,554.05	\$ 138,121,995,608.28
B. Fund Balance per Army	160,762,900,542.79	137,804,016,647.22
3. Reconciling Amount	\$ (28,061,988.74)	\$ 317,978,961.06

Fluctuations and/or Abnormalities

Fund Balance with Treasury increased \$23 billion, or 17%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 primarily due to increases in Entity Fund Balance with Treasury.

Entity Fund Balance with Treasury, as presented on the Balance Sheet, increased \$23.1 billion, or 17%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 primarily due to a \$23.6 billion increase in the DoD appropriations received while the rate of disbursements remained consistent with 2nd Quarter, FY 2006 due to the spending constraints of the Military Construction and Army Cemeterial Expenses continuing resolution which was in place until March, 26 2007.

Reconciling Amount

The Army General Fund reports an additional \$28.1 million in Fund Balance with Treasury than reported by the U.S. Treasury due to the reporting of \$28.8 million in continuing resolution funds for the Army cemeterial expenses appropriation and \$41.7 million in transfer funds that are reported by the U.S. Treasury under the Department of Transportation and Department of Agriculture whereas the Army General Fund includes these funds in its Treasury balance. Conversely, U.S. Treasury includes \$42.4 million in transfer funds where Army General Fund executes the funding on behalf of the Executive Office of the President and the Department of Transportation that is not included in Army General Fund's Fund Balance with Treasury. See Note 1.C. "Appropriations and Funds" for additional discussion of allocation transfers.

Vested Iraqi Cash

The Army General Fund has collected \$1.7 billion of Vested Iraqi Cash which is included in the \$160.8 billion in appropriated funds. These funds are Iraqi funds in U.S. banks that were frozen by Executive Order, vested in the U.S. Treasury, and authorized for use to benefit the people of Iraq. Vested Iraqi Cash was disbursed in support of the Iraqi people as follows:

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

Other Fund Types

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

Status of Fund Balance with Treasury

As of March 31	2007	2006
1. Unobligated Balance		
A. Available	\$ 69,853,902,485.81	\$ 65,876,854,735.56
B. Unavailable	3,864,456,382.59	2,776,258,116.55
2. Obligated Balance not yet Disbursed	\$ 109,980,907,068.84	\$ 83,281,516,473.06
3. Nonbudgetary FBWT	\$ 875,326,963.27	\$ 5,963,843,772.17
4. NonFBWT Budgetary Accounts	\$ (23,811,692,357.72)	\$ (20,081,375,443.45)
5. Total	<u>\$ 160,762,900,542.79</u>	<u>\$ 137,817,097,653.89</u>

Fluctuations and/or Abnormalities

Total Status of Fund Balance with Treasury increased \$22.9 billion, or 17%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 primarily due to a \$23.6 billion increase in the DoD appropriations received while the rate of disbursements remained consistent with 2nd Quarter, FY 2006 due to the spending constraints of the continuing resolution.

Unobligated Balance Unavailable of \$3.9 billion consists of unobligated or unapportioned authority that has expired, which restricts the ability to incur new obligations.

Definitions

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, but not both.

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

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed, and goods and services that have been delivered/received but not yet paid.

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

Non Fund Balance with Treasury Budgetary Accounts include budgetary accounts that do not affect Fund Balance with Treasury, such as contract authority, borrowing authority and investment accounts, accounts receivable, as well as unfilled orders without advance from customers. This category reduces the Status of Fund Balance with Treasury.

Disclosures Related to Suspense/Budget Clearing Accounts

As of March 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 - 2007
Account				
F3845 – Personal Property Proceeds	\$ 959,378.13	\$ 1,150,816.53	\$ 417,044.62	(733,771.91)
F3875 – Disbursing Officer Suspense	92,552,543.88	594,907,851.29	632,225,767.18	37,317,915.89
F3880 – Lost or Cancelled Treasury Checks	9,818,096.28	8,306,786.02	9,467,365.39	1,160,579.37
F3882 – Uniformed Services Thrift Savings Plan Suspense	(960,799.25)	30,522,034.63	34,096,060.11	3,574,025.48
F3885 – Interfund/IPAC Suspense	(6,674,796.31)	(12,628,421.63)	(41,642,038.39)	(29,013,616.76)
F3886 – Thrift Savings Plan Suspense	266,611.91	110,187.68	(70,122.81)	(180,310.49)
Total	\$ 95,961,034.64	\$ 622,369,254.52	\$ 634,494,076.10	12,124,821.58

Definitions

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

The F3875 suspense clearing represents the Disbursing Officer's (DO) suspense. Account F3885, represents the Interfund/IPAC suspense. Account F3886 represents the (payroll) Thrift Savings Plan suspense. These three suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

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

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

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

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

Disclosures Related to Problem Disbursements

As of March 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 to 2007
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 129,091,055.21	\$ 177,237,061.93	\$ 51,278,792.60	\$ (125,958,269.33)
B. Negative Unliquidated Obligations (NULO)	42,799,990.80	81,990,310.46	29,135,432.38	(52,854,878.08)
C. In-Transit Disbursements	2,252,291,018.89	1,680,514,146.83	2,828,713,820.16	1,148,199,673.33
Total	\$ 2,424,182,064.90	\$ 1,939,741,519.22	\$ 2,909,128,045.14	969,386,525.92

Fluctuations and/or Abnormalities

Absolute UMDs decreased \$126.0 million, or 71%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 primarily due to upgrades to the Automatic Reject Control System during 4th Quarter, FY 2006, which increased matching of accounting systems obligations to the Mechanization of Contract Administration Services disbursements.

Absolute NULOs decreased \$52.9 million, or 64%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 primarily due to the upgrades to the Automatic Reject Control System. Furthermore, beginning in 4th Quarter, FY 2006 Defense Finance Accounting Service (DFAS) Rome obligated the Miscellaneous Obligor Documents originating from Operation Iraqi Freedom at the end of each month which led to reduced NULOs.

Absolute in-transit disbursements increased \$1.1 billion, or 68%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 primarily due to a joint Army and DFAS decision in 1st Quarter, FY 2007 not to process bills because the obligations had not yet been processed by the new Interfund Funds Control Module system. The processing of the backlog Interfund bills is expected to be complete in 4th Quarter, FY 2007.

Definitions

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

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

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

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

UMDs, NULOs, and Aged in-transits

The Army General Fund absolute value of in-transit disbursements is \$2.8 billion, of which \$305.6 million represent aged in-transit problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30 day aging category. After 30 days, they are considered problem disbursements.

Starting 2nd Quarter FY 2007, in-transit disbursements are reported as absolute value as opposed to net amounts in prior years. This reporting change applies to amounts in the note schedule for both the current and comparative years.

Note 4. Investments and Related Interest

As of March 31	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	3,011,431.85	effective interest	21,712.77	3,033,144.62	3,031,433.10
5. Total Nonmarketable, Market-Based	3,011,431.85		21,712.77	3,033,144.62	3,031,433.10
B. Accrued Interest	30,189.24			30,189.24	30,189.24
C. Total Intragovernmental Securities	\$ 3,041,621.09		\$ 21,712.77	\$ 3,063,333.86	\$ 3,061,622.34
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of March 31	2006				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	3,353,180.67	effective interest	23,246.13	3,376,426.80	3,365,420.01
5. Total Nonmarketable, Market-Based	3,353,180.67		23,246.13	3,376,426.80	3,365,420.01
B. Accrued Interest	24,046.87			24,046.87	24,046.87
C. Total Intragovernmental Securities	\$ 3,377,227.54		\$ 23,246.13	\$ 3,400,473.67	\$ 3,389,466.88
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

Fluctuations and/or Abnormalities

Intragovernmental Securities decreased \$337.1 thousand, or 10% primarily due to a timing difference between the redemption of securities in 2nd Quarter, FY 2007 and the reinvestment of the proceeds occurring in 3rd Quarter, FY 2007. The balance of the proceeds is held in the Fund Balance with Treasury account for the Army Gift Fund.

