Department of Defense
Department of the Army
CONSOLIDATED BALANCE SHEET
As of December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	$ 93,452,671,986.80	$ 156,377,924,965.83
b. Non-Entity Seized Iraqi Cash	57,715,612.99	139,231,227.90
c. Non-Entity-Other	228,356,240.53	592,608,593.32
2. Investments (Note 4)	3,426,477.97	3,268,838.81
3. Accounts Receivable (Note 5)	527,059,473.65	484,219,288.32
4. Other Assets (Note 6)	783,755,497.60	594,246,089.27
5. Total Intragovernmental Assets	$ 95,052,985,289.54	$ 158,191,499,003.45
B. Cash and Other Monetary Assets (Note 7)	$ 1,327,243,671.01	$ 1,363,613,735.52
C. Accounts Receivable (Note 5)	651,546,896.69	513,747,021.43
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	38,031,453,797.04	37,444,961,861.92
F. General Property, Plant and Equipment (Note 10)	122,557,460,761.02	112,966,422,086.36
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	3,979,714,009.41	4,078,213,340.10
2. TOTAL ASSETS	$ 261,600,404,424.71	$ 314,558,457,048.78
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$ 1,937,783,223.26	$ 2,058,227,198.48
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	2,704,635,312.01	2,572,390,884.77
4. Total Intragovernmental Liabilities	$ 4,642,418,535.27	$ 4,630,618,083.25
B. Accounts Payable (Note 12)	$ 10,006,576,614.63	$ 9,834,950,709.46
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,663,649,828.85	1,632,842,810.96
D. Environmental and Disposal Liabilities (Note 14)	39,571,390,000.00	39,440,170,000.00
E. Loan Guarantee Liability (Note 8)	12,393,845.32	12,352,470.32
F. Other Liabilities (Note 15 & Note 16)	6,821,413,356.29	7,324,631,801.10
4. TOTAL LIABILITIES	$ 62,717,842,180.36	$ 62,875,565,875.09
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	$ 0.00	$ 0.00
B. Unexpended Appropriations - Other Funds	85,168,744,912.79	145,489,992,407.33
C. Cumulative Results of Operations - Earmarked Funds	38,720,865.48	0.00
D. Cumulative Results of Operations - Other Funds	113,675,096,466.08	106,192,898,766.36
6. TOTAL NET POSITION	$ 198,882,562,244.35	$ 251,682,891,173.69
7. TOTAL LIABILITIES AND NET POSITION	$ 261,600,404,424.71	$ 314,558,457,048.78

The accompanying notes are an integral part of these statements.

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

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	$ 42,025,219,743.88	$ 35,180,244,742.37
B. (Less: Earned Revenue)	(2,181,077,568.02)	(1,988,395,695.34)
C. Net Program Costs	$ 39,844,142,175.86	$ 33,191,849,047.03
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	$ 39,844,142,175.86	$ 33,191,849,047.03

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

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	$ 115,242,623,448.98	$ 109,208,001,018.58
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	115,242,623,448.98	109,208,001,018.58
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc.) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	38,583,836,464.01	28,744,594,156.28
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	2,064,557.14	0.00
4.E.2 All other funds	0.00	3,480,933.60
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	121,135.42	0.00
4.F.2 All other funds	0.00	188,483.46
4.G. Transfers-in/out without reimbursement (+/-)	0.00	1,822,720,286.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	(18,286,829.10)	(738,607,547.10)
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	52,409,630.76	77,231,951.01
5.C. Imputed financing from costs absorbed by others	253,136,029.62	267,138,531.56
5.D. Other (+/-)	(557,944,929.41)	0.00
6. Total Financing Sources		
6.A. Earmarked funds	2,185,692.56	0.00
6.B. All other funds	38,313,150,365.88	30,176,746,794.81
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	1,612,638.59	0.00
7.B. All other funds	39,842,529,537.27	33,191,849,047.03
8. Net Change		
8.A. Earmarked funds	573,053.97	0.00
8.B. All other funds	(1,529,379,171.39)	(3,015,102,252.22)
9. Ending Balances		
9.A. Earmarked funds	38,720,865.48	0.00
9.B. All other funds	113,675,096,466.08	106,192,898,766.36

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended December 31, 2005 and 2004

	2006 Consolidated	2005 Consolidated
10. Total all funds	$ 113,713,817,331.56	$ 106,192,898,766.36

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

	2006 Consolidated	2005 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	$ 74,704,745,376.80	$ 73,238,303,727.98
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	74,704,745,376.80	73,238,303,727.98
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	47,804,059,000.00	100,585,715,000.00
4.B. Appropriations transferred-in/out (+/-)	1,279,523,000.00	732,772,329.00
4.C. Other adjustments (rescissions, etc) (+/-)	(35,746,000.00)	(322,204,493.37)
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	(38,583,836,464.01)	(28,744,594,156.28)
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	10,463,999,535.99	72,251,688,679.35
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
8. Net Change		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	10,463,999,535.99	72,251,688,679.35
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	85,168,744,912.79	145,489,992,407.33

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

	2006 Consolidated	2005 Consolidated
10. Total all funds	$ 85,168,744,912.79	$ 145,489,992,407.33

Department of Defense

Department of the Army

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended December 31, 2005 and 2004

		2006 Combined		2005 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES:				
1. Unobligated balance, brought forward, October 1	$	15,477,291,031.75	$	22,880,756,443.64
2. Recoveries of prior year unpaid obligations		6,080,565,202.51		18,478,543,768.90
3. Budget authority				
3.A. Appropriation		99,612,201,653.67		100,589,285,794.30
3.B. Borrowing authority		0.00		0.00
3.C. Contract authority		0.00		0.00
3.D. Spending authority from offsetting collections				
3.D.1 Earned				
3.D.1.a. Collected		4,509,977,379.75		4,819,099,019.28
3.D.1.b. Change in receivables from Federal sources		(6,001,603.21)		(672,876,517.26)
3.D.2 Change in unfilled customer orders				
3.D.2.a. Advance received		22,531,040.92		42,569,035.68
3.D.2.b. Without advance from Federal sources		1,508,722,882.93		4,176,348,925.15
3.D.3. Anticipated for rest of year, without advances		183,073,475.00		1,160,698,493.86
3.D.4. Previously unavailable		0.00		0.00
3.D.5. Expenditure transfers from trust funds		0.00		0.00
3.E. Subtotal		105,830,504,829.06		110,115,124,751.01
4. Nonexpenditure transfers, net, anticipated and actual		1,279,523,000.00		733,914,765.43
5. Temporarily not available pursuant to Public Law		(51,804,798,000.00)		0.00
6. Permanently not available		(35,746,000.00)		(322,204,493.37)
7. Total Budgetary Resources	$	76,827,340,063.32	$	151,886,135,235.61

Department of Defense

Department of the Army

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended December 31, 2005 and 2004

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	$ 43,808,464,591.58	$ 56,685,623,888.74
8.B. Reimbursable	3,745,163,904.75	4,033,619,580.63
8.C. Subtotal	47,553,628,496.33	60,719,243,469.37
9. Unobligated balance:		
9.A. Apportioned	27,131,027,854.85	88,730,844,953.23
9.B. Exempt from apportionment	34,955,742.93	29,655,104.03
9.C. Subtotal	27,165,983,597.78	88,760,500,057.26
10. Unobligated balance not available	2,107,727,969.21	2,406,391,708.98
11. Total status of budgetary resources	$ 76,827,340,063.32	$ 151,886,135,235.61
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	80,720,879,554.62	71,629,015,757.38
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	$ (16,351,456,802.92)	$ (14,606,616,936.16)
12.C. Total unpaid obligated balance	64,369,422,751.70	57,022,398,821.22
13. Obligations incurred net (+/-)	$ 47,553,628,496.33	$ 60,719,243,469.37
14. Less: Gross outlays	(46,479,818,188.12)	(39,935,649,170.92)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	0.00	0.00
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	(6,080,565,202.51)	(18,478,543,768.90)
17. Change in uncollected customer payments from Federal sources (+/-)	(1,502,721,279.72)	(3,503,472,407.89)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	75,714,124,660.32	73,934,066,286.93
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(17,854,178,082.64)	(18,110,089,344.05)
18.C. Total, unpaid obligated balance, net, end of period	57,859,946,577.68	55,823,976,942.88
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	46,479,818,188.12	39,935,649,170.92
19.B. Less: Offsetting collections	(4,532,508,420.67)	(4,861,668,054.96)
19.C. Less: Distributed Offsetting receipts	(62,931,387.77)	(47,490,182.28)
19.D. Net Outlays	$ 41,884,378,379.68	$ 35,026,490,933.68

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

		2006 Combined		2005 Combined
NONBUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
1. Unobligated balance, brought forward, October 1	$	1,525,335.32	$	1,424,460.32
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		0.00		0.00
3.C. Contract authority		0.00		0.00
3.D. Spending authority from offsetting collections				
3.D.1 Earned				
3.D.1.a. Collected		0.00		59,500.00
3.D.1.b. Change in receivables from Federal sources		0.00		0.00
3.D.2 Change in unfilled customer orders				
3.D.2.a. Advance received		0.00		0.00
3.D.2.b. Without advance from Federal sources		0.00		0.00
3.D.3 Anticipated for rest of year, without advances		0.00		0.00
3.D.4 Previously unavailable		0.00		0.00
3.D.5 Expenditure transfers from trust funds		0.00		0.00
3.E. Subtotal		0.00		59,500.00
4. Nonexpenditure transfers, net, anticipated and actual		0.00		0.00
5. Temporarily not available pursuant to Public Law		0.00		0.00
6. Permanently not available		0.00		0.00
7. Total Budgetary Resources	$	1,525,335.32	$	1,483,960.32

Department of Defense

Department of the Army

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended December 31, 2005 and 2004

		2006 Combined		2005 Combined
Status of Budgetary Resources:				
8. Obligations incurred:				
8.A. Direct	$	0.00	$	0.00
8.B. Reimbursable		0.00		0.00
8.C. Subtotal		0.00		0.00
9. Unobligated balance:				
9.A. Apportioned		1,525,335.32		1,483,960.32
9.B. Exempt from apportionment		0.00		0.00
9.C. Subtotal		1,525,335.32		1,483,960.32
10. Unobligated balance not available		0.00		0.00
11. Total Status of Budgetary Resources	$	1,525,335.32	$	1,483,960.32
Change in Obligated Balance:				
12. Obligated balance, net				
12.A. Unpaid obligations, brought forward, October 1		0.00		0.00
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	$	0.00	$	0.00
12.C. Total unpaid obligated balance		0.00		0.00
13. Obligations incurred net (+/-)	$	0.00	$	0.00
14. Less: Gross outlays		0.00		0.00
15. Obligated balance transferred, net				
15.A. Actual transfers, unpaid obligations (+/-)		0.00		0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)		0.00		0.00
15.C. Total Unpaid obligated balance transferred, net		0.00		0.00
16. Less: Recoveries of prior year unpaid obligations, actual		0.00		0.00
17. Change in uncollected customer payments from Federal sources (+/-)		0.00		0.00
18. Obligated balance, net, end of period				
18.A. Unpaid obligations		0.00		0.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)		0.00		0.00
18.C. Total, unpaid obligated balance, net, end of period		0.00		0.00
Net Outlays				
19. Net Outlays:				
19.A. Gross outlays		0.00		0.00
19.B. Less: Offsetting collections		0.00		(59,500.00)
19.C. Less: Distributed Offsetting receipts		0.00		0.00
19.D. Net Outlays	$	0.00	$	(59,500.00)

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

	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	$ 47,553,628,496.33	$ 60,719,243,469.37
2. Less: Spending authority from offsetting collections and recoveries (-)	(12,115,794,902.90)	(26,843,743,731.75)
3. Obligations net of offsetting collections and recoveries	35,437,833,593.43	33,875,499,737.62
4. Less: Offsetting receipts (-)	(62,931,387.77)	(47,490,182.28)
5. Net obligations	35,374,902,205.66	33,828,009,555.34
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	52,409,630.76	77,231,951.01
8. Imputed financing from costs absorbed by others	253,136,029.62	267,138,531.56
9. Other (+/-)	(557,944,929.41)	0.00
10. Net other resources used to finance activities	(252,399,269.03)	344,370,482.57
11. Total resources used to finance activities	$ 35,122,502,936.63	$ 34,172,380,037.91
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 (-)	4,950,490,639.21	(4,349,225,041.43)
12b. Unfilled Customer Orders	1,531,253,923.85	4,218,917,960.83
13. Resources that fund expenses recognized in prior periods	(288,956,964.51)	(1,165,290,089.76)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	62,931,387.77	47,549,682.28
15. Resources that finance the acquisition of assets	(7,467,204,869.03)	(2,252,540,930.86)
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 (+/-)	505,535,298.65	(77,231,951.01)
17. Total resources used to finance items not part of the net cost of operations	$ (705,950,584.06)	$ (3,577,820,369.95)
18. Total resources used to finance the net cost of operations	$ 34,416,552,352.57	$ 30,594,559,667.96

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

	2006 Consolidated	2005 Consolidated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	135,820,061.78	93,670,171.86
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 (+/-)	18,495,210.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	154,315,271.78	93,670,171.86
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	4,896,929,972.47	1,820,188,102.10
26. Revaluation of assets or liabilities (+/-)	317,313.36	1,491,612.04
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(27,702.40)	(16,068.20)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	376,054,968.08	681,955,561.27
28. Total components of Net Cost of Operations that will not require or generate resources	5,273,274,551.51	2,503,619,207.21
29. Total components of net cost of operations that will not require or generate resources in the current period	$ 5,427,589,823.29	$ 2,597,289,379.07
30. Net Cost of Operations	$ 39,844,142,175.86	$ 33,191,849,047.03

Department of Defense

Department of the Army

COMBINED STATEMENT OF CUSTODIAL ACTIVITY

For the periods ended December 31, 2005 and 2004

	2006 Combined		2005 Combined	
1.SOURCE OF COLLECTIONS				
A. Deposits by Foreign Governments	$	0.00	$	50,000,000.00
B. Seized Iraqi Cash		0.00		700.00
C. Other Collections		0.00		0.00
D. Total Cash Collections	$	0.00	$	50,000,700.00
E. Accrual Adjustments (+/-)	$	0.00	$	0.00
F. Total Custodial Collections	$	0.00	$	50,000,700.00
2.DISPOSITION OF COLLECTIONS				
A. Disbursed on Behalf of Foreign Governments and International Organizations	$	16,346,083.77	$	0.00
B. Seized Assets Disbursed on behalf of Iraqi People		3,654,232.40		24,199,454.26
C. Increase (Decrease) in Amounts to be Transferred		(16,346,083.77)		50,000,000.00
D. Collections Used for Refunds and Other Payments		0.00		0.00
E. Retained by The Reporting Entity		0.00		0.00
F. Seized Assets Retained for Support of the Iraqi People		(3,654,232.40)		(24,198,754.26)
G. Total Disposition of Collections	$	0.00	$	50,000,700.00
3. NET CUSTODIAL COLLECTION ACTIVITY	$	0.00	$	0.00

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of the Army, as required by the Chief Financial Officers Act of 1990 (CFO Act), expanded by the Government Management Reform Act of 1994 (GMRA), and other appropriate legislation. The financial statements have been prepared from the books and records of the Army in accordance with the Department of Defense (DoD) Financial Management Regulation; Office of Management and Budget (OMB) Circular A-136 (formerly OMB Bulletin No. 01-09), *Financial Reporting Requirements*; and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which the Army is responsible. Under the above guidance, classified assets, programs, and operations have been excluded from the statements or aggregated and reported in such a manner that they are no longer classified. The Army financial statements are in addition to the financial reports prepared by the Army pursuant to OMB directives that are used to monitor and control the Army use of budgetary resources.

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

Fiscal Year (FY) 2006 is the sixteenth year that the Army has prepared financial statements required by the CFO Act, GMRA, and Federal Financial Management Improvement Act of 1996 (FFMIA), (P.L. 104-208). The purpose of the CFO Act was to bring more effective financial and operational management practices to the Federal government through statutory provisions; provide for improvement of accounting, systems, financial management, and internal controls; and provide for the production of complete, reliable, timely, and consistent financial information. GMRA extended the CFO Act to all activities of Executive Branch agencies. FFMIA expanded reporting requirements under the CFO Act. The reporting entities within the Army changed to facilitate these reporting requirements.

1.B. Mission of the Reporting Entity

The overall mission of the Army is to organize, train, equip, and support armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. It is no longer a world in which two hostile superpowers face each other. It is our nation's force of decision -- a full spectrum force -- trained and ready to respond to a wide range of crises, from fighting and winning major theater wars, to peacekeeping, humanitarian relief missions, and disaster relief in communities at home.

The primary mission of the Army remains constant: to fight and win the nation's wars. In an uncertain world, the Army performs a wide variety of other missions around the world and at home including deterring potential adversaries, reassuring and lending stability to allies, supporting our communities in times of emergency, preserving peace and security, supporting national policies, and implementing national objectives. During times of war, implementation of planned initiatives may be delayed as funding is redirected toward supporting the primary mission.

In addition to its military operations, the Army is frequently deployed both at home and abroad in response to natural disasters. Nationally, the Army provides substantial support to relief operations associated with storms, tornadoes, and hurricanes. The Army also provides support and relief assistance abroad. Whatever the mission, committing the Army commits the nation.

1.C. Appropriations and Funds

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

General funds are used for financial transactions arising under congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

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

Trust funds represent the receipt and expenditure 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 funds account for government receipts earmarked for a specific purpose.

Deposit funds are generally used to: (1) hold assets for which the Army is acting as an agent or custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

Earmarked Funds 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 it from general revenues.

1.D. Basis of Accounting

The Army generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2006, the Army financial management systems were unable to meet all of the requirements for full accrual accounting. Many of the Army financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. In addition, most of the Army financial management systems do not comply with the U.S. Government Standard General Ledger (USSGL) at the transaction level. The Army has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of Army accounting systems to record transactions based on the USSGL. Until such time as the Army systems and processes are updated to collect and report financial information as required by Federal GAAP, the Army financial data will be based on budgetary transactions, non-financial feeder system transactions, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. When possible, the financial statements are presented on the accrual accounting basis. One example of information presented on the budgetary basis is data on the Statement of Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

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

1.E. Revenues and Other Financing Sources

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Army recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

The Army does not include non-monetary support provided by U.S. Allies for common defense and mutual security in its list of other financing sources that appears in the Statement of Financing. The U.S. has agreements with foreign countries that include both direct or indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement or where U.S. troops are stationed. DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the financial statements in accordance with GAAP. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires recognition of operating expenses in the period incurred; however, the Army financial and nonfinancial feeder systems were not always 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, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in the Army operations until depreciated, in the case of Property, Plant and Equipment (PP&E), or consumed, in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in net position. Certain expenses, such as civilian annual leave and military leave earned but not taken, are financed in the period in which payment is made.

The Army adjusted operating expenses as a result of the elimination of balances between DoD components. See Note 18, Disclosures Related to the Statement of Net Cost for further information.

1.G. Accounting for Intragovernmental Activities

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

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

Financing for the construction of Army facilities is obtained through budget appropriations. To the extent this financing was obtained through issuance of public debt, interest costs were not capitalized since the Department of the Treasury does not allocate these interest costs to the benefiting agencies.

The Army civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under social security. The Army funds a portion of the civilian and military pensions. Reporting civilian pensions under CSRS and FERS is the responsibility of the Office of Personnel Management (OPM). The Army recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

Assets, funded actuarial liability, and unfunded actuarial liability for military personnel are reported in the Military Retirement Fund (MRF) financial statements. The actuarial liability for military retirement health benefits is recognized in the Other Defense Organization General Fund column of DoD Agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within the Army must be eliminated; however, the Army, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the Army. For FYs 1999 and beyond, seller entities within the DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DOD intragovernmental balances were then eliminated.

The Army accounting systems do not capture trading partner information at the transaction level. Therefore, current systems cannot produce data necessary for reconciliations between buyers and sellers, nor eliminate all intragovernmental transactions between trading partners. As a result, the Army balances are compared to seller-side data summarized at the component trial balance level. Based on these comparisons, the amount of intragovernmental transactions on the buyer-side is forced to agree with seller-side information.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Army and other federal agencies. In September 2000, FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Army was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The Army, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," issued October 2002, for reconciling intragovernmental transactions. These transactions pertain to investments in Federal securities, borrowings from the United States Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Army components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the Army 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. Customers may be required to make payments in advance.

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

The Army financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the US Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

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

1.J. Foreign Currency

The Army 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 (operation and maintenance, military personnel, military construction, family housing operation 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. These currency fluctuations are not separately identified.

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. The Army bases the allowances for uncollectible accounts that are due from the public upon analysis of collection experience by fund type. The Army does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other Federal agencies are to be resolved between the agencies. See Note 5, Accounts Receivable, for material disclosures.

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

Inventories are reported at approximate historical cost using Latest Acquisition Cost (LAC) adjusted for holding gains and losses.

The Army uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain historical cost data necessary to comply with SFFAS No. 3, *Accounting for Inventory and Related Property*. They are also unable to directly produce financial transactions using the USSGL, as required by FFMIA of 1996 (P.L. 104-208). DoD is transitioning to a Moving Average Cost methodology for valuing inventory that, when fully implemented, will allow the Army to comply with SFFAS No. 3.

SFFAS No. 3 distinguishes between inventory held for sale and inventory held in reserve for future sale. There is no difference in how these accounts are managed or valued. Normally, the Army manages only military or government-specific material. The Army does not manage items commonly used in and available from the commercial sector. In addition, operational cycles are irregular, and the military risks associated with stock-out positions have no commercial equivalent. The Army holds material based on military need and support for contingencies. Therefore, the Army does not attempt to account separately for items held for current or future sale.

Related property includes OM&S and stockpile materials. OM&S, including munitions not held for sale, are valued at standard purchase price. For the most part, the Army uses the consumption method of accounting for OM&S by expensing material when issued to the end user. Where current systems cannot fully support the consumption method, the Army uses the purchase method - that is, items are expensed when purchased. The Army reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

The Army accounts for condemned material as excess, obsolete, and unserviceable. The net value of condemned material is zero because disposal costs are greater than potential scrap value.

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

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

The Army reports investments in Treasury securities at cost, net of unamortized 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 intends to hold investments until maturity, unless needed to finance claims or otherwise sustain operations. Consequently, the Army does not make provisions for unrealized gains or losses on these securities. Material disclosures related to investments in treasury securities are provided in Note 4, Investments and Related Interest.

1.O. General Property, Plant and Equipment

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 when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Military Equipment

The Statement of Federal Financial Accounting Standards (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, and weapons) in Federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The Army uses data from the Bureau of Economic Analysis (BEA) to calculate a value for military equipment. The DoD is completing a project to value military equipment in accordance with generally accepted accounting principles and will discontinue the use of BEA information and report military equipment in accordance with the foregoing principles as of September 2006.

Effective October 1, 2002, SFFAS No. 23, revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). This standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

Contractor Provided

When it is in the best interest of the government, the Army provides government property to contractors that is necessary to complete their contract work. Such property is either owned or leased by the Army, or 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, such PP&E is required to be included in the value of General PP&E reported on the Army Balance Sheet.

DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Army reports only the portion of government property in the possession of contractors that is maintained in the Army property systems.

To bring the Army into fuller compliance with federal accounting standards, the DoD has issued new property accountability and reporting regulations that require the DoD 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.

Material disclosures related to General PP&E are provided in Note 10, General PP&E, Net.

1.P. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

1.Q. Leases

Generally, lease payments are for the rental of operating facilities and 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 records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The Army 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 value. The Army deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. In addition, the Army classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

1.R. Other Assets

The Army 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 provides financing payments. One type of financing payment that the Army makes, for real property, is based upon a percentage of completion. In accordance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities,* such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

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

1.S. Contingencies and Other Liabilities

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

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

Other liabilities arise as a result of anticipated disposal costs for the Army assets. This type of liability has two components -- nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, *Accounting for Property, Plant, and Equipment.* Based upon the Army policies, which are consistent with

SFFAS No. 5, *Accounting for Liabilities of Federal Government,* a nonenvironmental disposal liability is recognized for an asset when management decides to dispose of the asset.

The Army, by means of the Armament Retooling and Manufacturing Support (ARMS) Initiative legislation, has been authorized to establish a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities and the Army recognizes the loan guarantee liability. The Army is authorized by Public Law 103-337, the National Defense Authorization Act for Fiscal Year 1995, to enter into this agreement with the U.S. Department of Agriculture Rural Business-Cooperative Service (RBS).

For material disclosures, see:

Notes 8, Direct Loan and/or Loan Guarantee Programs.
Note 14, Environmental Liabilities and Disposal Liabilities.
Note 15, Other Liabilities.

1.T. Accrued Leave

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

1.U. Net Position

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

Cumulative results of operations represents the difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by DoD. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY 2006. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between FY 2005 and FY 2006, are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The Army 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/services not yet delivered.

1.Y. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. 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 Department of Defense policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. The Army uses specific identification to categorize supported undistributed collections as federal or nonfederal accounts receivable. The Army allocates all undistributed disbursements based on a comparison of accounts payable to the accounts receivable of federal entities providing goods and services to the Army. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections should be recorded in other liabilities; however, all Army undistributed collections are supported.

1.Z. Development Fund for Iraq

On June 28, 2004, transfer of power from the Coalition Provisional Authority (CPA) to the Interim Iraqi Government (IIG) occurred. Prior to the transfer, the CPA was responsible for the management and accounting of the Development Fund for Iraq (DFI). Ongoing resolution of issues surrounding transfers of approximately $1.7 billion of DFI assets, including $86.0 million transferred from IIG to the Multi-National Force-Iraq in August 2004, will require additional disclosure in future financial statements. The Army has established a plan to reconcile and account for these amounts and record DFI funds received. As of the 1st Quarter, FY 2006, the Army has reconciled the $86.0 million transferred from IIG. The Army has recorded a total of $136.0 million in DFI assets, which includes the $86.0 million reconciled and a $50.0 million transfer in 2nd Quarter, FY 2005. See Note 22 for additional discussion on DFI.

Note 2. Nonentity Assets

As of December 31	2006	2005
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 286,071,853.52	$ 731,839,821.22
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	0.00
D. Other Assets	0.00	0.00
E. Total Intragovernmental Assets	$ 286,071,853.52	$ 731,839,821.22
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 1,327,243,671.01	$ 1,363,613,735.52
B. Accounts Receivable	57,406,087.74	77,204,620.63
C. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	0.00	0.00
H. Total Nonfederal Assets	$ 1,384,649,758.75	$ 1,440,818,356.15
3. Total Nonentity Assets	$ 1,670,721,612.27	$ 2,172,658,177.37
4. Total Entity Assets	$ 259,929,682,812.44	$ 312,385,798,871.41
5. Total Assets	$ 261,600,404,424.71	$ 314,558,457,048.78

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

Fluctuations:

Nonentity Fund Balance with Treasury decreased $445.8 million or 61 percent primarily due to the reclassification of Suspense Accounts from Nonentity to Entity assets, $401.5 million in FY 2005. The Army also disbursed $44.5 million of Iraqi seized funds for support of the Iraqi people from 1st Quarter, FY 2005 to 1st Quarter, FY 2006.

Nonfederal Accounts Receivable decreased $19.8 million or 26 percent, which represents receivables on appropriations that closed. The decrease is due to management initiatives and emphasis in identifying valid accounts receivable and taking the appropriate corrective action to collect these receivables.

Other Disclosures:

Intragovernmental Assets

Nonentity Fund Balance With Treasury of $286.0 million is comprised of Iraqi Custodial Fund for $57.7 million, Development Fund for Iraq for $37.0 million, and deposit funds for $191.3 million. The Iraqi Custodial Fund represents Iraqi cash seized by coalition forces during Operation Iraqi Freedom. The Development Fund for Iraq contains funds transferred from the Interim Iraqi Government to the Multi-National Force-Iraq. These funds are used to support the Iraqi people. The deposit funds primarily represent various deposits and Thrift Savings Plan balances.

Non-Federal Assets

Nonentity Cash and Other Monetary Assets consist of cash held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. Foreign currency is valued using the Department of Treasury Prevailing Rate of Exchange.