Relevant Information for Comprehension

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

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

Note 5.	Accounts Receivable
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As of March 31	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 600,478,115.78	N/A	\$ 600,478,115.78	\$ 564,834,070.70
2. Nonfederal Receivables (From the Public)	\$ 731,428,531.94	\$ (19,465,901.48)	\$ 711,962,630.46	\$ 677,855,260.14
3. Total Accounts Receivable	\$ 1,331,906,647.72	\$ (19,465,901.48)	\$ 1,312,440,746.24	\$ 1,242,689,330.84

Relevant Information for Comprehension

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

Type of Debt (Amount in thousands)

Military Pay (In Service Debt Only)	\$116,846
Civilian Pay (In Service Debt Only)	30,162
Individual Out-of-Service	209,374
Contractor Debt	26,682
Vendor Debt	3,360
Non Appropriated Funds	62,209
Foreign Military Sales (FMS)	83,638
Non FMS Foreign Government Indebtedness	115,526
Sales of Goods & Services (Excluding Referrals to CDS - Columbus)	19,031
Travel Pay Debt	4,068
	5,542
Interest, Penalty and Administrative	
Other	54,990
Subtotal	\$731,428
Undistributed Collections Public	0
Gross Nonfederal Accounts Receivable (Public)	\$731,428

Aged Accounts Receivable

As of March 31	2007		2006	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 1,293,727,478.00	\$ 541,128,684.00	\$ 1,311,916,443.00	\$ 454,201,738.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 78,450,358.00	\$ 40,507,779.00	\$ 1,400,023.00	\$ 1,269,648.00
31 to 60 days	3,828,956.00	23,880,230.00	834,349.00	10,480,639.00
61 to 90 days	430,797.00	14,199,244.00	2,486,088.00	20,183,749.00
91 to 180 days	19,329,911.00	26,409,859.00	4,041,523.00	25,400,531.00
181 days to 1 year	3,661,019.00	28,368,709.00	6,506,215.00	20,894,645.00
Greater than 1 year and less than or equal to 2 years	1,736,561.00	32,050,826.00	2,713,880.00	40,033,600.00
Greater than 2 years and less than or equal to 6 years	8,069,463.00	16,861,742.00	0.00	51,564,782.00
Greater than 6 years and less than or equal to 10 years	0.00	6,100,561.00	0.00	117,830,258.00
Greater than 10 years	0.00	1,920,897.00	0.00	10,527,692.00
Subtotal	\$ 1,409,234,543.00	\$ 731,428,531.00	\$ 1,329,898,521.00	\$ 752,387,282.00
Less Supported Undistributed Collections	(14,512,349.29)	0.00	(35,470,026.00)	(23,421.00)
Less Eliminations	(794,244,078.00)	0.00	(937,245,964.00)	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 600,478,115.71	\$ 731,428,531.00	\$ 357,182,531.00	\$ 752,363,861.00

The table above identifies aged accounts receivable groups for Army General Fund as reported in the Monthly Receivable Data Reports. The accounts receivable aging schedule prior year column represents 4th Quarter, FY 2006 ending balances, rather than the ending balances as of 2nd Quarter, FY 2006. Therefore, the prior year accounts receivable balance on the aging schedule will not agree with either the prior year balance on the Balance Sheet or the prior year balance in the first schedule in this note.

Demand letters are sent to nonfederal debtors once the payment becomes 30 days delinquent. The delinquencies for the Army consist primarily of debts that have been turned over to the Debt and Claims Management (DCM) and the Debt Management Office (DMO) for resolution. The DMO and the DCM shall submit delinquent public accounts receivable to the U.S. Treasury no later than 180 days after the original bill date, unless exempted by statute or law. The U.S. Treasury has been delegated authority to close out or refer to the Department of Justice debts totaling \$100 thousand up to \$500 thousand that Treasury has been unable to collect; debts amounting to more than \$500 thousand must be referred to the Department of Justice.

Receivables aged less than 181 days

The 2nd Quarter, FY 2007 Intragovernmental receivables in aging categories less than 181 days total is \$102 million. The 2nd Quarter, FY 2007 Nonfederal receivables in aging categories less than 181 days total is \$105 million. The Army General Fund actively pursues collection of delinquent accounts receivable. For

2nd Quarter, FY 2007, Army General Fund has over three thousand intragovernmental and 30 thousand nonfederal accounts receivable respectively, and is unable to provide detailed analysis explaining the variances in this aging category. The DFAS will revise processes and procedures by 4th Quarter, FY 2007 to provide required detailed narratives to explain business events that occur in all aging categories.

Fluctuations and abnormalities

Intragovernmental receivables in the 1 to 180 days aging categories total \$8.8 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balance of \$3.7 million in the 181 day to 1 year aging category reflects a reduction of \$5.1 million or 58%. The Army General Fund actively pursues collection of delinquent accounts receivable. Due to the large volume of transactions, Army General Fund is unable to provide detailed analysis explaining the variances in this aging category. The DFAS will revise processes and procedures by 4th Quarter, FY 2007 to provide required detailed narratives to explain business events that occur in all aging categories.

Intragovernmental receivables in the 181 days to 1 year aging category totaled \$6.5 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balance of \$1.7 million in the greater than 1 year but less than 2 years aging category reflects a decrease of \$4.8 million or 73%. The Army General Fund actively pursues collection of delinquent accounts receivable. Due to the large volume of transactions, Army General Fund is unable to provide detailed analysis explaining the variances in this aging category. The DFAS will revise processes and procedures by 4th Quarter, FY 2007 to provide required detailed narratives to explain business events that occur in all aging categories.

Intragovernmental receivables in the greater than 1 year but less than 2 years aging category total \$2.7 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balance of \$8.1 million in the greater than 2 years but less than 6 years aging category reflects an increase of \$5.4 million or 197%. Receivables increased by \$7 million as a result of the Defense Finance and Accounting Service (DFAS) and the Army data clean up efforts, beginning in 1st Quarter, FY 2007, in preparation for DFAS's Base Realignment and Closure. The clean up effort resulted in the reclassification of the \$7 million from the current aging category to the 2 years but less than 6 years aging category.

Nonfederal receivables in the 1 to 180 days aging categories totaled \$57.3 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balanced of \$28.4 million in the 181 days to 1 year aging category reflects a decrease of \$29 million or 51%. The Army General Fund actively pursues collection of delinquent account receivables. Due to the large volume of transactions, Army General Fund is unable to provide detailed analysis explaining the variances in this aging category. The DFAS will revise processes and procedures by 4th Quarter, FY 2007 to provide required detailed narratives to explain business events that occur in all aging categories.

Nonfederal receivables in 181 days to 1 year aging category totaled \$20.9 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balance of \$32.1 million in the greater than 1 year but less than 2 year aging category reflects an increase of \$11.2 million or 53%. Receivables in forbearance or formal appeals process and at the U.S. Treasury increased from \$15 million to \$23.6 million due to continued collection actions during 1st and 2nd Quarters, FY 2007.

Nonfederal receivables in the in the greater than 1 year but less than 2 years aging category total \$40.0 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balance of \$16.9 million in the greater than 2 years but less than 6 years aging category reflects a decrease of \$23.1 million or 58%. This reduction can be attributed to resolution of receivables at the U.S. Treasury, and include amounts in litigation, deferments, contract appeals and bankruptcy. Receivables at the

U.S. Treasury declined from \$32.8 million to \$15.4 million due to increased collections. These reductions occurred during 1st and 2nd Quarters, FY 2007.

Nonfederal receivables in the greater than 2 year but less than 6 years aging category total \$51.6 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balance of \$16.9 million in the same aging category reflects a decrease of \$34.7 million or 67%. This reduction can be attributed to resolution of receivables at the U.S. Treasury, and include amounts in litigation, deferments, contract appeals and bankruptcy. Receivables at the U.S. Treasury declined from \$48.9 million to \$15.4 million. These reductions occurred during 1st and 2nd Quarters, FY 2007.

Nonfederal receivables in the 6 years to less than 10 years aging category totaled \$117.8 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter, FY 2007 balance of \$6.1 million in the same aging category reflects a decrease of \$111.7 million or 95%. The reduction can be attributed to resolution of receivables that were in litigation, bankruptcy, at the U.S. Treasury or the Department of Justice. Receivables classified within litigation, deferments, contract appeals and bankruptcy were reduced through resolution from \$83.9 million to \$2.5 million. Also through resolution, outstanding receivables at the U.S. Treasury declined from \$33.9 million to \$2.1 million. These reductions occurred during 1st and 2nd Quarters, FY 2007. Receivables at the Department of Justice increased from \$56 thousand to \$1.5 million in this aging category due to continued litigation, deferments, and contract appeals during 1st and 2nd Quarters, FY 2007.