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

Note 3. Fund Balance with Treasury

As of December 31	2006	2005
1. Fund Balances		
A. Appropriated Funds	$ 93,363,798,002.31	$ 145,743,229,203.57
B. Revolving Funds	45,270,000.87	43,935,789.29
C. Trust Funds	863,195.21	1,022,926.65
D. Special Funds	42,740,788.41	0.00
E. Other Fund Types	286,071,853.52	11,321,576,867.54
F. Total Fund Balances	$ 93,738,743,840.32	$ 157,109,764,787.05
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 54,487,483,611.42	$ 157,109,764,787.05
B. Fund Balance per Army	93,738,743,840.32	157,109,764,787.05
3. Reconciling Amount	$ (39,251,260,228.90)	$ 0.00

The Fund Balance represents the amount of available funding to be utilized for executing the Army mission. The Fund Balance is reconciled to the Treasury Trial Balance. During December 2005, Army made a net adjustment of $116.2 million for unsupported undistributed disbursements and collections to bring the Fund Balance reported by Army into agreement with Treasury.

Army reports an additional $39.3 billion in Fund Balance than reported by the Treasury primarily due to the reporting of $39.3 billion in Continuing Resolution funds. Continuing resolutions are joint resolutions (passed by the House and the Senate and signed by the President) that provide continuing appropriations for a fiscal year (FY) when Congress has not yet passed one or more appropriations bills for the FY or when the President has vetoed congressionally passed appropriations bills. Lacking appropriations, most programs can not incur new obligations.

Fluctuations and/or Abnormalities

Appropriated Funds decreased $52.4 billion or 36 percent due to the lack of apportioned funds from the Continuing Resolution Authority. The Army is currently under the Continuing Resolution Authority until December 31, 2005. During this authority, the Army only reflects the 1st Quarter's appropriated funds in the Fund Balance with Treasury rather than the full year's warranted funds as shown in FY 2005.

Trust Funds decreased $159.7 thousand or 16 percent primarily due to a $158.8 thousand dollar decrease in investments in the Army General Gift Fund.

Special Funds increased $42.7 million or 100 percent due to a 3rd Quarter, FY 2005 DoD policy to report special funds separately. In 1st Quarter FY 2005, the balance was reflected in Other Fund Types.

Other Fund Types decreased $11.0 billion or 97 percent due to a 3rd Quarter, FY 2005 Office of the Secretary of Defense requirement to report the Iraqi Relief and Reconstruction Fund material child transfer from the Executive Office of the President as Appropriated Funds. In 1st Quarter FY 2005, the fund reported $10.6 billion.

Intragovernmental Payment and Collection (IPAC)

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

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

Check Issue Discrepancy

For December 2005, the Army 2100 Comparison of Checks Issued Report received from Treasury includes the following (in thousands):

DFAS	**0-60 DAYS**	**61-180 DAYS**	**> 180 DAYS**	**TOTAL**
Indianapolis	$63,436	($26,578)	$0	$36,858
Columbus (Army DSSNs)*	$9,502	($345)	$0	$9,157
Columbus (Transp Pay)	$809	$0	$0	$809
Columbus (Def Agencies)	$33,437	$0	$0	$33,437
TOTAL (2100 ARMY)	**$107,184**	**($26,923)**	**$0**	**$80,261**

*DSSN is Disbursing Station Symbol Number

Check issue differences in the 0-60 days category are considered timing differences due to in-transit time between reporting check issues by the field and processing into the Treasury Check Payments and Reconciliation System.

The differences in the 0-60 days and the 61-180 days are expected to clear by January 2006.

Deposit Differences

The deposit differences are reconcilable differences reported by the Treasury or the Army. The Army has $7.9 million in deposit differences greater than 180 days old as of December 2005. The primary cause for this increase is non-timely processing of documents by U.S. Army Forces Central Command disbursing station in Kuwait. These are being researched and should be corrected by January 2006.

Vested Iraqi Cash

The Army has collected $1.7 billion of Vested Iraqi Cash. 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. The Army has disbursed $1.7 billion in support of the Iraqi people as follows:

(Amounts in thousands)	Amount
Collected	$ 1,724,131
Disbursed	
Iraqi Salaries	$ 1,184,791
Repair/Reconstruction/Humanitarian Assistance	147,827
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	356,818
Total Disbursed	$ 1,689,436
Remaining Funds	$ 34,695

Other Fund Types

The $286.1 million in Other Fund Types consists of $191.4 million in deposit funds, $57.7 million in Seized Iraqi Cash, and $37.0 million in Development Fund for Iraq. 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. Further explanation on the Seized Iraqi Cash and Development Fund for Iraq is disclosed in Note 22.

Condition One

Condition One errors reflect appropriation accounts that have negative closing balances. All FY 2006 appropriations reflect a negative balance due to the fact warrants were not received while Army is operating under a Continuing Resolution Authority. Warrants are anticipated to be received in January 2006. In addition, the following non FY 2006 appropriations have a negative balance:

Appropriation (Amounts in thousands)	**Closing balance**
Military Personnel, Active Army FY 2004/2005	($1.4)
Military Construction, Active Army Non-Expiring	($63.9)
Advances Without Orders from Non-Federal Sources Non-Expiring	($1,755.2)

The $1.4 thousand in negative closing balance to the 2004/2005 Military Personnel, Active Army Appropriation was caused by a State Department charge to a multi-year instead of an annual year appropriation. A Journal Voucher will be prepared in January 2006 to move this erroneous charge to the annual appropriation at Treasury. Military Construction, Active Army Non-Expiring account's negative closing balance of $63.9 thousand was caused by a charge from the State Department. The entity that submitted this charge is being contacted to see if this is the correct appropriation for the charge. The $1.8 million in negative closing balance in Advances Without Orders from Non-Federal Sources Non-Expiring account is caused by timing differences in processing collections.

Note Reference

See Note 1.I., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

For additional line item discussion, see:
Note 2, Nonentity Assets
Note 20, Disclosures Related to the Statement of Budgetary Resources
Note 22, Disclosures Related to the Statement of Custodial Activity

Status of Fund Balance with Treasury

As of December 31		2006		2005
1. Unobligated Balance				
A. Available	$	26,983,338,304.71	$	87,599,629,263.29
B. Unavailable		2,107,727,969.21		2,406,391,708.98
2. Obligated Balance not yet Disbursed	$	75,714,124,660.32	$	55,820,717,930.58
3. Non-Budgetary FBWT	$	6,791,185,251.48	$	0.00
4. Non-FBWT Budgetary Accounts	$	(17,857,585,823.44)	$	0.00
5. Total	$	93,738,790,362.28	$	145,826,738,902.85

Definitions

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

Non-FBWT Budgetary Accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority, spending authority, and investment accounts.

Fluctuations and/or Abnormalities

Unobligated Balance – Available decreased $60.6 billion or 69 percent. This decrease was caused in part by the $52.4 billion decrease in Appropriated Funds under the Continuing Resolution Authority.

Unobligated Balance - Unavailable decreased $298.7 million or 12 percent primarily due to the decrease in allotments of expired authority in the Military Personnel appropriations.

Obligated Balance not yet Disbursed increased $19.9 billion or 36 percent. This increase was primarily triggered by the breakout of Non-FBWT Budgetary Accounts into a separate line item in FY 2005. The Non-FBWT Budgetary Accounts were included as Obligated Balance not yet Disbursed.

Non-Budgetary FBWT represents $6.0 billion in Iraqi Relief and Reconstruction Fund which is a material child transfer from the Executive Office of the President, $191.3 million in deposit funds, $57.7 million in Seized Iraqi Cash, $37.0 million in Development Fund for Iraq, and $549.6 million in suspense accounts. The change in policy to classify Non-Budgetary FBWT in this schedule took place in 4th Quarter FY 2005, consequently causing a $6.8 billion increase.

Non-FBWT Budgetary Accounts represents $17.9 billion in reimbursable authority in support of logistical activities and land force readiness support for Army Procurement and Operations and Maintenance. The change in policy to classify Non–FBWT Budgetary Accounts in this schedule took place in 4th Quarter 2005, consequently causing a $17.9 billion decrease.

Disclosures Related to Suspense/Budget Clearing Accounts

As of December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
F3875	$ 345,843,886.96	$ 480,653,707.62	$ 536,994,027.01	$ 56,340,319.39
F3880	(1,800,048.88)	14,133,445.70	8,094,372.42	(6,039,073.28)
F3882	(682,155.59)	7,545.85	25,360,929.22	25,353,383.37
F3885	(41,580,385.86)	(101,715,414.21)	(30,885,006.26)	70,830,407.95
F3886	208,238.33	7,453,515.76	8,855,089.64	1,401,573.88
Total	$ 301,989,534.96	$ 400,532,800.72	$ 548,419,412.03	$ 147,886,611.31

Suspense accounts are used to record collections that are held in suspense temporarily to be later refunded or paid into some other budget account of the government; held by the Government as banker or agent for others, to be paid out at the direction of the owner; or used for unidentified remittances presumed to be applicable to budget accounts in general but which are required to be held in suspense because the specific account to be credited is not yet known. Due to the nature of these accounts, negative amounts shown above do not indicate abnormal balances, but a preponderance of disbursements over collections.

The Army established policies and procedures to ensure accurate and consistent use of Suspense and Budget Clearing accounts. Suspense reconciliations have been reported as a material weakness since 1997 to 2005. In FY 2006, these balances are no longer a material weakness.

In FY 2004, Army implemented Public Law 107-314, to write-off $181 million net and $34 billion absolute from the unsupported suspense balances.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of December 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDS)	$ 252,519,000.00	$ 152,663,948.82	$ 237,052,184.38	$ 84,388,235.56
B. Negative Unliquidated Obligations (NULO)	88,889,000.00	60,287,430.50	75,491,877.83	15,204,447.33
2. Total In-transit Disbursements, Net	$ 1,879,419,000.00	$ 2,215,933,060.64	$ 2,075,928,290.96	$ (140,004,769.68)

Definitions

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

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

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

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

Aged UMDs and NULOs

The Army absolute value UMDs, NULOs, and $72.4 million in aged in-transit disbursements represent problem disbursements. UMDs and NULOs are considered to be problem disbursements immediately, while in-transits are considered normal business activity up to the 30-day aging category. After 30 days, they are considered as problem disbursements. Fluctuations in the schedule represent normal activity for UMDs and NULOs based on the inflow of undistributed disbursements received for processing.

Note 4. Investments and Related Interest

As of December 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	$ 3,453,025.00	Effective Interest	$ (44,259.20)	$ 3,408,765.80	$ 3,402,386.17
B. Accrued Interest	17,712.17			17,712.17	17,712.17
C. Total Intragovernmental Securities	$ 3,470,737.17		$ (44,259.20)	$ 3,426,477.97	$ 3,420,098.34
2. Other Investments					
A. Total Investments	$ 0.00		$ 0.00	$ 0.00	N/A

As of December 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	$ 3,276,025.00	Effective Interest	$ (15,987.70)	$ 3,260,037.30	$ 3,256,297.60
B. Accrued Interest	8,801.51			8,801.51	8,801.51
C. Total Intragovernmental Securities	$ 3,284,826.51		$ (15,987.70)	$ 3,268,838.81	$ 3,265,099.11
4. Other Investments					
A. Total Investments	$ 0.00		$ 0.00	$ 0.00	N/A

Relevant Information for Comprehension

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

Note Reference

See Note 1.N., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing investments in U.S. Treasury securities.

Note 5.	Accounts Receivable

As of December 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 527,059,473.65	N/A	$ 527,059,473.65	$ 484,219,288.32
2. Nonfederal Receivables (From the Public)	$ 746,722,442.22	$ (95,175,545.53)	$ 651,546,896.69	$ 513,747,021.43
3. Total Accounts Receivable	$ 1,273,781,915.87	$ (95,175,545.53)	$ 1,178,606,370.34	$ 997,966,309.75

Allowance Method

The method to estimate Allowance for Loss on Accounts Receivable was changed from percentage of actual write-offs to percentage of aged receivables by category. The allowance is calculated by using 50 percent of aged receivables in the 180-day to 2-year category and 100 percent of aged receivables in the greater than 2-year category. The aged categories are taken from the 3rd Quarter FY 2005 Quarterly Accounts Receivable Report. The Allowance for Loss on Accounts Receivable will be re-estimated annually in compliance with standards.

Fluctuations and/or Abnormalities

Net Non-Federal Receivables (from the Public) increased $137.8 million or 27 percent from 1st Quarter FY 2005 to 1st Quarter FY 2006. The majority of increases were seen in Out-of-Service debts increased $14.9 million, debts from Foreign Governments increased $68.1 million and from Non-Appropriated Funds Instrumentalities increased $22.8 million. The Allowance for Loss on Accounts Receivables decreased $41.4 million, resulting in an increase in the Net Non-Federal Receivables. The majority of the Foreign Governments increase primarily pertains to one country under Multi-National Division Agreements not being paid by the foreign government, but by the Office of the Secretary of Defense (Comptroller). Payment is dependent on the receipt of the Office of Secretary of Defense budget supplement and is expected during FY 2006. There is continuous effort to monitor receivables and ensure proper recording of collections resulting in the reduction of Non-Federal Receivables.

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

(Amounts in thousands)

Type of Debt	Amount
Contractor Debt	$102,752
Individual (Out-of-Service)	186,885
Military Pay (In-Service)	100,923
Civilian Pay (In-Service)	32,702
Sales of Goods & Services	23,891
Interest	35,494
Foreign Military Sales	9,470
Foreign Governments	195,511
Non-Appropriated Funds Instrumentalities	30,284
Vendor Debt	2,674
Other	47,692
Subtotal	$768,278
Undistributed Collections Public	(21,555)
Gross Non-Federal Accounts Receivable (from the Public)	$ 746,723

Relevant Information for Comprehension

Allocation of Undistributed Collections

The Army reported $57.7 million of supported undistributed collections. The Army supported undistributed collections are reported as either Federal or public.

Elimination Adjustments

The Army General Fund accounting systems do not capture trading partner data at transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army is unable to reconcile Intragovernmental Accounts Receivable balances with its trading partners. The Army intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. These improvements will be implemented incrementally through planned fielding of a compliant financial management system for all Army activities.

Accounts Receivable Over 180 Days

The Army reported $301.8 million of Non-Federal Accounts Receivable (from the Public) and $851.0 thousand of Intragovernmental Accounts Receivable over 180 days. Over 50 percent of Non-Federal Accounts Receivable (from the Public) consisted of personnel and contractor debt. The Intragovernmental Accounts Receivable consisted of debt from reimbursable transactions within DoD.

Nondelinquent accounts receivable are receivables not yet due under the contract or billing documents pertaining to the receivable. Current nondelinquent accounts receivable are those that are due in the next 12 months. Noncurrent nondelinquent accounts receivable are those amounts that are due beyond the next 12 months. Delinquent accounts receivable shall be aged from the date the accounts is considered delinquent as outlined in the DoD Financial Management Regulations.

Accounts Receivables Groups (thousands)

Category	**Intragovernmental**	**Non-Federal**
Nondelinquent		
Current	$1,184,682	$ 332,071
Noncurrent	0	0
Delinquent		
1 to 30 days	16,892	34,103
31 to 60 days	285	11,479
61 to 90 days	48,489	11,902
91 to 180 days	21,738	76,890
181 days to 1 year	570	90,194
Greater than 1 year and less then or equal to 2 years	211	96,319
Greater than 2 years and less than or equal to 6 years	70	40,186
Greater than 6 years and less than 10 years	0	67,601
Greater than 10 years	0	7,532
Total	$ 1,272,937	$ 768,278
Less Eliminations & Undistributed	745,878	21,555
Total Gross Amount Due	$ 527,059	$ 746,722

The aged accounts receivable schedule above does not include undistributed collections or eliminate any receivables within the Army. The primary difference is due to eliminations of $710 million.

The Intragovernmental Receivables for each delinquent age category are disputed bills which total $66.4 million. Additional research is being done to resolve the $23.7 million in other Intragovernmental Receivables.

The delinquent age categories less than 91 days for Non-Federal Accounts Receivable have been identified as due process and working with the debtor to set up a payment schedule. Age categories 91 and greater are receivables that need to be transferred to different centralized collection agencies.

Non-Federal Refunds Receivable

Refunds Receivable are presented in the table below. The majority of the amounts reported for Public Refunds Receivable primarily originated from amounts owed by Army military service members collectible to the Army personnel appropriations and cancelled accounts receivables. The amounts owed by Army military service members total $133.1 million and cancelled accounts receivables total $134.4 million

(Amounts in thousands)

FY 2006 Non-Federal Refunds Receivable	FY 2006 Non-Federal Accounts Receivable (Net)	Percent of Net Amount

$359,378	$651,547	55%

Note Reference

See Note 1.K., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing accounts receivable.

Note 6. Other Assets

As of December 31	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 783,755,497.60	$ 594,246,089.27
B. Total Intragovernmental Other Assets	$ 783,755,497.60	$ 594,246,089.27
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 3,617,686,808.55	$ 2,957,771,011.19
B. Other Assets (With the Public)	362,027,200.86	1,120,442,328.91
C. Total Nonfederal Other Assets	$ 3,979,714,009.41	$ 4,078,213,340.10
3. Total Other Assets	$ 4,763,469,507.01	$ 4,672,459,429.37

Relevant Information for Comprehension

The Army has reported outstanding financing payments for fixed price contracts as Other Assets. The Army becomes liable after the contractor delivers the goods in conformance with the contract terms of fixed price contracts. The Army is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Army the full amount of the outstanding contract financing payments if a satisfactory product is not delivered.

Fluctuation and/or Abnormalities

Intragovernmental Advances and Prepayments increased $189.5 million or 32 percent from 1st Quarter, FY 2005. Use of the Treasury's Intragovernmental Reconciliation Analysis System allowed Army to capture advances to others with agencies outside of DoD. The increase is primarily comprised of advances with the Department of Interior for $146.8 million, Office of Personnel and Management for $16.4 million, and National Aeronautics and Space Administration for $21.2 million due to a change in the estimation process. The advances with agencies outside of DoD are estimated based on the Intragovernmental Reconciliation Analysis System.

Outstanding Contract Financing Payments increased $659.9 million or 22 percent from 1st Quarter FY 2005. The majority of the increase occurred in the appropriations for Missile Procurement, Army of $185.8 million, Procurement of Weapons and Tracked Combat Vehicles, Army of $129.5 million, Other Procurement, Army of $301.8 million and Operation and Maintenance, Army $37.7 million.

The Other Assets (With the Public) which consist of Military Pay and Travel Advances decreased $758.4 million or 68 percent due to increased collection efforts.

(Amounts in thousands)

Other Assets (With the Public)	**FY 2006**	**FY 2005**
Advances to Others:		
Military Pay Advances	$ 227,264	$ 483,022
Travel Advances	134,763	637,420
Totals	$ 362,027	$ 1,120,442

Intragovernmental Eliminations

The buyer-side Advances and Prepayments balances were adjusted upward $872.8 million to agree with seller-side unearned revenue on the books for other DoD and non-DoD reporting entities. In addition, $88.9 million of intra-Army General Fund transactions were eliminated leaving a balance of $783.8 million.

Note Reference

See Note 1. R., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing other assets.

For regulatory discussion on other assets, see the *Department of Defense Financial Management Regulation*, Volume 6B, Chapter 10, paragraph 1008.

Note 7. Cash and Other Monetary Assets

As of December 31	2006	2005
1. Cash	$ 951,802,236.94	$ 1,068,087,751.72
2. Foreign Currency (non-purchased)	375,441,434.07	295,525,983.80
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,327,243,671.01	$ 1,363,613,735.52

Definitions

Cash – The total of cash resources under the control of the Army, 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 – Consists of the total U.S. dollar equivalent of purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account.

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

Fluctuations and/or Abnormalities

Cash decreased $116.3 million or 11 percent, primarily due to continued support of the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom. Foreign currency increased approximately $79.9 million or 27 percent, which includes currency to pay foreign vendors and cash in the custody of foreign agents primarily in support of the Army forward deployed tactical units.

Other Information Related to Cash and Other Monetary Assets

Cash and foreign currency reported consists primarily of cash held by disbursing officers to carry out their paying, collecting and foreign currency accommodation exchange mission. Foreign currency is valued using the Department of 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 cash and foreign currency is non-entity and is therefore restricted.

All foreign currency shown above is purchased foreign currency residing in Local Depository Accounts overseas. Due to limitations of the current format of line 2, Foreign Currency (non-purchased) is erroneously shown as non-purchased.

Note Reference

See Note 1.J., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing foreign currency.

Note 8. Direct Loan and/or Loan Guarantee Programs

As of December 31

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

Military Housing Privatization Initiative
Armament Retooling & Manufacturing Support Initiative

Armament Retooling and Manufacturing Support Initiative

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

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

Direct Loans Obligated After FY 1991

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

Not applicable.

Total Amount of Direct Loans Disbursed

As of December 31	2006	2005
Direct Loan Programs		
Military Housing Privatization Initiative	$ 0.00	$ 0.00
Total	$ 0.00	$ 0.00

Not applicable.

Subsidy Expense for Post-1991 Direct Loans

As of December 31

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2005	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

	2006	2005
5. Total Direct Loan Subsidy Expense:		
Military Housing Privatization Initiative	$ 0.00	$ 0.00

Not applicable.

Subsidy Rate for Direct Loans

As of December 31	Interest Differential	Defaults	Fees	Other	Total
Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not applicable.

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

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

Not applicable.

Defaulted Guaranteed Loans from Post-1991 Guarantees

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

Not applicable.

Guaranteed Loans Outstanding

As of December 31	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 26,996,345.89	$ 24,196,460.20
3. Total	$ 26,996,345.89	$ 24,196,460.20
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 739,852.83	$ 692,822.09
3. Total	$ 739,852.83	$ 692,822.09
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 0.00	$ 0.00
3. Total	$ 0.00	$ 0.00

The guaranteed loans disbursed of $740 thousand and the amount of principal guaranteed of $693 thousand are due to an FY 2005 loan closing and disbursement of an FY 2004 loan obligation.

Liability for Post-1991 Loan Guarantees, Present Value

As of December 31	2006	2005
Loan Guarantee Program		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	12,393,845.32	12,352,470.32
3. Total	$ 12,393,845.32	$ 12,352,470.32

Subsidy Expense for Post-1991 Loan Guarantees

As of December 31

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

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

2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

There is no subsidy expense in FY 2006.

Subsidy Rate for Loan Guarantees

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantees:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	3.75%	-1.79%	0.00%	1.96%

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

As of December 31	2006	2005
1. Beginning Balance of the Loan Guarantee Liability	$ 12,393,845.32	$ 12,292,970.32
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	$ 0.00	$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	$ 0.00	$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	$ 0.00	$ 0.00
B. Fees Received	0.00	59,500.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	$ 0.00	$ 59,500.00
4. Ending Balance of the Loan Guarantee Liability before Re-estimates	$ 12,393,845.32	$ 12,352,470.32
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	0.00	0.00
B. Technical/default Re-estimate	0.00	0.00
C. Total of the above Re-estimate Components	$ 0.00	$ 0.00
6. Ending Balance of the Loan Guarantee Liability	$ 12,393,845.32	$ 12,352,470.32

In FY 2005, $59.5 thousand in guaranteed fees were received on the $12,352 in loan obligations that was not received in FY 2006.

Administrative Expense

As of December 31	2006	2005
1. Direct Loans		
Military Housing Privatization Initiative	$ 0.00	$ 0.00
Total	$ 0.00	$ 0.00
2. Loan Guarantees		
Military Housing Privatization Initiative	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	$ 0.00	$ 0.00

No administrative expenses were processed in FY 2006.

Note 9.	Inventory and Related Property

As of December 31		2006		2005
1. Inventory, Net	$	98,687,541.96	$	220,142,799.55
2. Operating Materials & Supplies, Net		37,932,766,255.08		37,224,819,062.37
3. Stockpile Materials, Net		0.00		0.00
4. Total	$	38,031,453,797.04	$	37,444,961,861.92

Inventory, Net

As of December 31

	2006			2005	
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valu-ation Metho
1. Inventory Categories					
A. Available and Purchased for Resale	$ 19,326,284.65	$ (10,167,558.62)	9,158,726.03	$ 28,919,972.47	LAC
B. Held for Repair	0.00	0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	2,416,478.00	(2,416,478.00)	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	
E. Work in Process	89,528,815.93	0.00	89,528,815.93	191,222,827.08	SP
F. Total	$ 111,271,578.58	$ (12,584,036.62)	98,687,541.96	$ 220,142,799.55	

Legend for Valuation Methods:

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

Restrictions of Inventory Use, Sale, or Disposition

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

a) Distributions without reimbursements made when authorized by DoD directives;
b) War Reserve Materiel includes fuels and subsistence items that are considered restricted; and
c) 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

General Composition of Inventory
Inventory is comprised of ammunition in the Conventional Ammunition Working Capital Fund (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. Government Standard General Ledger does not include a separate Work-in-Process account unrelated to sales.

Decision Criteria for Identifying the Category to Which Inventory is Assigned

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.

Fluctuations and/or Abnormalities

The CAWCF reports balances for Inventory Available and Purchased for Resale; Inventory Excess, Obsolete, and Unserviceable; and Inventory Work-in-Process. Inventory sales are primarily made to the Military Departments. The CAWCF Total Inventory, Net, showed an overall decrease of $121.5 million or 55 percent, in 1st Quarter FY 2006. The CAWCF Available and Purchased for Resale Inventory, Net showed a decrease of $19.8 million or 68 percent and Work in Process showed a decrease of $101.7 million or 53 percent. The decrease in Available and Purchased for Resale and Work in Process indicates no new orders and eventual close out of CAWCF.

A year-to-year decrease in CAWCF Inventory is expected as the program progresses toward its final closeout on September 30, 2007. Effective September 30, 1998, CAWCF officially stopped the acceptance of new orders for the procurement of Conventional Ammunitions. At this time, only undelivered customer orders remain to be shipped.

Note Reference

See Note 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing inventory and related property.

Operating Materials and Supplies, Net

As of December 31	2006			2005	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valu-ation Method
1. OM&S Categories					
A. Held for Use	$ 37,932,766,255.08	$ 0.00	$ 37,932,766,255.08	$ 37,224,819,062.37	LAC
B. Held for Repair	0.00	0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	1,328,553,612.71	(1,328,553,612.71)	0.00	0.00	SP
D. Total	$ 39,261,319,867.79	$ (1,328,553,612.71)	$ 37,932,766,255.08	$ 37,224,819,062.37	

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

Restrictions on Operating Materials and Supplies (OM&S)

The total tonnage of munitions stock, to include chemical stocks awaiting destruction for FY 2005 and out years, is 446,631 tons.

The Army reported $3.0 billion of OM&S Held for Future Use. This amount represents ammunition held under a host nation treaty agreement and is not intended for use by U.S. Forces. The ammunition is intended for use in defense of the host nation by the host nation.

General Composition of OM&S

OM&S includes spare and repair parts, ammunition, and tactical missiles.

Changes in the Criteria for Identifying the Category to which OM&S are Assigned

The category Held for Use includes all issuable material. Economically repairable material is categorized as held for repair.

Decision Criteria for Identifying the Category to which OM&S are Assigned

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.

Total Excess, Obsolete and Unserviceable

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

Government Furnished Material (GFM) and Contractor Acquired Material (CAM)

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

Note Reference

See Note 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing inventory and related property.

Stockpile Materials, Net

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

Legend for Valuation Methods:

LAC= Latest Acquisition Cost
SP= Standard Price
AC= Actual Cost
NRV = Net Realizable Value
O = Other

Note 10. General PP&E, Net

As of December 31	2006					2005
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	$ 475,030,668.83	N/A	$ 475,030,668.83	$ 465,021,180.98
B. Buildings, Structures, and Facilities	S/L	20 Or 40	43,364,185,927.39	$ (28,448,093,633.34)	14,916,092,294.05	15,497,619,723.04
C. Leasehold Improvements	S/L	lease term	13,129,246.00	(10,181,798.00)	2,947,448.00	2,138,509.00
D. Software	S/L	2-5 Or 10	529,730,982.04	(180,378,274.42)	349,352,707.62	291,053,631.39
E. General Equipment	S/L	5 or 10	3,312,946,791.97	(2,063,499,938.81)	1,249,446,853.16	895,986,300.95
F. Military Equipment	S/L	Various	409,890,000,000.00	(311,020,000,000.00)	98,870,000,000.00	90,290,000,000.00
G. Assets Under Capital Lease	S/L	lease term	166,616,689.13	(140,766,370.28)	25,850,318.85	33,900,057.95
H. Construction-in-Progress	N/A	N/A	6,649,298,395.51	N/A	6,649,298,395.51	5,471,467,124.05
I. Other			19,442,075.00	0.00	19,442,075.00	19,235,559.00
2. Total General PP&E			$ 464,420,380,775.87	$ (341,862,920,014.85)	$ 122,557,460,761.02	$ 112,966,422,086.36

[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

The Net Book Value (NBV) of Leasehold Improvements increased $808.9 thousand or 38 percent. The increase is attributed to more accurate reporting as a result of quality assurance/quality control reviews by the Army's Assistant Chief of Staff for Installation Management.