Nonfederal receivables in the greater than 10 years aging category totaled \$10.5 million in 4th Quarter, FY 2006. This total, as compared to the 2nd Quarter FY 2007 balance of \$1.9 million in the same aging category reflects a decrease of \$8.6 million or 82%. Receivables classified within litigation, deferments, contract appeals and bankruptcy were reduced through resolution from \$6.4 million to \$667 thousand. Also through resolution, outstanding receivables at the U.S. Treasury declined from \$4.1 million to \$122 thousand. These reductions occurred during 1st and 2nd Quarters, FY 2007. Receivables at the Department of Justice increased from \$25 thousand to \$891 thousand in this aging category due to continued litigation, deferments, and contract appeals during 1st and 2nd Quarters, FY 2007.

Relevant Information

The majority of both intragovernmental and nonfederal accounts receivable are in current status. Nondelinquent accounts receivable are receivables not yet due under the contract or billing documents pertaining to the receivable. The Intragovernmental portion of the nondelinquent accounts receivable consists of \$1.3 billion and the Nonfederal portion consists of \$541.1 million. Current nondelinquent accounts receivable are those that are due in the next 12 months. Noncurrent nondelinquent accounts receivable are those amounts that are due beyond the next 12 months.

Delinquent accounts receivable are aged from the date the account is considered delinquent. To collect delinquent accounts receivable, the Army follows the DoD concept of operations for collections, which requires follow-up actions at 30-day intervals with ordering activities.

Note 6.	Other Assets
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As of March 31	2007	2006
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 519,521,205.14	\$ 639,696,180.68
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 519,521,205.14	\$ 639,696,180.68
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 5,193,048,623.21	\$ 3,892,354,814.94
B. Other Assets (With the Public)	386,949,595.34	477,542,058.47
C. Total Nonfederal Other Assets	\$ 5,579,998,218.55	\$ 4,369,896,873.41
3. Total Other Assets	\$ 6,099,519,423.69	\$ 5,009,593,054.09

Fluctuation and/or Abnormalities

Intragovernmental Other Assets decreased \$120.2 million, or 19%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The decrease is primarily due to the return of advances by the Department of the Interior (DOI) to the Army from 3rd Quarter, FY 2006 through 2nd Quarter, FY 2007. The return of funds was the result of a DoD Office of the Inspector General audit of DoD purchases made through DOI. To address the audit recommendation, the Office of the Under Secretary of Defense (Comptroller) directed all Components to review interagency agreements and coordinate the return of excess funds with DOI. This action was taken during 2nd Quarter, FY 2006.

Nonfederal Other Assets increased \$1.2 billion, or 28%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The increase is primarily due to \$597 million in outstanding contract financing payments for the procurement of Blackhawk Helicopters in 2nd Quarter, FY 2007 and the procurement of Bradley Combat Vehicles that began in 4th Quarter, FY 2005, in support of the Global War on Terror. In addition, Mechanization of Contract Administration Services (MOCAS) contingent financing payments increased \$407.3 million in the 2nd Quarter, FY 2007.

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

Other Relevant Information for Comprehension

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

The Contract Financing Payment balance of \$5.2 billion is comprised of approximately \$4 billion in contract financing payments and an additional \$407 million in estimated future funded payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product.

Note 7.	Cash and Other Monetary Assets
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As of March 31	2007	2006
1. Cash	\$ 786,013,080.45	\$ 943,425,786.16
2. Foreign Currency	729,778,423.43	478,167,389.91
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 1,515,791,503.88	\$ 1,421,593,176.07

Definitions

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

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

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

Other Information Related to Cash and Other Monetary Assets

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

Breakdown of Cash

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

(Amount in thousands)	Negotiable Instruments & U.S. \$	Foreign Currency
Cash on Deposit in Bank	\$130,959	\$727,309
Cash on Hand	197,631	1,193
Cash – Undeposited Collections	222	0
Custody of Contingency Cash	0	0
Cash in Transit	81,469	0
Cash – Other	0	0
Cash adjustments	<u>2,316</u>	<u>0</u>
Total Cash on Hand	\$412,597	\$728,502
Total Cash in Custody of Agents	<u>373,416</u>	<u>1,277</u>
Total Cash	<u>\$786,013</u>	<u>\$729,779</u>

The amount reported as Cash in the Custody of Agents, \$373.4 million, reflects cash provided to the disbursing agents. However, due to inherent timing differences based on location, this amount is not properly reduced by agent disbursements thus causing the Disbursing Officer's cash to be subject to overstatement.

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

Direct Loan and/or Loan Guarantee Programs

Loan Guarantee Programs

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

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

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

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

Armament Retooling and Manufacturing Support Initiative

The ARMS Initiative, Title 10, United States Code 4551-4555, is a Loan Guarantee Program designed to encourage commercial use of Army General Fund's Inactive Ammunition Plants through many incentives for businesses willing to locate and operate a government ammunition production facility. The production capacity of these facilities is greater than the current military requirements; however, this capacity may be needed by the military in the future. The revenues from the property rental are used to pay for the operation, maintenance, and environmental clean up at the facilities. The resulting savings in overhead cost lower the production cost of the goods manufactured and fund the environmental clean up at no cost to the government.

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

Summary of Direct Loans and Loan Guarantees
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As of March 31	2007	2006
Direct Loan Programs		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
5. Defaulted Guaranteed Loans Receivable:		
A. Foreign Military Financing Account	0.00	0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	15,310,064.55	0.00
6. Total Loans Receivable	\$ 15,310,064.55	\$ 0.00

As of March 31	2007	2006
Loan Guarantee Programs		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	12,649,951.61	957,620.72
4. Total Loan Guarantee Liability	\$ 12,649,951.61	\$ 957,620.72

Loan Guarantee Programs

The ARMS Initiative loans receivable increased \$15.3 million from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 due to a November 2006 payment on a loss claim to a bank for a defaulted guaranteed loan to make fire retardant, moisture resistant, laminated particleboard/hybrid panels from 100% recycled “post consumer” waste wood.

The ARMS Initiative loan guarantee liability increased \$11.7 to \$12.6 million from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 due to a subsidy adjustment for a payment on a loss claim to a bank for a defaulted loan to make plastic bullet casings.

Direct Loans Obligated

As of March 31	2007	2006
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):		
1. Foreign Military Loan Liquidating 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 Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
Direct Loans Obligated After FY 1991 (Present Value Method):		
2. Military Housing Privatization Initiative		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
3. 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
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
4. Military Debt Reduction 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
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
5. Total Direct Loans Receivable	\$ 0.00	\$ 0.00

Army General Fund does not operate any direct loan programs; therefore, this schedule is not applicable.

Total Amount of Direct Loans Disbursed

As of March 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. Military Debt Reduction Financing Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

Army General Fund does not operate any direct loan programs; therefore, this schedule is not applicable.

Subsidy Expense for Post FY 1991 Direct Loan

As of March 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
Military Debt Reduction Financing Account	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 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
Military Debt Reduction Financing Account	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. 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
Military Debt Reduction Financing Account	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. 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
Military Debt Reduction Financing Account	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 Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00		0.00		
Military Debt Reduction Financing Account	0.00		0.00		
Total	\$ 0.00	\$ 0.00			

Army General Fund does not operate any direct loan programs; therefore, this schedule is not applicable.

Subsidy Rate for Direct Loans by Program

As of March 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Direct Loans:					
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%
3. Military Debt Reduction Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

Army General Fund does not operate any direct loan programs; therefore, this schedule is not applicable.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans
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As of March 31	2007	2006
Beginning Balances, Changes and Ending Balance:		
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

Army General Fund does not operate any direct loan programs; therefore, this schedule is not applicable.

Defaulted Guaranteed Loans

As of March 31	2007	2006
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):		
1. Foreign Military Liquidating Account		
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 Loan Losses	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):		
2. 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
3. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 14,407,200.02	\$ 0.00
B. Interest Receivable	902,864.53	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 15,310,064.55	\$ 0.00
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable		
	\$ 15,310,064.55	\$ 0.00

The Defaulted Guaranteed Loans Receivable, Net, increased \$15.3 million from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 due to a November 2006 payment on a loss claim to a bank for a defaulted loan to make fire retardant, moisture resistant, laminated particleboard/hybrid panels from 100% recycled "post consumer" waste wood.

Guaranteed Loans Outstanding

As of March 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	4,303,551.80	3,658,019.03
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 4,303,551.80	\$ 3,658,019.03
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. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	739,852.83	628,874.91
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 739,852.83	\$ 628,874.91

The New Guaranteed Loans Disbursed and Principal Guaranteed decreased \$739.9 thousand and \$629 thousand, respectively, due to a FY 2005 loan closing and disbursement of a FY 2004 loan obligation that was disbursed in FY 2006.