The Army reported an increase in Software NBV of $58.3 million or 20 percent. This increase is attributed to a continuing initiative to establish the baseline to report Internal Use Software. Internal Use Software identified and reported in FY 2006 includes Reserve Component Automation System, Joint Computer Aided Acquisition and Logistic Support, Transportation Information System Block I, Property Book Unit Supply Enhancement, and various other projects in development.

The Army reported an increase in Equipment NBV of $353.4 million or 39 percent. This increase is attributed to an Army initiative to establish capital asset visibility of Government Furnished Equipment at Government Owned Contractor Operated Army installations.

Assets Under Capital Lease decreased by $8.0 million or 24 percent due to straight-line amortization of leased assets.

Construction in Progress (CIP) increased $1.2 billion or 22 percent. Major components of the increase include: $448.0 million from Other Defense Organizations from the First Quarter, FY 2005 to the First Quarter, FY 2006 for safety upgrades and training facilities; $453.2 million in Installation Management Agency funded projects; $122.4 million net in U.S. Army Corps of Engineers projects which include the construction and repair of barracks, training facilities, utilities, and vehicle maintenance facilities; $14.7 million net of current transfers, completions, for Washington Headquarters Service, Services Medical Activity and Office of the Secretary of Defense upgrade projects.

Relevant Information for Comprehension

Other of $19.4 million represents projected value of forest product sales (timber reserve) and property recorded using the Defense Finance and Accounting Service Corporate Database (DCD) Interface Initiative. Fourth Quarter, FY 2005 marked the first time Army property system data was reported using the DCD Interface.

Military Equipment

In FY 2006, the Army reported military equipment with an acquisition value of $409.9 billion and accumulated depreciation of $311.0 billion for a NBV of $98.9 billion. In FY 2005, the Army reported military equipment with an acquisition value of $384.1 billion and accumulated depreciation of $293.8 billion for a NBV of $90.3 billion.

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards (SFFAS) No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, in May 2003. This standard, which is effective for accounting periods beginning after September 30, 2002, establishes generally accepted accounting principles (GAAP) for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The DoD determined that it is not practical at this time to accumulate the information necessary to value military equipment in accordance with GAAP from internal records. After assessing the available information, the DoD decided to use data provided by the Bureau of Economic Analysis (BEA), Department of Commerce to value military equipment for financial statement presentation purposes on an interim basis.

The BEA data consists of investment and net book value data for 84 groups of equipment such as aircraft, ships and combat vehicles. BEA uses DoD budget, expenditure, and delivery data to calculate the Army's annual investment in equipment, after recognizing any equipment transfers or war losses. The DoD adjusts BEA data to eliminate equipment items that are not accounted for as military equipment, such as spares, munitions, and inventory items, which are accounted for and reported as Inventory and Related Property.

The DoD is completing a project to value military equipment in accordance with GAAP and will discontinue the use of BEA information and report military equipment in accordance with the principles as of September 2006.

Heritage Assets and Stewardship Land

The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards (SFFAS) 29 "Heritage Assets and Stewardship Land" requires note disclosures for heritage assets and stewardship land. Army is committed to preserving and accounting for its heritage assets' historical, cultural, educational, or artistic importance. Additionally, Army has and maintains land not acquired in connection with General PP&E, land donated to the Federal Government, and land previously recorded as public domain. Army follows policy outlined in the DoD Financial Management Regulation governing predominant uses of stewardship land and heritage asset accountability. Major categories of heritage assets and stewardship land are listed below.

Heritage Assets

- Historical Buildings and Structures
- Museums
- Memorial/Monuments
- Cemeteries
- Major Collections
- Archeological Collections

Stewardship Land

- Mission
- Parks and Historic Sites

Note Reference

See Note 1.O., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing general property, plant and equipment.

Assets Under Capital Lease

As of December 31	2006	2005
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	0.00
C. Other	0.00	0.00
D. Accumulated Amortization	(140,766,370.28)	(132,170,506.50)
E. Total Capital Leases	$ 25,850,318.85	$ 33,900,057.95

Fluctuations and/or Abnormalities

Assets Under Capital Lease decreased by $8.0 million or 24 percent due to straight-line amortization of leased assets.

Relevant Information for Comprehension

The Army is the lessee in eight Section 801 Family Housing Leases for two on-post and six off-post housing facilities. These leases have between two and eight years remaining on their terms. The Eighth U.S. Army G3 Aviation is also the lessee in an equipment lease for a training simulator. This is a lease first reported in 3rd Quarter, FY 2005. As shown in Note 15, the liability is valued at $14 million for current and $29 million for non-current. The future executory and imputed interest costs, as shown in a combined form in Note 15 Capital Lease Liability section, are $10 million and $8 million, respectively. Future executory costs are estimates based on historical data. The imputed interest that was necessary to reduce the net minimum lease payments to the present value was calculated at the incremental borrowing rate at the inception of the leases.

Note Reference

See Note 1.Q., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing leases.

Note 11. Liabilities Not Covered by Budgetary Resources

As of December 31		2006		2005
1. Intragovernmental Liabilities				
A. Accounts Payable	$	0.00	$	0.00
B. Debt		0.00		0.00
C. Other		339,210,805.52		310,305,768.22
D. Total Intragovernmental Liabilities	$	339,210,805.52	$	310,305,768.22
2. Nonfederal Liabilities				
A. Accounts Payable	$	90,193,359.66	$	73,733,187.29
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities		1,663,649,828.85		1,632,842,810.96
C. Environmental Liabilities		36,562,674,000.00		36,613,227,000.00
D. Loan Guarantee Liability		0.00		0.00
E. Other Liabilities		4,480,459,553.60		4,936,162,188.62
F. Total Nonfederal Liabilities	$	42,796,976,742.11	$	43,255,965,186.87
3. Total Liabilities Not Covered by Budgetary Resources	$	43,136,187,547.63	$	43,566,270,955.09
4. Total Liabilities Covered by Budgetary Resources	$	19,581,654,632.73	$	19,309,294,920.00
5. Total Liabilities	$	62,717,842,180.36	$	62,875,565,875.09

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.

The schedule below identifies the Army Other Intragovernmental liabilities.

(Amounts in thousands)		**FY 2006**		**FY 2005**
Federal Employees' Compensation Act (FECA)	$	179,660	$	177,108
Unemployment Benefits		148,802		133,197
Cancelled Accounts Receivable		10,748		0
Total Intragovernmental- Other	$	339,210	$	310,305

Unemployment Benefits increased $15.6 million or 12 percent from 1st Quarter FY 2005.

The Cancelled Accounts Receivable increased $10.7 million or 100 percent due to improved reporting. In FY 2005, the Cancelled Accounts Receivable did not properly reflect a liability as required by the Treasury Financial Manual. The processes have been revised and in FY 2006 a liability is reflected for the Cancelled Accounts Receivable.

Nonfederal Liabilities

The Nonfederal Accounts Payables represents Cancelled Accounts Payable. The $16.5 million or 22 percent increase is primarily due to $14.4 million in Military Personnel FY 2000 unpaid obligations for Permanent Change of Station travel costs that were converted to Cancelled Accounts Payable in 4th Quarter FY 2005.

Other Employment-Related Actuarial Liabilities (FECA) increased $30.8 million or 2 percent and Environmental Liabilities decreased $50.6 million or less than 1 percent from FY 2005.

The schedule below identifies the Army Other Nonfederal liabilities.

(Amounts in thousands)	**FY 2006**	**FY 2005**
Annual Leave	$ 2,855,953	$ 2,743,277
Nonenvironmental – Disposal	1,318,443	1,284,207
Contingent Liabilities	194,036	739,410
Development Fund for Iraq	37,040	50,000
Iraqi Seized Cash	57,716	89,231
Capital Leases	17,272	30,037
Total Non-Federal- Other	$ 4,480,460	$ 4,936,162

Annual Leave increased $112.7 million or 4 percent and Nonenvironmental – Disposal had an increase of $34.2 million or 3 percent from 1st Quarter FY 2005.

Contingent Liabilities' decrease of $545.3 million or 74 percent is attributable primarily to a change in the reporting of Chemical Demilitarization. Based on analysis performed by Army, it was determined that these liabilities were more properly reported as environmental liabilities on Note 14 beginning in 3rd Quarter FY 2005.

The Development Fund for Iraq also decreased $12.9 million or 26 percent due to government control and assets being distributed to the Iraqi Interim Government.

Iraqi Seized Cash continues to be disbursed to the Iraqi people accounting for a decrease of $31.5 million or 35 percent.

Capital Leases decreased by $12.8 million or 42 percent as a result of annual amortization.

Note Reference

For additional line item discussion, see:

Note 1Z, Significant Accounting Policies, Development Fund for Iraq
Note 8, Direct Loan and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Debt
Note 14, Environmental Liabilities and Disposal Liabilities
Note 15, Other Liabilities
Note 16, Commitments and Contingencies
Note 17, Military Retirement Benefits and Other Employment Related, Actuarial Liabilities
Note 22, Disclosures Related to the Statement of Custodial Activity

Note 12. Accounts Payable

As of December 31	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	$ 1,937,783,223.26	$ N/A	$ 1,937,783,223.26	$ 2,058,227,198.48
2. Non-Federal Payables (to the Public)	10,006,555,960.15	20,654.48	10,006,576,614.63	9,834,950,709.46
3. Total	$ 11,944,339,183.41	$ 20,654.48	$ 11,944,359,837.89	$ 11,893,177,907.94

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not paid. Interest, penalties, and administrative fees are not applicable to intragovernmental payables. Non-Federal Accounts Payable (to the Public) are payables to entities other than the federal government.

Fluctuations and/or Abnormalities

Intragovernmental Accounts Payable with entities other than the Army General Fund decreased $120.4 million or 6 percent primarily from the Defense Logistics Agency use of the new Business Systems Modernization systems, which provides better trading partner data than previously reported information by the legacy systems.

Relevant Information for Comprehension

Intragovernmental Eliminations

The Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales; therefore, the Army was unable to reconcile intragovernmental accounts payable to the related intragovernmental account receivable that generated the payable.

The DoD summary level seller Accounts Receivables were compared to the Army Accounts Payable. An adjustment was posted to Accounts Payable based on the comparison with the Accounts Receivable of the DoD Components providing goods and services to the Army. Intragovernmental Accounts Payable was adjusted downward for $524.4 million while Non-Federal Accounts Payable was adjusted upward for the same amount. The Army intends to develop long-term systems improvements that will include sufficient upfront edits and controls to eliminate the need for after-the-fact reconciliations. In addition, $698.8 million of intra-Army General Fund transactions were eliminated leaving a balance of $1.9 billion.

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements recorded at the detail level in the field level accounting records versus those reported by the U.S. Department of Treasury.

Supported undistributed disbursements are allocated to Non-Federal Accounts Payable. As a result, Accounts Payable was adjusted downward approximately $2.4 billion in both FY 2005 and FY 2006. Unsupported undistributed disbursements are recorded as Disbursements in Transit and are reflected on the note.

Note Reference

See Note 1.G., Significant Accounting Policies, for additional discussion on financial reporting requirements and the DoD policies governing accounts payable.

Note 13. Debt

As of December 31	2006						2005	
	Beginning Balance		Net Borrowings		Ending Balance		Ending Balance	
1. Agency Debt								
A. Debt to the Treasury	$	0.00	$	0.00	$	0.00	$	0.00
B. Debt to the Federal Financing Bank		0.00		0.00		0.00		0.00
C. Total Agency Debt	$	0.00	$	0.00	$	0.00	$	0.00
2. Total Debt	$	0.00	$	0.00	$	0.00	$	0.00

Not applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

As of December 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	$ 384,331,000.00	$ 2,730,444,000.00	$ 3,114,775,000.00	$ 3,427,773,000.00
2. Active Installations--ER for Closed Ranges	12,056,000.00	5,167,895,000.00	5,179,951,000.00	5,498,795,000.00
3. Formerly Used Defense Sites (FUDS) -- ER	53,955,000.00	4,116,739,000.00	4,170,694,000.00	4,283,135,000.00
4. FUDS--ER for Transferred Ranges	38,735,000.00	14,514,844,000.00	14,553,579,000.00	13,946,019,000.00
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	17,299,000.00	362,305,000.00	379,604,000.00	259,034,000.00
2. Active Installations--Environmental Closure Requirements	2,759,000.00	94,088,000.00	96,847,000.00	51,215,000.00
3. Active Installations--Environ.Response at Active Ranges	6,491,000.00	297,596,000.00	304,087,000.00	267,632,000.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	59,962,000.00	463,481,000.00	523,443,000.00	597,347,000.00
2. BRAC Installations--ER for Transferring Ranges	20,549,000.00	613,544,000.00	634,093,000.00	480,122,000.00
3. BRAC Installations--Environmental Corrective Action	5,909,000.00	48,237,000.00	54,146,000.00	24,965,000.00
4. Other	188,426,000.00	0.00	188,426,000.00	178,781,000.00
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	2,218,244,000.00	8,153,501,000.00	10,371,745,000.00	10,425,352,000.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities:	$ 3,008,716,000.00	$ 36,562,674,000.00	$ 39,571,390,000.00	$ 39,440,170,000.00

Relevant Information for Comprehension

Environmental Liabilities

Army Accrued Environmental Restoration Costs (DERP funded): The Army 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 (USC)

2701. Related sections in Title 10 of the USC, 2701-2706 and 2810-2811 further define the program. The DERP is implemented in accordance with the DoD Directive 4715.1E, Environmental Security, March 2005; and DoD Instruction 4715.7, Environmental Restoration Program, April 22, 1996, and the Management Guidance for the Defense Environmental Restoration Program, September 28, 2001. Environmental liabilities for the Department of the Army DERP (Active Installations and Formerly Used Defense Sites (FUDS) are prepared in accordance with the Management Guidance for the Defense Environmental Restoration Program and the DoD Financial Management Regulation (FMR) 7000.14.

The estimated Army total environmental restoration cost for the current operating period is based on the amounts that will be expended within 12 months and amounts that will be expended more than 12 months from the Balance Sheet date. The amount that will be expended within 12 months from the Balance Sheet date is calculated based on the disbursement goals for the current appropriation and unliquidated obligations. The amount that will be expended more than 12 months from the Balance Sheet date is calculated based on the remaining disbursement goal amounts of the current appropriation and unliquidated obligations and the site-level estimate of the cost to complete all activities at a site within the Army DERP inventory. In accordance with DERP Management Guidance, the site-level estimates are point estimates (by site and by remediation phase) calculated using a validated cost-estimating model or an engineered cost and entered into a database. The estimates are reviewed annually and updated to incorporate changed assumptions and additional site-level information. At a minimum, estimates are updated annually to report the costs in constant dollars. The Army is presently researching methods to capture capital costs in remediating legacy waste. The Army expects to establish a methodology for accumulating capital expenditures related to environmental remediation in FY 2006.

The Army does not have unrecognized costs associated with general property, plant, and equipment under the DERP. The Army is constantly researching sites for possible issues that would result in liability recognition. Through the continued research, the Army recognizes a liability as discovered. Once identified, the costs are recognized and recorded, resulting in no unrecognized costs for the period.

There are no changes in the total estimated environmental restoration liability due to changes in laws and technology.

Environmental restoration liabilities are reported in constant dollars. There are no changes to the total environmental restoration liability cost due to inflation or deflation.

Army Other Accrued Environmental Costs (Non-DERP funds): The Army is required to cleanup contamination resulting from waste disposal practices, leaks, spills and other activity after 1986 from hazardous substances and wastes and after FY 2003 from UXO, discarded military munitions, and munitions constituents migrating from an operational range under the Army Compliance Cleanup Program. The Resource Conservation and Recovery Act (RCRA), as well as host nation requirements for overseas installations, require the Army to take corrective actions to clean up areas where there has been a release related to hazardous material/waste handling and/or storage activities. The Army is also required to close facilities with permits in accordance with environmental laws when operation of that facility ceases. The Army Compliance Cleanup Program addresses environmental requirements reported under RCRA Subtitle C, RCRA Subtitle D, and RCRA Subtitle I to characterize, investigate and cleanup active Army installations within the United States; and, for overseas installations, requirements in accordance with DoD policy as prescribed in DoDI 4715.8 (Environmental Remediation for DoD Activities Overseas). Environmental liabilities for the Department of the Army “Other Accrued Environmental Costs” are prepared in accordance with the draft Guidance for Recognizing, Measuring and Reporting Environmental Liabilities Not Eligible for Defense Environmental Restoration Program Funding (July 2005) and the DoD FMR 7000.14.

The liability estimates used for environmental corrective action and environmental response at active ranges for the current operating period is based on the amounts that will be expended within 12 months and will be expended more than 12 months from the Balance Sheet date. The amount that will be expended within 12 months from the Balance Sheet date is calculated based on the disbursement goals for the current appropriation. The Army is currently developing a reporting system to track total prior year unliquidated obligations for "Other Accrued Environmental Costs" and anticipates having this system in place during FY 2006. The amount that will be expended more than 12 months from the Balance Sheet date is calculated based on the remaining amounts of the current appropriation and site-level estimates of the cost to complete all activities at a site within the Army Compliance Cleanup Program inventory. The site-level estimates are point estimates (by site and by remediation phase) calculated using a validated cost-estimating model or an engineered cost and entered into a database. The estimates are reviewed annually and updated to incorporate changed assumptions and additional site-level information. At a minimum, estimates are updated annually to report the costs in constant dollars.

The liability estimates used for environmental closure requirements are under development. Closure requirements are prepared and submitted by Army installations on an as-needed basis and reported on the Army Financial Statements under Active Installations – Environmental Closure Requirements. These estimates are point estimates to close the facility in accordance with a closure plan and are entered into a database. The assigned current liability cost includes an estimation of expenditure based on the disbursement goals for the current year appropriation only. The Army is currently developing a reporting system to track total prior year unliquidated obligations for "Other Accrued Environmental Costs" and anticipates having this system in place during FY 2006.

The Army does not have unrecognized costs associated with general property, plant, and equipment under its Compliance Cleanup Program. The Army is constantly researching sites for possible issues that would result in liability recognition. Through the continued research, the Army recognizes a liability as they are identified. Once identified, the costs are recognized and recorded, resulting in no unrecognized costs for the period.

According to the Resource Conservation and Recovery Act (RCRA), the Army records an expense and liability for each asset placed in service during the year that would affect the environment. For each subsequent year, environmental costs are expensed to remain RCRA compliant. As a result, no amortization costs are recognized for assets placed in service in FY 2006.

There have been no changes in the law or technology that caused a material change in the "Other Accrued Environmental Costs" total estimated liability. There are varying material changes to all "Other Accrued Environmental Costs" due to implementation of corrective measures to attain an unqualified audit opinion on the environmental liability portion of the Army's Financial Statement. These corrective measures include identifying the universe of sites under each non-DERP category, estimating the liability for each site, and showing a reduction in liability as funds are spent to address the liability. The Army plans to implement all corrective measures for reporting "Other Accrued Environmental Costs" during FY 2006.

Liabilities for reporting "Other Accrued Environmental Costs" are reported in constant dollars. There were no changes to the total "Other Accrued Environmental Costs" liability cost due to inflation or deflation.

Army Base Realignment and Closure (BRAC): The BRAC program identifies environmental restoration costs in accordance with the DERP established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code (USC) 2701 and environmental costs in accordance with RCRA that require the Army to take corrective actions to clean up areas where there has been a release related to hazardous material/waste handling and/or storage activities. Environmental liabilities for the Department of the Army BRAC are prepared in accordance with the Management Guidance for the Defense Environmental Restoration Program, the draft Guidance for Recognizing, Measuring and Reporting Environmental Liabilities Not Eligible for Defense Environmental Restoration Program Funding (July 2005) and the DoD FMR 7000.14.

The estimated BRAC total environmental costs for the current operating period is based on the amount recorded as the current liability and the amount recorded as the non-current liability for the Balance Sheet date. The current liability is the amount that will be expended or obligated within 12 months from the Balance Sheet date. The non-current liability is the estimated amount to complete all activities at a site within the Army BRAC environmental inventory. The estimates are site-level point estimates (by site and by remediation phase) calculated using a validated cost-estimating model or an engineered cost and entered into a database. The estimates are reviewed annually and updated to incorporate changed assumptions and additional site-level information. At a minimum, estimates are updated annually to report the costs in constant dollars. The Army is presently researching methods to capture capital costs in remediating legacy waste. The Army expects to establish a methodology for accumulating capital expenditures related to environmental remediation in FY 2006.

The Army does not have unrecognized costs associated with general property, plant, and equipment under the BRAC program. The Army is constantly researching sites for possible issues that would result in liability recognition. Through the continued research, the Army recognizes a liability as discovered. Once identified, the costs are recognized and recorded, resulting in no unrecognized costs for the period.

There are no changes in the total estimated BRAC environmental liability due to changes in laws and technology. BRAC environmental liabilities are reported in constant dollars. There are no changes to the total BRAC environmental liability cost due to inflation or deflation.

Environmental Disposal Liabilities

Methodology Used to Estimate Environmental Liabilities

The Army uses estimates of expenditure of current appropriations, unliquidated obligations and annual estimates of cost-to-complete as the basis for the total environmental liability calculation for Army DERP, Other Accrued Environmental Costs and BRAC environmental.

Accrued Environmental Restoration (DERP Funded) Costs:

The Army identified $3.1 billion to characterize, investigate and cleanup 737 DERP eligible sites at active Army installations. The 737 sites include 302 sites undergoing investigation, 97 sites undergoing remediation and remedial action operations and long-term monitoring at 338 sites. The total liability at these sites may change materially in either direction as restoration activities are completed. The current liability number is based on disbursement goals for the FY 2006 allocation and unliquidated obligations (ULOs). The ULO data are pulled from reports provided by Defense Finance and Accounting Service (DFAS). Quarterly updates to the current liability numbers are based on changes to the ULOs reported in DFAS monthly reports. Non-current liabilities are based on the disbursement goals for FY 2006 allocation and ULOs and site-level cost-to-complete estimates from FY 2007 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, re-estimation based on different assumptions or lessons learned. For Active Installations, the cost-to-complete estimate for the DERP is collected in the Army Environmental Database – Restoration (AEDB-R) for all eligible sites.

The Army identified $4.2 billion to characterize, investigate and cleanup 1,660 DERP eligible sites at FUDS properties. The 1,660 sites include 219 sites undergoing investigation, 426 sites undergoing remediation and remedial action operations and long-term monitoring at 75 sites. The total liability at these sites may change materially in either direction as restoration activities are completed. The current liability number is based on disbursement goals for the FY 2006 allocation and ULOs. The ULO data are obtained from the Corps of

Engineers Financial Management System (CEFMS), which feeds the DFAS monthly reports. Quarterly updates to the current liability numbers are based on changes to the unliquidated obligations recorded in CEFMS. Non-current liabilities are based on the disbursement goals for the FY 2007 allocation and ULOs and site-level cost-to-complete estimates from FY 2007 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, re-estimation based on different assumptions or lessons learned. For FUDS properties, the cost-to-complete estimate for the DERP is collected in the FUDS Management Information System (FUDMIS).

<u>Active Installations – Environmental Restoration (ER) for Closed Ranges</u>

An inventory of closed ranges on active Army installations has been completed and the Army identified $5.2 billion to characterize, investigate and cleanup 194 sites at closed ranges. Closed ranges have been taken out of service as a range and put to new use (incompatible with range activities), or are not considered by the Military Departments to be a potential range area. A closed range is still under the control of a DoD Component. The 194 sites include 192 sites undergoing investigation, one site undergoing remediation and remedial action operations and long-term maintenance at 1 site. The current and non-current liability numbers for environmental restoration at closed ranges is based on the same methodology used for environmental restoration at active Army installations. The total liability at these sites may change materially in either direction as restoration activities are completed.

<u>FUDS – Environmental Restoration for Transferred Ranges</u>

An inventory of transferred ranges on FUDS properties has been completed and the Army identified $14.6 billion to characterize, investigate and cleanup 1,186 sites at transferred ranges. Transferred ranges are properties formerly used as a military range that are no longer under military control and have been leased by DoD, transferred, or returned from the DoD to another entity, including federal entities. Status of the 1,186 sites on transferred ranges is 37 are currently in the investigation phase, 62 are in remedial action phase and 20 are in remedial action operations/long term maintenance. The current and non-current liability numbers for environmental restoration at transferred ranges is based on the same methodology used for environmental restoration at FUDS properties. The total liability at these sites may change materially in either direction as restoration activities are completed.

<u>Other Accrued Environmental Costs (Non-DERP Funds)</u>

<u>Active Installations – Environmental Corrective Action</u>

The Army identified $379.6 million to conduct environmental corrective action at 781 sites at active Army installations under the Army Compliance Cleanup Program. The 781 sites include 344 sites undergoing investigation, 246 sites undergoing remediation and remedial action operations and long-term management at 191 sites. The total liability at these sites may change materially in either direction as corrective action activities are completed. The current liability number is based on the disbursement goal for costs required for FY 2006 (22 percent). Currently ULO data is not available for environmental corrective action under the Army Compliance Cleanup Program. The Army anticipates that ULO data will be available from the DFAS beginning in FY 2006. Quarterly updates to the current liability numbers will be based on changes to the ULOs reported in DFAS monthly reports. The non-current liability reflects 78 percent of the total estimated environmental corrective action costs for FY 2006 and site-level cost-to-complete estimates from FY 2007 through program completion. Site-level cost-to-complete estimates are developed by the installation using the standard cost estimating program, the Remedial Action Cost Engineering and Requirements (RACER). Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, or re-estimation based on different assumptions and lessons learned. For Active Installations, the cost-to-complete estimate for the corrective actions under the Compliance Cleanup Program is collected in the Army Environmental Database – Compliance Cleanup (AEDB-CC) for all eligible sites. Installations previously reported corrective action requirements in the Environmental Program Requirements (EPR) database.

Active Installations – Environmental Closure Requirements

The Army identified $96.8 million to conduct environmental closure requirements at 47 sites at active Army installations reflecting total validated December 2004 active closure plans requirements for RCRA-C and RCRA-D. Army environmental closure requirements and the liability estimates used for environmental closure requirements are under development. Closure requirements are prepared and submitted by Army installations on an as-needed basis and reported on the Army's Financial Statement under Active Installations – Environmental Closure Requirements. These estimates are point estimates to close the facility in accordance with a closure plan and are entered into the EPR database. The current liability estimate is 22 percent of the total costs recorded in the EPR for FY 2006. The non-current liability total is 78 percent of FY 2006 total estimated costs plus the total costs in the EPR database for FY 2007 through FY 2013. The Army is currently developing a reporting system to track total prior year unliquidated obligations for "Other Accrued Environmental Costs" and anticipates having this system in place during FY 2006.

Active installations – Environmental Response at Active Ranges

The Army identified $304.1 million to conduct environmental response at one active range under the Army Compliance Cleanup Program. The total liability at this site may change materially in either direction as response activities are completed. Active ranges include military ranges that are currently in service and are being regularly used, that are still considered by the Army to be a potential range area, and that have not been put to a new use that is incompatible with range activities. Environmental response at an active range in conducted only when there is an environmental law requiring such action. An environmental response at an active range includes investigation, characterization and cleanup of soil, sediment, surface water and groundwater and unexploded ordnance. The current liability number is based on the disbursement goal for costs required for FY 2006 (22 percent). Currently ULO data is not available for environmental response at active ranges under the Army Compliance Cleanup Program. The Army anticipates that ULO data will be available from the DFAS beginning in FY 2006. Quarterly updates to the current liability numbers will be based on changes to the ULOs reported in DFAS monthly reports. The non-current liability reflects 78 percent of the total estimated environmental response at active ranges for FY 2006 and site-level cost-to-complete estimates from FY 2007 through program completion. Site-level cost-to-complete estimates are developed by the installation using the standard cost estimating program, the Remedial Action Cost Engineering and Requirements (RACER). Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization with sampling, or re-estimation based on different assumptions and lessons learned. For Active Installations, the cost-to-complete estimate for environmental response at active ranges under the Compliance Cleanup Program is collected in the Army Environmental Database – Compliance Cleanup (AEDB-CC) for all eligible sites.