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of March 31	2007	2006
Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Total Loan Guarantee Liability (Pre-FY 1992)	\$ 0.00	\$ 0.00
Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	12,649,951.61	957,620.72
5. Total Loan Guarantee Liability (Post-FY 1991)	\$ 12,649,951.61	\$ 957,620.72
6. Total Loan Guarantee Liability	\$ 12,649,951.61	\$ 957,620.72

Subsidy Expense for Loan Guarantees by Program

As of March 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 Expense

According to the USDA, no new loans have been guaranteed for FY 2006 and FY 2007, therefore, no Subsidy Expense has been recorded.

Modifications and Reestimates

No Modifications and Reestimates numbers are reported by USDA during the interim quarters. These amounts are posted in the 4th Quarter of each fiscal year.

Subsidy Rates for Loan Guarantees by Program

As of March 31	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	20.00%	0.00%	0.00%	20.00%

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

As of March 31	2007	2006
Beginning Balance, Changes, and Ending Balance:		
1. Beginning Balance of the Loan Guarantee Liability	\$ 12,852,797.72	\$ 12,393,845.32
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	15,310,064.55	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	\$ 15,310,064.55	\$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	(902,864.53)	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	(14,407,200.02)	(11,436,224.60)
F. Interest Accumulation on the Liability Balance	(202,846.11)	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	\$ (15,512,910.66)	\$ (11,436,224.60)
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$ 12,649,951.61	\$ 957,620.72
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Loan Guarantee Liability	\$ 12,649,951.61	\$ 957,620.72

The Interest Accumulation on the Liability Balance decreased \$202.8 thousand from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 due to the calculation of interest expense exceeding the amount of interest revenue.

The methodology for the calculation uses the prior year-end actual accrued interest earned from the U.S. Treasury and allocates it based on the number of months that have occurred in the fiscal year. This process takes place in every interim quarter until the actual amount is received at fiscal year-end.

Administrative Expenses

Administrative Expenses are limited to separately identified expenses administered to direct and guaranteed loans. Administrative Expenses for the ARMS Initiative is a fee paid to the Department of Agriculture RBS for administering the loan guarantees under the ARMS Initiative, which is a joint program. There were no administrative expenses in 2nd Quarter, FY 2007.

Note 9.	Inventory and Related Property
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As of March 31	2007	2006
1. Inventory, Net	\$ 34,203,604.37	\$ 109,648,797.26
2. Operating Materials & Supplies, Net	35,817,548,413.08	37,515,145,967.10
3. Stockpile Materials, Net	0.00	0.00
4. Total	<u>\$ 35,851,752,017.45</u>	<u>\$ 37,624,794,764.36</u>

Inventory, Net

As of March 31

	2007			2006	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
1. Inventory Categories					
A. Available and Purchased for Resale	\$ (3,890,794.07)	\$ 7,566,197.98	3,675,403.91	\$ 20,119,981.33	LAC
B. Held for Repair	0.00	0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	96,239.00	(96,239.00)	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	
E. Work in Process	30,528,200.46	0.00	30,528,200.46	89,528,815.93	SP
F. Total	\$ 26,733,645.39	\$ 7,469,958.98	34,203,604.37	\$ 109,648,797.26	

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

Fluctuation and/or Abnormalities

The Gross Inventory Available and Purchased for Resale and the associated Revaluation Allowance account balances of \$3.9 million and \$7.6 million, respectively, are abnormal. During the 1st Quarter, FY 2007, the Ammunition Procurement appropriation receipt transactions were processed against the Conventional Ammunition Working Capital Fund (CAWCF) appropriation erroneously. Subsequently, the Ammunition Procurement transactions were removed from CAWCF. Initial data indicates the inventory account was reduced from the CAWCF appropriation through an accounting adjustment. The Defense Finance and Accounting Service (DFAS) Rock Island is currently reconciling the CAWCF appropriation to determine the correct amount of Procurement Appropriation transactions that should have been adjusted during the 1st Quarter, FY 2007. Once the reconciliation is completed, DFAS Rock Island will process a correction to the abnormal Gross Inventory Available and Purchased for Resale and the Revaluation Allowance account. The reconciliation will be completed and the correcting entry will be processed in the 3rd Quarter, FY 2007.

Restrictions of Inventory Use, Sale, or Disposition

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

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

Other Information

Inventory is comprised of ammunition in the CAWCF. Inventory is tangible personal property that is:

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

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

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

The Army General Fund expects a year-to-year decrease in CAWCF Inventory as the program progresses toward its final closeout. The CAWCF program managers plan to closeout the program by the 1st Quarter, FY 2008. Effective September 30, 1998, CAWCF officially stopped accepting new orders for the procurement of conventional ammunitions.

Operating Materials and Supplies, Net

As of March 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	\$ 35,817,548,413.08	\$ 0.00	\$ 35,817,548,413.08	\$ 37,515,145,967.10	LAC
B. Held for Repair	0.00	0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	522,841,056.83	(522,841,056.83)	0.00	0.00	SP
D. Total	\$ 36,340,389,469.91	\$ (522,841,056.83)	\$ 35,817,548,413.08	\$ 37,515,145,967.10	

Legend for Valuation Methods:

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

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

Relevant Information for Comprehension

Operating Material and Supplies (OM&S) includes spare and repair parts, ammunition, and tactical missiles. The Army General Fund reported \$3 billion of OM&S Held for Future Use. This information comes from Worldwide Ammunition Reporting System (WARS). This amount represents ammunition held under a host nation treaty agreement and is not intended for use by U.S. Forces. The ammunition is intended for use in defense of the host nation by the host nation. The category Held for Use includes all material able to be issued. Economically repairable material is categorized as held for repair.

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

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

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

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

Stockpile Materials, Net

As of March 31

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

Legend for Valuation Methods:

LAC= Latest Acquisition Cost

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

Note 10. General PP&E, Net

As of March 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	\$ 523,384,581.85	N/A	\$ 523,384,581.85	\$ 479,445,951.98
B. Buildings, Structures, and Facilities	S/L	20 Or 40	46,723,913,990.12	\$ (29,843,300,303.19)	16,880,613,686.93	15,504,271,441.39
C. Leasehold Improvements	S/L	lease term	13,792,648.00	(10,664,779.00)	3,127,869.00	2,878,679.00
D. Software	S/L	2-5 Or 10	515,819,473.71	(262,465,777.64)	253,353,696.07	553,358,860.99
E. General Equipment	S/L	5 or 10	3,717,613,564.30	(2,404,856,230.64)	1,312,757,333.66	1,218,683,565.31
F. Military Equipment	S/L	Various	102,132,650,502.00	(40,452,868,319.00)	61,679,782,183.00	98,710,000,000.00
G. Assets Under Capital Lease	S/L	lease term	166,616,689.13	(151,358,743.18)	15,257,945.95	23,753,689.53
H. Construction-in- Progress	N/A	N/A	7,047,271,801.50	N/A	7,047,271,801.50	6,668,689,578.64
I. Other			24,152,999.00	0.00	24,152,999.00	20,116,075.00
J. Total General PP&E			<u>\$ 160,865,216,249.61</u>	<u>\$ (73,125,514,152.65)</u>	<u>\$ 87,739,702,096.96</u>	<u>\$ 123,181,197,841.84</u>

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Fluctuations and/or Abnormalities

General Property, Plant, and Equipment (PP&E) decreased \$35.4 billion, or 29% primarily due to the change in valuation method for military equipment that occurred in 3rd Quarter, FY 2006.

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

Military Equipment

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

Other Information Related to Heritage Assets and Stewardship Land

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

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

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

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

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

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

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

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

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

Archeological Sites Land on which items of significance are located.

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

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

Other Disclosures

Currently there are no restrictions on General PP&E.