Base Realignment and Closure (BRAC):

The Army identified $523.4 million for environmental restoration at 128 sites, $634.1 million for environmental restoration at transferring ranges for 35 sites and $54.1 million for corrective action at 23 sites. The total liability at these sites may change materially in either direction as restoration and corrective action activities are completed. Transferring ranges are proposed for transfer or will be returned from DoD to another entity, including other federal entities. The inventory of transferring ranges at BRAC installations is complete.

Environmental costs at BRAC installations are funded using the base closure account. The current liability amount for BRAC environmental costs is the FY 2006 allocation. The ULO data for environmental restoration, environmental restoration at transferring ranges and environmental corrective action are pulled from reports provided by DFAS but are not identified individually. BRAC ULOs are provided as BRAC-Other. Quarterly updates to the current liability numbers are based on changes to the ULOs reported in DFAS monthly reports. Non-current liabilities are based on site-level cost-to-complete estimates from FY 2007 through program completion. Cost-to-complete estimates are updated annually for various reasons such as overlooked or previously unknown contaminants, better site characterization from additional sampling, re-estimation based on different assumptions or lessons learned. For BRAC installations, the environmental cost-to-complete estimates are collected in the Army Environmental Database – Restoration (AEDB-R) for all BRAC environmental sites.

Environmental Disposal for Weapons Systems Programs:

The Chemical Demilitarization Program is based on the fiscal year 1986 National Defense Authorization Act (PL 99-145, as amended by subsequent acts) that directed the DoD to destroy the unitary chemical stockpile by April 29, 2004. The Army, as Executive Agent within the DoD, provides policy, direction, and oversight for both the Chemical Stockpile Program and the Non-Stockpile Chemical Materiel Project. As such, the Army is responsible for the safe and economical disposal of the U.S. stockpile of lethal and incapacitating chemical warfare agents and munitions. The program objective is to destroy the U.S. Stockpile of unitary chemical agents and munitions in accordance with the public law and the schedules approved by the Defense Acquisition Decision Memorandum dated September 26, 2001, and updated in the April 2003 Acquisition Program Baseline. In prior quarters Army reported Chemical Stockpile Program separately on Note 14 and the Non-Stockpile Chemical Materiel Project on Note 15. In FY 2005, stockpile and non-stockpile liabilities will be reported together on Note 14. It is expected that the baseline will be updated in future quarters which may cause a significant change in the liability.

Non-Stockpile Chemical Materiel Demilitarization:

All requirements relating to the destruction of non-stockpile materiel covered under the Chemical Weapons Convention (CWC) have been identified through the Chemical Agents and Munitions Destruction, Army Appropriation and Military Construction. However, a 1993 review identified an unfunded, possible contingent liability of approximately $9.2 billion for the potential remediation of small and large burial sites (CWC only requires destruction of munitions after they are uncovered). This possible contingent liability was previously disclosed on Note 16, Commitments and Contingencies.

Changes in the Liability Estimate (greater than 10 percent change)

The 1st Quarter FY 2006 total Active Installations – Environmental Corrective Action liability increased 47 percent from 1st Quarter FY 2005 and the FY 2006 total Active Installations – Environmental Response at Active Ranges liability increased 14 percent from 1st Quarter FY 2005. The major contributing factor to both increases is a change in reporting requirements. The Army implemented a new Compliance Cleanup (CC) reporting database that specifically targets corrective actions at an installation. Installations previously reported these requirements in the Environmental Program Requirements (EPR) database along with all other installation environmental program requirements. The installation must use site-level detail and a standard estimating tool, the Remedial Action Cost Engineering and Requirements (RACER). The 1st Quarter FY 2006 total Active Installations – Environmental Closure liability of $96.8 million increased 89 percent from $51.2 million reported in the 1st Quarter FY 2005. The major factor contributing to the increase is the addition of an Army Major Command’s environmental closure requirements not previously reported in the EPR.

The 1st Quarter FY 2006 total BRAC Installations – Environmental Restoration (ER) liability of $523.4 million decreased 12 percent from $597.3 million in 1st Quarter FY 2005 due to improved cost estimating methodology at the installation-level and decreased level of effort requirements. The 1st Quarter FY 2006 total BRAC Installations – ER for Transferring Range liability of $634.1 million increased 32 percent from $480.1 million in 1st Quarter FY 2005 due to new regulatory requirements. The 1st Quarter FY 2006 total BRAC Installations – Environmental Corrective Action liability of $54.1 million is a 117 percent increase from the $25.0 million liability reported in 1st Quarter FY 2005. The major factor contributing to the increase is also new regulatory requirements. One installation corrective action requirements increased 266 percent.

Other Information

Others Category Disclosure Comparative Table (amounts in thousands):

Types	FY 2006	FY 2005
BRAC – Other		
Prior Year BRAC ULOs That Cannot Be Identified To A Specific Program	$188,426	$ 178,781
Total	**$188,426**	**$178,781**

Note 15. Other Liabilities

As of December 31	2006 Current Liability	2006 Noncurrent Liability	2006 Total	2005 Total
1. Intragovernmental				
A. Advances from Others	$ 143,243,314.67	$ 0.00	$ 143,243,314.67	$ 99,527,804.03
B. Deposit Funds and Suspense Account Liabilities	740,889,393.41	0.00	740,889,393.41	592,608,593.32
C. Disbursing Officer Cash	1,327,243,671.01	0.00	1,327,243,671.01	1,363,613,735.52
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	237,978,638.97	62,066,809.35	300,045,448.32	301,759,714.88
F. Other Liabilities	189,861,222.60	3,352,262.00	193,213,484.60	214,881,037.02
G. Total Intragovernmental Other Liabilities	$ 2,639,216,240.66	$ 65,419,071.35	$ 2,704,635,312.01	$ 2,572,390,884.77
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 885,877,720.44	$ 0.00	$ 885,877,720.44	$ 677,151,667.38
B. Advances from Others	880,067,865.48	0.00	880,067,865.48	851,275,173.85
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	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	1,318,442,916.98	1,318,442,916.98	1,284,206,891.00
(4) Other	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	2,855,952,755.20	0.00	2,855,952,755.20	2,743,276,760.15
H. Capital Lease Liability	14,274,103.67	29,372,112.47	43,646,216.14	56,305,281.26
I. Other Liabilities	643,390,209.05	194,035,673.00	837,425,882.05	1,712,416,027.46
J. Total Nonfederal Other Liabilities	$ 5,279,562,653.84	$ 1,541,850,702.45	$ 6,821,413,356.29	$ 7,324,631,801.10
3. Total Other Liabilities	$ 7,918,778,894.50	$ 1,607,269,773.80	$ 9,526,048,668.30	$ 9,897,022,685.87

Fluctuations and/or Abnormalities

Intragovernmental Liabilities

Advances from Others increased $43.7 million or 44 percent. The majority of the increase is attributable to advances from the Office of National Drug Control Policy, the Executive Office of The President, and Department of Homeland Security for new initiatives related to classified missions associated with national and military security.

The balance reported for the Deposit Funds and Suspense Account liabilities increased by $148.3 million or 25 percent. The majority of the increase is attributable to increases in Army uniform personnel leveraging the services thrift saving program of $25.4 million, undistributed intra-governmental payments of $70.8 million, and $56.3 million in clearing accounts. Undistributed intra-governmental payments account for unapplied General Service Administration charges or collections, pending adjustment, the final disposition of which cannot be determined at the time of receipt. Clearing accounts reflect unidentified remittances that are presumed to apply to budget accounts, but must be held in suspense because the specific appropriation or fund account to be credited is not yet known.

The schedule below identifies the Intragovernmental Other Liabilities.

(Amounts in thousands)	FY 2006	FY 2005	Change
Unemployment	$ 152,155	$ 133,197	$ 18,958
Accounts Receivable Cancelled	10,748	0	10,748
Employee Benefits			
Retirement (CSRS/FERS)	17,261	46,508	(29,247)
Health	12,391	33,803	(21,412)
Life Insurance	294	794	(500)
Education Benefits Trust Fund	365	579	(214)
Total Intragovernmental - Other Liabilities	$ 193,214	$ 214,881	$ (21,667)

Cancelled Accounts Receivable increased $10.7 million or 100 percent. The increase is due to erroneous reporting in FY 2005 that did not properly capture cancelled accounts receivable as a liability.

Employee Benefits decreased $51.2 million or 63 percent due to Civilian Service Retirement System/Federal Employees Retirement System of $29.3 million, Health Benefits decrease of $21.4 million, and Life Insurance decrease of $500.0 thousand. The decrease is attributed to a timing difference on the accrual base. In FY 2005, the liability was based on 15 working days whereas the FY 2006 liability is based on 5 working days.

Education Benefits Trust Fund decreased $214 thousand or 37 percent due to increased estimated present value benefit (PVB) for 4th Quarter FY 2005. The PVB increased due to a new educational benefit for mobilized reservists. As a result, the liability decreased in FY 2006.

Non-Federal Liabilities

Accrued Funded Payroll and Benefit increased $208 million or 30 percent primarily due to a timing difference of the military payroll disbursement. In FY 2005, the liability reflected 6 days of military payroll accrual compared to the 7 days of accrued payroll in FY 2006.

Advances from Others increased $28.8 million or 3 percent, primarily due to the USACE Gulf Region Division receiving advances for various construction projects in support of the Multi-National Division in Iraq and pre-payments from the Kuwait government in support of the Global War on Terrorism.

Capital Lease Liability decreased $12.7 million or 23 percent as a result of annual amortization.

The schedule below identifies the Non-Federal Other Liabilities.

(Amounts in thousands)	FY 2006	FY 2005	Change
Employer Contributions and Payroll Taxes	$ 336,627	$ 338,455	$ (1,828)
Contingent Funded/Non-Funded	207,723	902,980	(695,257)
Contract Holdbacks	198,268	326,099	(127,831)
Iraqi Seized Cash	57,715	89,231	(31,515)
Development Fund for Iraq	37,041	50,000	(12,960)
Other	52	5,651	(5,599)
Total Non-Federal - Other Liabilities	$ 837,426	$ 1,712,416	$ (875,990)

Contingent Liabilities decreased $695 million or 77 percent primarily due to a change in reporting of Chemical Demilitarization. Army performed analysis and determined that these liabilities were more properly reported as environmental liabilities in Note 14 beginning 3rd Quarter FY 2005.

Contract Holdbacks decreased $127.8 million or 39 percent due to a change in computation of Contract Holdbacks for Mechanization of Contract Administration Systems.

Iraqi Seized Cash and Development Fund for Iraq continues to be disbursed to the Iraqi people accounting for the $31.5 million or 35 percent and $13 million or 26 percent decrease, respectively.

Note Reference

For additional line item discussion, see Note 12 Accounts Payable.

Capital Lease Liability

As of December 31	2006				2005
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2006	$ 33,597,794.81	$ 258,683.00	$ 0.00	$ 33,856,477.81	$ 36,373,618.93
B. 2007	8,528,654.77	155,951.00	0.00	8,684,605.77	18,009,100.99
C. 2008	5,375,522.96	93,058.00	0.00	5,468,580.96	8,528,654.77
D. 2009	5,375,522.96	0.00	0.00	5,375,522.96	5,375,522.96
E. 2010	4,509,788.83	0.00	0.00	4,509,788.83	5,375,522.96
F. After 5 Years	4,172,606.44	0.00	0.00	4,172,606.44	8,682,395.27
G. Total Future Lease Payments Due	$ 61,559,890.77	$ 507,692.00	$ 0.00	$ 62,067,582.77	$ 82,344,815.88
H. Less: Imputed Interest Executory Costs	18,289,726.65	131,639.99	0.00	18,421,366.64	26,039,534.61
I. Net Capital Lease Liability	$ 43,270,164.12	$ 376,052.01	$ 0.00	$ 43,646,216.13	$ 56,305,281.27
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 26,374,161.35	$ 26,268,068.69
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 17,272,054.79	$ 30,037,212.57

The Army is the lessee in eight capital leases for military family housing and one equipment lease. The Office of Management and Budget Bulletin 01-09 and Circular A-11 direct that any capital leases entered into during FY 1992 or later are required to be fully funded in the first year of the lease.

Capital Lease Liabilities Covered by Budgetary Resources

The present value of the lease payments, $26.4 million, for leases originating after FY 1991 plus the current portion of the Pre-1992 leases is shown as Covered by Budgetary Resources.

Capital Lease Liabilities Not Covered by Budgetary Resources

The remaining six leases, that originated before FY 1992, are funded on a fiscal year basis causing the noncurrent amounts of $17.3 million to be shown as Not Covered by Budgetary Resources.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies

Relevant Information for Comprehension

Nature of Contingency

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's financial statements.

As of December 31, 2005 the Army General Fund has approximately $303.6 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table:

Estimate of the Possible Liability

(Amounts in thousands)

Title of Contingent Liabilities	**Estimate**
Litigation Division	$ 104,571
Administrative Tort Claims (Army Fund)	50,000
European Environmental Claims (Army Fund)	50,000
Army Environmental Law Division	40,726
Army Contract Appeals Division	30,124
Low-Level Radioactive Waste Disposal	26,955
Network Enterprise Technology Command	908
Army Personnel Claims	352
Total	$ 303,636

Commitments

The Army has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations and undelivered orders. For further discussion on lease obligations refer to Note 15, Other Liabilities. For further discussion on undelivered orders refer to Note 20, Disclosures Related to the Statement of Budgetary Resources.