Assets Under Capital Lease

As of March 31	2007	2006
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 166,070,564.45	\$ 166,070,564.45
B. Equipment	546,124.68	546,124.68
C. Accumulated Amortization	(151,358,743.18)	(142,862,999.60)
D. Total Capital Leases	\$ 15,257,945.95	\$ 23,753,689.53

Relevant Information Related to Assets Under Capital Lease

The Army General Fund is the lessee in eight Section 801 Family Housing Leases which consist of two on-post and six off-post housing facilities. These leases have between one and six years remaining on their terms. In addition, the Eighth U.S. Army G3 Aviation leases equipment for a training simulator first reported in 3rd Quarter, FY 2005. The related Capital Lease liabilities are discussed in Note 15.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of March 31	2007	2006
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	365,354.61	0.00
C. Other	498,402,687.50	559,586,349.24
D. Total Intragovernmental Liabilities	\$ 498,768,042.11	\$ 559,586,349.24
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 94,115,979.92	\$ 166,719,608.89
B. Military Retirement and Other Federal Employment Benefits	1,461,097,881.90	1,663,649,828.85
C. Environmental Liabilities	41,240,871,024.00	36,800,360,095.00
D. Other Liabilities	4,923,716,589.27	4,470,743,783.34
E. Total Nonfederal Liabilities	\$ 47,719,801,475.09	\$ 43,101,473,316.08
3. Total Liabilities Not Covered by Budgetary Resources	\$ 48,218,569,517.20	\$ 43,661,059,665.32
4. Total Liabilities Covered by Budgetary Resources	\$ 18,930,996,775.04	\$ 19,131,282,767.31
5. Total Liabilities	\$ 67,149,566,292.24	\$ 62,792,342,432.63

Relevant Information for Comprehension

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

Total Liabilities Not Covered by Budgetary Resources

Total Liabilities Not Covered by Budgetary Resources increased due to the following Environmental Liability program activities:

The Chemical Weapons Disposal Program liability increased \$6.4 billion, or 75%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The entire increase is attributable to the initial use of the Army Cost Position in 3rd Quarter, FY 2006 rather than an inflationary adjusted FY 2003 Acquisition Program Baseline. It is expected that the total liability will fluctuate as a result of program execution and revised program cost estimates.

Active Installations-Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) decreased \$290.2 million, or 11% from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The decrease is due to the use of more refined estimates from site evaluations and installation action plan workshops to determine a more realistic path forward during 4th Quarter, FY 2006.

Active Installations - Military Munitions Response Program (MMRP) decreased \$1.9 billion, or 36% from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The decrease is due to the use of more refined estimates from

site evaluations and installation action plan workshops to determine a more realistic path forward. Additionally, the decrease is due to Defense Environmental Restoration Program (DERP) site reclassification to the Base Realignment and Closure (BRAC) program during 4th Quarter, FY 2006.

Intragovernmental Liabilities

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

Nonfederal Liabilities

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

Other Disclosures

Military Retirement and Other Federal Employment Benefits not covered by budgetary resources is comprised of various employee actuarial liabilities. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable
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	2007			2006
As of March 31	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 1,573,714,029.60	\$ N/A	\$ 1,573,714,029.60	\$ 2,287,943,435.72
2. Non-Federal Payables (to the Public)	9,466,031,135.24	141,892.31	9,466,173,027.55	9,915,024,417.88
3. Total	<u>\$ 11,039,745,164.84</u>	<u>\$ 141,892.31</u>	<u>\$ 11,039,887,057.15</u>	<u>\$ 12,202,967,853.60</u>

Fluctuations and/or Abnormalities

Intragovernmental Payables decreased \$714.2 million, or 31% from 2nd Quarter, FY 2006 to 2nd Quarter FY 2007, primarily due to decreases with the Army Working Capital Fund, Department of State, U.S. Postal Service, and Defense Logistics Agency (DLA).

During the 3rd Quarter, FY 2006, the Army Working Capital Fund accelerated the billing cycle to simultaneously bill and collect every two days instead of every seven days which consequently led to a \$201.3 million decrease.

During FY 2006, the Army General Fund adjusted accounts payable to agree with the accounts receivable reported by Department of State as well as the U.S. Postal Service and, therefore, does not have supporting records to determine the reason for the \$157.7 million and \$50.7 million decreases, respectively. Efforts are underway to coordinate with these entities outside DoD to obtain proper documentation or adequate reconciliations.

The DLA decreased \$110.6 million primarily due to the phasing out of legacy systems and the use of the new system, Business Systems Modernization (BSM), to better capture whom DLA is conducting business with and the related business using a more controlled environment. The BSM began capturing the energy supply work instead of using the legacy systems beginning 4th Quarter, FY 2005. The DLA then began capturing nonenergy supply work with the new BSM system instead of using the legacy systems beginning in 1st Quarter, FY 2007. The decrease arises from differences reconciled for nonenergy supply work from using the new BSM system rather than reporting from the legacy accounting systems.

Definitions

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

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

Note 13.	Debt
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As of March 31	2007			2006	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 26,129,427.16	\$ 0.00	\$ 26,129,427.16	\$ 11,148,162.00	\$ 11,148,162.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 26,129,427.16	\$ 0.00	\$ 26,129,427.16	\$ 11,148,162.00	\$ 11,148,162.00
2. Total Debt	\$ 26,129,427.16	\$ 0.00	\$ 26,129,427.16	\$ 11,148,162.00	\$ 11,148,162.00

Fluctuations and/or Abnormalities

Debt to the U.S. Treasury increased \$15.0 million, or 134% from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007 for borrowing authority received from the U.S. Treasury to pay loss claims for loan defaults related to the Armament Retooling and Manufacturing Support Initiative (ARMS). The first loan defaulted in August 1999 and Army General Fund was in litigation to determine the actual amount of debt owed. In January 2006, Army General Fund used the borrowing authority to pay for the guaranteed loan, \$11.1 million. The second loan defaulted in 1st Quarter, FY 2007 in the amount of \$14.4 million plus accrued interest, or \$15.0 million.

This initiative is designed to encourage commercial use of Army General Fund’s inactive ammunition plants through many incentives for businesses willing to locate and operate a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms’ use of specified ammunition manufacturing facilities.

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of March 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)	\$ 368,414,000.00	\$ 2,375,414,000.00	\$ 2,743,828,000.00	\$ 3,036,526,000.00
2. Active Installations—Military Munitions Response Program (MMRP)	16,377,000.00	3,288,090,000.00	3,304,467,000.00	5,178,482,000.00
3. Formerly Used Defense Sites—IRP and BD/DR	142,830,000.00	3,952,339,000.00	4,095,169,000.00	4,165,485,000.00
4. Formerly Used Defense Sites--MMRP	87,948,000.00	14,665,871,000.00	14,753,819,000.00	14,566,691,000.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	27,026,000.00	377,725,000.00	404,751,000.00	377,544,000.00
2. Environmental Closure Requirements	2,759,000.00	94,088,000.00	96,847,000.00	96,847,000.00
3. Environmental Response at Operational Ranges	37,067,000.00	188,933,000.00	226,000,000.00	304,085,000.00
4. Other	0.00	60,752,024.00	60,752,024.00	35,676,095.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	25,778,000.00	497,908,000.00	523,686,000.00	523,443,000.00
2. Military Munitions Response Program	10,670,000.00	789,642,000.00	800,312,000.00	634,093,000.00
3. Environmental Corrective Action / Closure Requirements	3,451,000.00	28,825,000.00	32,276,000.00	54,146,000.00
4. Other	144,557,000.00	0.00	144,557,000.00	140,415,000.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	1,497,558,000.00	14,921,284,000.00	16,418,842,000.00	9,925,048,000.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 2,364,435,000.00	\$ 41,240,871,024.00	\$ 43,605,306,024.00	\$ 39,038,481,095.00

Environmental Disclosures

As of March 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	40,432,873.00
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	97,000.00
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

Other Disclosures

Others Category Disclosure Comparative Table		
(Amounts in thousands)	2007	2006
Other Accrued Environmental Costs - Other		
Low Level Radio Active Waste	\$ 60,752	\$ 35,676
Base Realignment and Closure - Other		
BRAC Unliquidated Liabilities that can not be categorized within BRAC program lines on Note 14	144,557	140,415
Total	\$ 205,309	\$ 176,091

Fluctuations and/or Abnormalities

Total Environmental Liabilities increased \$4.6 billion or 12%.

Chemical Weapons Disposal Program

The Chemical Weapons Disposal Program liability increased \$6.5 billion, or 65%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The entire increase is attributable to the initial use of the Army Cost Position in 3rd Quarter, FY 2006 rather than an inflationary adjusted FY 2003 Acquisition Program Baseline. It is expected that the total liability will fluctuate as a result of program execution and revised program cost estimates.

Accrued Environmental Restoration Liabilities

Active Installations-Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) decreased \$292.7 million, or 10% from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The decrease is due to the use of more refined estimates from site evaluations and

installation action plan workshops to determine a more realistic path forward during 4th Quarter, FY 2006.

Active Installations - Military Munitions Response Program (MMRP) decreased \$1.9 billion, or 36% from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The decrease is due to the use of more refined estimates from site evaluations and installation action plan workshops to determine a more realistic path forward. Additionally, the decrease is due to Defense Environmental Restoration Program (DERP) site reclassification to the Base Realignment and Closure (BRAC) program during 4th Quarter, FY 2006.

Other Accrued Environmental Costs - Other increased \$25.1 million or 70% from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007. The increase can be attributed to an increase in unit disposal costs at one location and the addition of five new contaminated sites. These sites were identified during 2nd Quarter, FY 2007.

The Army General Fund reports zeros in the Environmental Disclosure table for this quarter. The Army General Fund is unable to systematically report and gather information for items presented above. These reporting deficiencies result from system and internal control weaknesses. The Army General Fund will continue coordination with the Office of the Under Secretary of Defense (Comptroller) to address these deficiencies and additionally outline specific tasks and milestones in the Army Chief Financial Officer's Strategic Plan by 4th Quarter, FY 2007.

Applicable Laws and Regulations

The Army General Fund is required to cleanup contamination resulting from past waste disposal practices, leaks, spills and other past activity prior to 1986 from hazardous substances and wastes that created a public health or environmental risk and prior to FY 2003 from unexploded ordnance (UXO), discarded military munitions, and munitions constituents at other than operational ranges under the Defense Environmental Restoration Program (DERP), established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code 2701.

The Army General Fund is required to destroy the chemical stockpile and nonstockpile as part of the Chemical Demilitarization Program. The 1986 Defense Authorization Act (Public Law (PL) 99-145, as amended by subsequent acts) directed the DoD to destroy the unitary chemical stockpile while providing for maximum protection of the environment, public, and personnel involved in the destruction effort by April 29, 2004. The deadline for completion of destruction was amended by subsequent acts to April 29, 2007. The 1993 Defense Authorization Act (PL 102-484) required the establishment of the NonStockpile Chemical Material Project to safely dispose of all nonstockpile chemical material. The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations.

Applicable laws are as follows:

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

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

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

For General PP&E placed into service after September 30, 1997, the Army General Fund is required to recognize an environmental liability when General PP&E is placed into service and expense the associated environmental costs systematically over the life of the asset. The Army currently does not recognize an environmental liability when General PP&E is placed into service.

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

Types of Environmental Liabilities and Disposal Liabilities Identified

The Army General Fund has environmental clean up requirements for the DERP sites at active installations, BRAC installations, Formerly Used Defense Sites, nonDERP sites at active installations, weapon systems programs, and chemical weapons disposal programs. The DERP and nonDERP sites are required to clean up contamination in coordination with regulatory agencies, other responsible parties, and current property owners. Environmental disposal for weapons systems programs consists of chemical weapons disposal, including the destruction of the entire U.S stockpile of chemical agents and munitions and disposal of nonstockpile chemical material. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations, and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance, and disposal.

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

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

Uncertainty Regarding the Accounting Estimates

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

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

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

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

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

Note 15.	Other Liabilities
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As of March 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 124,443,800.61	\$ 0.00	\$ 124,443,800.61	\$ 149,620,673.94
B. Deposit Funds and Suspense Account Liabilities	780,748,118.39	0.00	780,748,118.39	868,752,785.69
C. Disbursing Officer Cash	1,515,791,503.88	0.00	1,515,791,503.88	1,421,593,176.07
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	78,351,577.03	141,706,832.45	220,058,409.48	320,010,503.29
F. Other Liabilities	347,489,715.26	0.00	347,489,715.26	402,906,065.15
G. Total Intragovernmental Other Liabilities	\$ 2,846,824,715.17	\$ 141,706,832.45	\$ 2,988,531,547.62	\$ 3,162,883,204.14
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 568,953,085.96	\$ 0.00	\$ 568,953,085.96	\$ 647,286,546.88
B. Advances from Others	1,215,310,507.89	0.00	1,215,310,507.89	924,246,602.46
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	4,247.38	0.00	4,247.38	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	1,406,060,320.00	1,406,060,320.00	1,184,317,440.31
G. Accrued Unfunded Annual Leave	3,296,025,835.23	0.00	3,296,025,835.23	2,999,070,314.79
H. Capital Lease Liability	7,767,778.02	17,845,825.69	25,613,603.71	40,189,601.87
I. Other Liabilities	928,968,130.06	575,028,672.57	1,503,996,802.63	917,144,162.01
J. Total Nonfederal Other Liabilities	\$ 6,017,029,584.54	\$ 1,998,934,818.26	\$ 8,015,964,402.80	\$ 6,712,254,668.32
3. Total Other Liabilities	\$ 8,863,854,299.71	\$ 2,140,641,650.71	\$ 11,004,495,950.42	\$ 9,875,137,872.46

Fluctuations and/or Abnormalities

Intragovernmental

As of March 31, 2007, The Army General Fund had a delinquent FECA bill due to the Department of Labor (DOL) in the amount of \$78.4 million as of the end of 2nd Quarter, FY 2007. The delinquency was due to discrepancies between the Army Working Capital Fund and the Army General Fund. The FECA bill was paid in its entirety at the beginning of the 3rd Quarter, FY 2007.

Intragovernmental Other Liabilities, Other consists of Advances from Others; Deposit Funds and Suspense Accounts; Disbursing Officer Cash; unemployment compensation; cancelled accounts receivable; employee benefits for retirement, health and life insurance; and education benefits trust fund.

Nonfederal

Nonfederal Other Liabilities increased \$1.3 billion, or 19%, from 2nd Quarter, FY 2006, to 2nd Quarter, FY 2007 primarily due to changes in Accrued Unfunded Annual Leave; Nonenvironmental Disposal Liabilities, Conventional Munitions Disposal; and Other Liabilities. The Accrued Unfunded Annual Leave increased \$297 million, or 10%, due to the continued deployment of soldiers in support of Operation Iraqi Freedom, the use of annual leave during FY 2007 is restricted. The Conventional Munitions Disposal increased \$221.7 million, or 19%, in 2nd Quarter, FY 2007 primarily due to the recognition of the estimated liability associated with demilitarizing additional ammunition. Other Liabilities increased \$586.9 million, or 64%, from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007, due to a change in reporting contingent liabilities for estimated future contract financing payments which occurred in 4th Quarter, FY 2006.

Contingent liabilities include \$407.3 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. Army General Fund 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 liability for estimated future payments, which are conditional pending delivery and Government acceptance of a satisfactory product.

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

Capital Lease Liability

As of March 31	2007				2006
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2007	\$ 8,170,565.05	\$ 76,206.00	\$ 0.00	\$ 8,246,771.05	\$ 10,465,736.55
B. 2008	8,528,654.77	155,951.00	0.00	8,684,605.77	18,159,052.98
C. 2009	5,375,522.96	93,058.00	0.00	5,468,580.96	8,684,605.77
D. 2010	5,375,522.96	0.00	0.00	5,375,522.96	5,468,580.96
E. 2011	4,509,788.83	0.00	0.00	4,509,788.83	5,375,522.96
F. 2012	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	4,172,606.44	0.00	0.00	4,172,606.44	4,172,606.44
H. Total Future Lease Payments Due	\$ 36,132,661.01	\$ 325,215.00	\$ 0.00	\$ 36,457,876.01	\$ 52,326,105.66
I. Less: Imputed Interest Executory Costs	10,767,230.08	77,042.21	0.00	10,844,272.29	16,646,292.63
J. Net Capital Lease Liability	\$ 25,365,430.93	\$ 248,172.79	\$ 0.00	\$ 25,613,603.72	\$ 35,679,813.03
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 17,811,221.78	\$ 26,281,005.01
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 7,802,381.93	\$ 13,908,596.86

Note 16.	Commitments and Contingencies
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Relevant Information for Comprehension

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

Nature of Contingency

The FY 2006 Army Legal Representation Letter outlines claims against the Army General Fund totaling \$28 billion for which the Army Office of General Counsel is unable to express an opinion. The historical payout percentage for these cases is less than 1%. To determine the historical payout, the Army Office of General Counsel divides the total amount reported as a payout in the fiscal year by the total amount of claimed in the Army Legal Representation Letter.

The Army General Fund has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army General Fund's financial statements nor reported in the FY 2006 Army Legal Representation Letter. As of March 31, 2007, the Army General Fund had \$360.6 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Estimates for litigations, claims and assessments are required to be fully supported. Additionally, Army General Fund has coordinated with Army Office of General Counsel to ensure that estimates agree with the legal representation letters and management summary schedule.

Title of Contingent Liabilities	Estimate
Litigation Division	\$108,474
Administrative Tort Claims	100,000
European Environmental Claims	72,000
Army Environmental Law Division	45,601
Army Contract Appeals Division	33,939
Network Enterprise Technology Command	400
Army Personnel Claims	235
Total	<u>\$360,649</u>

(Amounts in thousands)

Other Information Pertaining to Commitments

The Army General Fund has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations, undelivered orders, and cancelled accounts payable. The amount of contractual commitments for 2nd Quarter, FY 2007 is presented in the following schedule.

(Amounts in thousands)

Title of Contractual Commitments

Long-term lease obligations	\$25,614
Undelivered orders	\$ 102,617,695
Cancelled accounts payable	\$94,116

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

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of March 31	2007				2006
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Actuarial Benefits					
A. FECA	\$ 1,461,097,881.90	5.31%	\$ 0.00	\$ 1,461,097,881.90	\$ 1,663,649,828.85
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 1,461,097,881.90		\$ 0.00	\$ 1,461,097,881.90	\$ 1,663,649,828.85
3. Other Federal Employment Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,461,097,881.90		\$ 0.00	\$ 1,461,097,881.90	\$ 1,663,649,828.85

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

Fluctuations and/or Abnormalities

The Federal Employees Compensation Act (FECA) actuarial liability decreased \$202.6 million, or 12%, from 2nd Quarter, FY 2006, to 2nd Quarter, FY 2007, primarily due to the Army General Fund reporting the U.S. Army Corps of Engineers' liability until 4th Quarter, FY 2006 when the U.S. Army Corps of Engineers reported its own portion of the FECA actuarial liability.

Federal Employees Compensation Act (FECA)

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

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

Other Disclosures

The AGF does not invest in market-based or marketable securities.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of March 31	2007	2006
1. Intragovernmental Costs	\$ 24,609,675,704.40	\$ 23,216,543,373.82
2. Public Costs	63,805,901,477.19	59,870,243,202.99
3. Total Costs	\$ 88,415,577,181.59	\$ 83,086,786,576.81
4. Intragovernmental Earned Revenue	\$ (3,995,903,928.76)	\$ (4,276,894,818.08)
5. Public Earned Revenue	(811,212,849.34)	(557,465,763.40)
6. Total Earned Revenue	\$ (4,807,116,778.10)	\$ (4,834,360,581.48)
7. Net Cost of Operations	\$ 83,608,460,403.49	\$ 78,252,425,995.33

Fluctuation and/or Abnormalities

Total Costs increased \$4.3 billion, or 5% from 2nd Quarter, FY 2006 to 2nd Quarter, FY 2007, primarily due to a \$2.2 billion increase in training, transportation, and equipment costs in support of Operation Iraqi Freedom as well as a \$1.1 billion increase in the procurement of equipment for communications, multipurpose vehicles, and tactical vehicles in support of the Global War on Terror. The cost increases began in 4th Quarter, FY 2006, when the funds were allotted to the major commands to begin obligating and disbursing funds.

Definitions

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

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

Other Information Regarding Costs

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

The amounts presented in the Consolidated Statement of Net Cost are based on funding, obligation, accrual, and disbursing transactions, which are not always recorded using accrual accounting. Army General Fund's systems do not always record the transactions on an accrual basis as is required by the generally accepted accounting principles. The information presented also includes data from non-financial feeder systems to capture all cost and financing sources for the Army General Fund.

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

Additional Disclosures

The Army General Fund accounting system does not capture information relative to Heritage Assets separately and distinctly from normal operations. The Army General Fund is not able to separately identify the cost of acquiring, constructing, improving, reconstructing or renovating heritage assets. The CFO Strategic Plan outlines tasks to separately identify and report cost associated with Heritage Assets by 1st Quarter, FY 2010.

The Defense Logistics Agency (DLA) received a donation of fuel from foreign countries with no requirement for reimbursement. The DLA transferred \$24.5 million of this donated fuel to the Army General Fund. These entries affect the following statements: Balance Sheet, Net Cost, Net Position, and Statement of Financing

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

As of March 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	\$ 135,026,940.53	\$ 0.00	\$ 143,834,607.23	\$ 0.00
B. Civilian Health	292,683,885.50	0.00	277,227,185.00	0.00
C. Civilian Life Insurance	845,419.09	0.00	816,056.52	0.00
D. Judgment Fund	23,922,410.55	0.00	50,018,071.71	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 452,478,655.67	\$ 0.00	\$ 471,895,920.46	\$ 0.00

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

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

Cumulative Results of Operations

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

Unexpended Appropriations

Appropriations Received (All other funds) on the Statement of Changes in Net Position does not agree with the Appropriations Received on the Statement of Budgetary Resources due to differences between proprietary and budgetary accounting concepts and reporting requirements. The Statement of Budgetary Resources includes \$6 million in receipts for Appropriated Trust or Special Fund Receipts that are not included in the Statement of Changes in Net Position.

The Defense Logistics Agency (DLA) received a donation of fuel from foreign countries with no requirement for reimbursement. DLA transferred \$24.5 million of this donated fuel to the Army General Fund. These entries affect the following statements: Balance Sheet, Net Cost, Net Position, and Statement of Financing.

Imputed Financing

The amounts remitted to the Office of Personnel Management (OPM) by and for employees covered by the Civil Service Retirement System (CSRS), the Federal Employees' Retirement System (FERS), the Federal Employees Health Benefits Program (FEHB), and the Federal Employees Group Life Insurance Program (FEGLI) do not fully cover the U.S. Government's cost to provide these benefits. The financial statements recognized an imputed cost as the difference between the Government's cost of providing these benefits to the employees and contributions made by and for them. OPM provides the cost factors to Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. DFAS provides the costs to the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD [P&R]) for validation. After validation, OUSD (P&R) provides the imputed costs to the reporting components for inclusion in their financial statements.

For the Judgment Fund, the Army recognizes liabilities and expenses when unfavorable litigation outcomes are probable and the amounts can be estimated. The U.S. Treasury provides the dollar amount of the imputed financing. The U.S. Treasury based the imputed financing on the amount the judgment fund is expected to pay for settlements.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of March 31	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 102,617,694,669.07	\$ 73,879,910,005.76
2. Available Borrowing and Contract Authority at the End of the Period	16,508,567.00	11,711,937.00

Undelivered Orders

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

Appropriations Received

Appropriations received increased \$23.6 billion primarily due to the enactment of Public Law (P.L.) 109-289 which includes Military Personnel, Operation and Maintenance, and Procurement for \$1.5 billion, \$7.7 billion, and \$9.6 billion, respectively. In addition, the establishment of the Improvised Explosive Device Fund in 1st Quarter, FY 2007 increased appropriations received \$1.9 billion.

Reporting of Appropriations Received

Appropriations received on the Statement of Budgetary Resources do not agree with appropriations received on the Statements of Changes in Net Position because of differences between proprietary and budgetary accounting concepts and reporting requirements. The differences consist of the recording of trust and special funds receipts and anticipated indefinite appropriations.

Presentation of Statement of Budgetary Resources

The Statement of Budgetary Resources does not include eliminating entries because the statements are presented as combined and combining.

Breakdown of Apportionment Categories

Office of Management and Budget Circular A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment. Obligations incurred consists of \$116.5 billion in Category A, Direct; \$1.3 billion in Category B, Direct; \$7.7 billion in Category A, Reimbursable; and \$1.2 billion in Category B, Reimbursable. The Nonbudgetary obligations were all Category A, Direct, \$15.7 million. This disclosure agrees with the aggregate of the related information as reported on the Budgetary Execution Report and Obligations Incurred on the Statement of Budgetary Resources.

Terms of Borrowing Authority

Borrowing authority is used for guaranteed loan defaults relating to the Armament Retooling and Manufacturing Support (ARMS) Initiative. The Army General Fund obtains borrowing authority from the U.S. Treasury to cover the amount needed to pay for the defaulted guaranteed loans.

The ARMS initiative is designed to encourage commercial use of inactive Army General Fund ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army General Fund and Department of Agriculture Rural Business-Cooperative Service (RBS) established a Memorandum of Understanding for the RBS to administer the ARMS Initiative Loan Guarantee Program.

Differences with the Budget of the United States Government

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

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

Note 21.	Disclosures Related to the Statement of Financing
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Fluctuations and/or Abnormalities

In 3rd Quarter, FY 2006, Office of Management and Budget (OMB) Circular A-136 was updated to require that certain miscellaneous receipts and clearing accounts be distributed back to the agencies Fund Balance with Treasury (FBWT) for reporting purposes. Prior to this change, there was no effect on FBWT. Distributed offsetting receipts only consisted of certain receipt accounts and clearing accounts and only affected a collections account.

The Statement of Financing is intended to explain and define the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. The following Statement of Financing lines are presented as combined instead of consolidated due to intra-agency budgetary transactions not being eliminated:

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

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

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

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

Components Requiring or Generating Resources in Future Period reports \$570.4 million of increases in unfunded expenses that were incurred during 2nd Quarter, FY 2007. The cumulative total of unfunded expenses from all fiscal years is reported as “Liabilities Not Covered by Budgetary Resources” in Note 11.

The Defense Logistics Agency (DLA) received a donation of fuel from foreign countries with no requirement for reimbursement. The DLA transferred \$24.5 million of this donated fuel to the Army General Fund. These entries affect the following statements: Balance Sheet, Net Cost, Net Position, and Statement of Financing.

Other Disclosures

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

Note 22.	Disclosures Related to the Statement of Custodial Activity
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The Statement of Custodial Activity displays current year collections and disbursements for two custodial accounts: Development Fund for Iraq and Iraqi Seized Assets. Funds held in a Custodial Activity are only used for their stated purposes and are not available for DoD use.

Development Fund for Iraq (DFI)

The DFI is for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. During FY 2007 there were \$5.9 million in disbursements by the Multi-National Force Iraq with no additional deposits.

	(Amounts in Thousands)	
	During FY 2007	Cumulative from Inception
Source of Collections		
Deposits By Foreign Governments	\$ 0	\$ 136,000
Disposition of Collections		
Security and Law Enforcement	\$ 0	\$ 979
Electric Sector	1,181	46,326
Oil Infrastructure	0	466
Water Resources and Sanitation	1,072	17,656
Transportation and Telecommunications	280	5,552
Roads, Bridges and Construction	0	5,024
Health Care	0	2,874
Private Sector Development	0	7,181
Education, Refugees, Human Rights, and Governance	3,381	37,033
Total Disbursed on Behalf of Foreign Governments	5,914	123,091
Retained for Future Support of Foreign Governments *	(5,914)	12,909
Total Disposition of Collections	\$ 0	\$ 136,000
Net Custodial Collection Activity	\$ 0	\$ 0

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

Seized Assets

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi government that are used in support of the Iraqi people. During FY 2007, \$1.1 million was disbursed with no additional seized assets. As of March 31, 2007, \$29.1 million of seized monetary assets remain to be disbursed in support of the Iraqi people as shown in the table below.

	(Amounts in Thousands)	
	During FY 2007	Cumulative from Inception
Source of Collections		
Seized Iraqi Cash	\$ 0	\$ 927,216
Disposition of Collections		
Iraqi Salaries	\$ 0	\$ 30,838
Repair/Reconstruction/Humanitarian Assistance	1,149	527,262
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	0	264,737
Fuel/Supplies	0	75,312
Total Disbursed on Behalf of Iraqi People	<u>1,149</u>	<u>898,149</u>
Retained for Future Support of the Iraqi People	(1,149)	29,067
Total Disposition of Collections	<u>\$ 0</u>	<u>\$ 927,216</u>
Net Custodial Collection Activity	<u>\$ 0</u>	<u>\$ 0</u>

Note 23.

Earmarked Funds

BALANCE SHEET
As of March 31, 2007

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 0.00	\$ 0.00	\$ 47,266,540.55	\$ 0.00	\$ 47,266,540.55
Investments	0.00	0.00	3,032,845.61	0.00	3,032,845.61
Accounts and Interest Receivable	0.00	0.00	34,116,063.02	0.00	34,116,063.02
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 0.00	\$ 84,415,449.18	\$ 0.00	\$ 84,415,449.18

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Liabilities	0.00	0.00	35,829,045.35	0.00	35,829,045.35
Total Liabilities	\$ 0.00	\$ 0.00	\$ 35,829,045.35	\$ 0.00	\$ 35,829,045.35
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	48,586,403.83	0.00	48,586,403.83
Total Liabilities and Net Position	\$ 0.00	\$ 0.00	\$ 84,415,449.18	\$ 0.00	\$ 84,415,449.18

STATEMENT OF NET COST

For the period ended March 31, 2007

Program Costs	\$ 0.00	\$ 0.00	\$ 6,216,359.30	\$ 0.00	\$ 6,216,359.30
Less Earned Revenue	0.00	0.00	0.00	0.00	0.00
Net Program Costs	\$ 0.00	\$ 0.00	\$ 6,216,359.30	\$ 0.00	\$ 6,216,359.30
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ 0.00	\$ 6,216,359.30	\$ 0.00	\$ 6,216,359.30

Army General Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended March 31, 2007	Military Retirement Fund		Medicare Eligible Retiree Health Care Fund		Other Earmarked Funds		Eliminations		Total
Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	42,791,897.32	\$	0.00	\$ 42,791,897.32
Net Cost of Operations		0.00		0.00		6,216,359.30		0.00	6,216,359.30
Budgetary Financing Sources		0.00		0.00		1,274,868.42		0.00	1,274,868.42
Other Financing Sources		0.00		0.00		10,735,997.39		0.00	10,735,997.39
Change in Net Position	\$	0.00	\$	0.00	\$	5,794,506.51	\$	0.00	\$ 5,794,506.51
Net Position End of Period	\$	0.00	\$	0.00	\$	48,586,403.83	\$	0.00	\$ 48,586,403.83

Earmarked Funds

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

- **Sale of Hunting and Fishing Permits.** Fees are received from individuals for the issuance of special hunting and fishing permits. The funds for this account are used for wildlife, fish, and game conservation and rehabilitation on military reservations. Title 10, United States Code (USC) 670b gives the authority to collect funds for this purpose and distribute the funds for the intended purposes.
- **Restoration of Rocky Mountain Arsenal.** Funds are received from private industry for the cleanup of contamination areas of Rocky Mountain Arsenal. Public Law (PL) 99-661, Section 1367 provides the authority for this explicit use.
- **Royalties for Use of DoD-Military Insignia and Trademarks.** Funds are received from the sale of commemorative memorabilia, trademarks, and licensing activities. The funds are used to replenish inventory stock for such items and other related Commemorative Program expenses. The authority to create expenditures originates from PL 102-484, Section 378.
- **Forest and Wildlife Conservation, Military Reservations.** These funds are produced from the sale of forest products that are in excess of operation and maintenance expenses at fiscal year-end for the payment of entitlements to states. The authority and directive for this fund originates from Title 10, USC 2665.
- **National Science Center.** Funds received from the collection of fees for the use of the National Science Center and use for the operation and maintenance of the National Science Center as authorized under PL 99-145, Defense Authorization Act, 1986, Section 1459.

- Bequest of Major General Fred C. Ainsworth to Walter Reed Army Medical Center. Funds received from interest on investments for the use of purchasing supplies and equipment for the library at Walter Reed Army Medical Center. The Army cannot currently identify the statutory citation that provides authority for the use of this fund. The appropriation for this earmark is 21 X 8063.
- Department of the Army General Gift Fund. Funds are received from private parties and estates and used for various purposes. Title 10, USC 2601 establishes the authority governing the use of this fund.

The Total Earmarked Funds column is shown as consolidated. All intraDoD activity between earmarked funds and non-earmarked funds has been eliminated from this column.

Note 24.	Other Disclosures
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As of March 31	2007			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due
Fiscal Year

2007	\$ 3,149,001.42	\$ 0.00	\$ 0.00	\$ 3,149,001.42
2008	4,950,047.72	0.00	0.00	4,950,047.72
2009	3,793,801.84	0.00	0.00	3,793,801.84
2010	2,118,330.11	0.00	0.00	2,118,330.11
2011	66,654.00	0.00	0.00	66,654.00
2012	66,653.50	0.00	0.00	66,653.50
After 5 Years	15,416,997.75	0.00	0.00	15,416,997.75

**Total Future Lease
Payments Due**

	\$ 29,561,486.34	\$ 0.00	\$ 0.00	\$ 29,561,486.34
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Note 25.	Restatements
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Not Applicable