Note Reference

See Note Disclosure 1. S. **-** Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

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

As of December 31	2006				2005
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	$ 0.00		$ 0.00	$ 0.00	$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	$ 0.00		$ 0.00	$ 0.00	$ 0.00
2. Other					
A. FECA	$ 1,663,649,828.85	4.53%	$ 0.00	$ 1,663,649,828.85	$ 1,632,842,810.96
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. *[Enter Program Name}*	0.00		0	0	0
E. Total Other	$ 1,663,649,828.85		$ 0.00	$ 1,663,649,828.85	$ 1,632,842,810.96
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$ 1,663,649,828.85		$ 0.00	$ 1,663,649,828.85	$ 1,632,842,810.96

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

Military Retirement Pensions: The portion of the military retirement benefits actuarial liability applicable to the Army is reported on the financial statements of the Military Retirement Fund.

Military Retirement Health Benefits: Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to the Army is reported only on the DoD Agency-wide financial statements.

Medicare-Eligible Retiree Benefits: Not reported by Military Retirement Systems.

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 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 are also applied to the calculation of projected future benefits.

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

Intragovernmental Costs and Exchange Revenue				
As of December 31		2006		2005
1. Intragovernmental Costs	$	13,118,036,540.49	$	10,467,359,582.76
2. Public Costs		28,907,183,203.39		24,712,885,159.61
3. Total Costs	$	42,025,219,743.88	$	35,180,244,742.37
4. Intragovernmental Earned Revenue	$	(1,932,722,877.11)	$	(1,768,920,347.85)
5. Public Earned Revenue		(248,354,690.91)		(219,475,347.49)
6. Total Earned Revenue	$	(2,181,077,568.02)	$	(1,988,395,695.34)
7. Net Cost of Operations	$	39,844,142,175.86	$	33,191,849,047.03

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on 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 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.

Program Costs

Intragovernmental Gross Costs increased $2.7 billion primarily due to an increase in health care normal cost contribution rates provided by the Board of Actuaries for DoD eligible retirees.

Gross Costs with the Public increased $4.2 billion primarily due to the research and development of weapons and munitions technology including chemical, smoke and weapon defeating technology.

Program Revenues

Program Revenues increased $192.7 million or 10 percent due to an increase of $163.8 million in Intragovernmental Earned Revenue and a $28.9 million increase in Revenue with the Public.

Intragovernmental Earned Revenue increases reflect the increases in reimbursable authority in support of logistical activities and land force readiness support for Army Procurement and Operations and Maintenance.

Revenue with the Public increased primarily due to reimbursable activity in support of logistics for all law enforcement supporting Army mission requirements. In addition, revenue was received for activity related to Army's ability to meet global commitments in support of our National Military Strategy and to pursue cooperative activities with other nations.

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

As of December 31	2006 Cumulative Results of Operations	2006 Unexpended Appropriations	2005 Cumulative Results of Operations	2005 Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position				
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. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 71,592,933.58	$ 0.00	$ 73,385,489.47	$ 0.00
B. Civilian Health	137,055,646.00	0.00	128,005,412.50	0.00
C. Civilian Life Insurance	399,521.27	0.00	367,592.87	0.00
D. Judgment Fund	44,087,928.77	0.00	65,380,036.72	0.00
E. Intra-Entity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	$ 253,136,029.62	$ 0.00	$ 267,138,531.56	$ 0.00

Fluctuations and/or Abnormalities

Imputed Financing

The $21.3 million or 33 percent decrease in Judgment Fund is attributable to a decrease in the number of Court of Claims and Torts filed and the dollar amount of the claims filed for each appropriation account as follows:

(Amounts in Thousands)	Number of Claims	FY 2006	FY 2005	Difference
Court of Claims	1	$ 0.3	$ 1.2	$ (0.9)
Torts	131	43.8	64.2	(20.4)
Totals	132	$ 44.1	$ 65.4	$ (21.3)

Earmarked Funds

Earmarked Funds represent funds received from outside sources for specific purposes. Earmarked Funds are first reported as separate line items in 1st Quarter, FY 2005; thus a 100 percent difference will be found on all the Earmarked Fund line items on the Statement of Net Position. For further discussion on Earmarked Funds, see Note 23.

Cumulative Results of Operations

Appropriations used (All other funds) increased $9.8 billion or 34 percent due to obligating of multi-year FY 2005 funds for the procurement of aircraft, weapons, and tracked combat vehicles.

Non-Exchange revenue (Earmarked funds) increased $2.1 million or 100 percent and Non-exchange revenue (All other funds) decreased $3.5 million or 100 percent due to reporting of revenue received for Wildlife Conservation on Military Reservations; Restoration, Rocky Mountain Arsenal; and Forest and Wildlife Conservation, Military Reservations as earmarked funds for the first time in 1st Quarter FY 2006.

Donations and forfeitures of cash and cash equivalents (Earmarked funds) increased $121.1 thousand or 100 percent and Donations and forfeitures of cash and cash equivalents (All other funds) decreased $188.5 thousand or 100 percent due to reclassification of Army gift fund accounts to reflect the new guidance on Earmarked funds for current activity for an overall decrease of $67.3 thousand or 36 percent due to decreases in donations to the West Point Military Academy in FY 2006.

Budgetary financing sources transfers-in/out without reimbursement decreased $1.8 billion or 100 percent. Transfers-in/out are one time events that are not repeatable from year to year. In 1st Quarter FY 2005, the Iraqi Relief and Reconstruction Fund received funding from the Executive Office of the President.

Other budgetary financing sources (All other funds) 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 on the Statement of Net Position. The $720.3 million or 98 percent decrease in Other budgetary financing sources (All other funds) and $558.0 million or 100 percent increase in Other is entirely due to DoD policy changing the reporting of other gains and losses from Other budgetary financing sources to Other.

Other Financing Sources Transfers-in/out without reimbursement is comprised of transfers of Property, Plant and Equipment (PP&E) and Construction in Progress (CIP). Transfers in without reimbursement of $52.4 million for FY 2006 and $77.2 million for FY 2005 represent a decrease of $24.8 million or 32 percent. Transfers-in/out without reimbursement are one time events that are not repeatable from year to year. The following table provides a breakout of the data for each year:

(Amounts in Thousands)	**Transfers In FY 2006**	**Transfers Out FY 2006**	**Transfer In FY 2005**	**Transfers Out FY 2005**
Property Plant & Equipment				
Office of the Secretary of Defense	$ 0.5	$ 0.0	$ 0.0	$ 0.0
Other Defense Agencies	15.1	0.0	0.0	0.0
Air Force	10.5	0.0	27.4	0.0
Services Medical Activity (formerly Defense	1.5	0.0	0.0	$ 0.0

(Amounts in Thousands)	Transfers In FY 2006	Transfers Out FY 2006	Transfer In FY 2005	Transfers Out FY 2005
Health Program)				
Total Property Plant & Equipment	$ 27.6	$ 0.0	$ 27.4	$ 0.0
Construction in Progress				
Office of the Secretary of Defense	$ 0.7	$ 0.0	$ 0.0	$ 0.0
Other Defense Agencies	-5.4	0.0	11.7	0.0
Washington Headquarters Service	0.1	0.0	0.0	0.0
Office of the Secretary of Defense, Army	28.0	0.0	0.0	0.0
Services Medical Activity (formerly Defense Health Program)	1.4	0.0	38.1	0.0
Total Construction in Progress	$ 24.8	$ 0.0	$ 49.8	$ 0.0
Totals	$ 52.4	$ 0.0	$ 77.2	$ 0.0

Unexpended Appropriations

Increases in the Appropriations transferred-in/out and Appropriations Used (All other funds) and decreases in Other adjustments and Appropriations received (All other funds) relate directly to the change in the overall Army appropriations.

Appropriations received (All other funds) decreased $52.8 billion or 52 percent due to the lack of appropriated funds that have been activated from the Continuing Resolution Authority.

Appropriations transferred-in/out increased $546.8 million or 75 percent due to the reporting of Net Transfers of $1,279.5 million in FY 2006 and $732.7 million in FY 2005. Appropriations transferred-in/out are one time events that are not repeatable from year to year. The following table provides a breakout of the net changes for FY 2006:

(Amounts in Thousands)	Transfer in FY 2006	Transfer out FY 2006
Iraq Freedom Fund	$ 914.2	$ 0.0
Department of Defense Family Housing Improvement Fund	0.0	(55.1)
Defense Agencies (Operation & Maintenance)	186.6	0.0
Foreign Currency Fluctuations	233.8	0.0
Total	$ 1334.6	$ (55.1)

Other adjustments decreased $286.5 million or 89 percent due primarily to decreases in the amount of rescissions of current year authority. Recissions are one time events that are not repeatable from year to year. In FY 2006, $35.7 million was rescinded in Military Construction funds.

Appropriations used (All other funds) increased $9.8 billion or 34 percent due to obligating of multi-year FY 2005 funds for the procurement of aircraft, weapons, and tracked combat vehicles.

Note Reference

For regulatory disclosure related to “The Statement of Changes in Net Position”, see the *Department of Defense Financial Management Regulation*, Volume 6B, Chapter 10, paragraph 1022.

For additional line item discussion, see:
Note 18, Disclosures Related to the Statement of Net Cost
Note 20, Disclosures Related to the Statement of Budgetary Resources
Note 21, Disclosures Related to the Statement of Financing

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of December 31	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 66,574,123,413.67	$ 64,920,233,247.95
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

The Net Amount of Budgetary Resources Obligated for Undelivered Orders increased $1.7 billion or 3 percent primarily due to the obligating FY 2005 funds for the Global War on Terror and Tsunami Relief and a FY 2004 multi-year Operations and Maintenance appropriation to train and equip the Afghan National Army.

Fluctuations and/or Abnormalities

Unobligated balance, brought forward, October 1 decreased $7.4 billion or 32 percent primarily due to $7.7 billion decrease in Unobligated balance - Apportioned in FY 2005. This decrease is due to obligating FY 2005 funds for the Global War on Terror and Tsunami Relief and a FY 2004 multi-year Operations and Maintenance appropriation to train and equip the Afghan National Army.

Recoveries of prior year unpaid obligations $6.1 billion is largely due to systematic correction processes that require the movement of obligations between management structure to first deobligate and then reobligate the funds. In FY 2006 the true net deobligations are $328.0 million and in FY 2005, the true net deobligations were $796.5 million of which $394.0 million was transferred to Foreign Currency Fluctuations. The true decrease is $84.4 million or 21 percent primarily in the Active Army Military Personnel appropriation.

Nonexpenditure transfers, net, anticipated and actual of $1.3 billion consists of current year appropriation transfers of $747.9 million from Iraq Freedom Fund, Defense and prior year appropriation transfers of $233.8 million from Foreign Currency Fluctuations, Defense, $186.6 million from Operation and Maintenance, Defense, $166.3 from Iraq Freedom Fund, Defense and $55.2 to DoD Family Housing Improvement Fund, Defense. The overall increase of $545.6 million or 74 percent is primarily due to an increase in transfers from the Iraq Freedom Fund in support of Iraqi Security and Stability and contingency missions. Transfers are a one-time event and fluctuations between fiscal years do not correlate with each other.

Temporarily not available pursuant to Public Law increased $51.8 billion or 100 percent due to the holdback of future quarters funding related to the Continuing Resolution that was still in effect until December 31, 2005.

Permanently not available decreased $286.5 million or 89 percent due to a decrease in the amount of Recissions of current year authority. Recissions of current year authority consist of

$35.7 million in Military Construction Funds. Recissions are one time events that are not repeatable from year to year.

Obligations incurred and Unobligated balance – Apportioned decreased $13.2 billion or 22 percent and $61.6 billion or 69 percent, respectively, representing the reduction in funds available for apportionment due to the Continuing Resolution Act effective until December 31, 2005. Department of Treasury warrants are expected to be issued in January 2006.

Unobligated Balance – Exempt from Apportionment increased $5.3 million or 18 percent primarily due to an increase in the Forest & Wildlife Conservation, Military Reservations appropriation.

Unobligated Balances Not Available decreased $298.7 million or 12 percent due to the decrease in allotments of expired authority in the Military Personnel appropriations.

Unpaid Obligations, brought forward and Gross outlays increased $9.1 billion or 13 percent and $6.5 billion or 17 percent, respectively, due to the obligating and disbursement of FY 2005 funds for the procurement of aircraft, weapons, and tracked combat vehicles.

Uncollected Customer payments from Federal Sources, brought forward and Change in Uncollected payments from Federal Sources increased $1.7 billion or 13 percent and $2.0 billion or 57 percent, respectively, due to fluctuations in the status of Spending Authority from Offsetting Collections. Spending Authority from Offsetting Collections decreased $4.3 billion or 4 percent.

Distributed Offsetting receipts are primarily comprised of $54.7 million in Army General Fund Proprietary Receipts, $2.6 million in Recoveries under the Foreign Military Sales, and $857 thousand in Collections of Receivables from Cancelled Accounts. The $15.4 million or 33 percent increase is largely attributed to $42.1 million increase in General Fund Proprietary Receipts and $23.5 million decrease in Recoveries under the Foreign Military Sales and $1.6 million decrease in Collections of Receivables from Cancelled Accounts.

Accounting Standard U.S. Standard General Ledger

The Army has not fully implemented the U.S. Government Standard General Ledger in all operational accounting systems. Guidance from the *Treasury Financial Manual*, Part 2, Chapter 4000, Federal Agencies' Centralized Trial Balance System II is used to populate the Army Statement of Budgetary Resources.

The Army accounting systems do not provide or capture data needed for obligations incurred and recoveries of prior year obligations in accordance with Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* requirements. Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined, and may or may not be material.

Intra-entity Transactions

The Statement of Budgetary Resources does not include eliminating entries and therefore a Disaggregated Statement of Budgetary Resources is included in the Required Supplementary Information section of the financial statements.

Apportionment Categories

OMB Circular A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from Apportionment. Obligations incurred consists of $43.4 billion in Category A, Direct; $351.1 million in Category B, Direct; $3.2 billion in Category A, Reimbursable; and $538.4 million in Category B, Reimbursable. This disclosure agrees with the aggregate of the related information as reported on the agency's Budgetary Execution Report (SF 133) and Obligations Incurred on the Statement of Budgetary Resources.

Separate Section for Non-budgetary Credit Program Financing Accounts

A Non-budgetary Credit Program Finance Account section allows for a clear distinction between budgetary and non-budgetary credit program financing. Non-budgetary 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. Further information on the credit financing accounts is provided in Note 8.

Spending authority from offsetting collections – Collected decreased $59.5 thousand or 100 percent due to the collection of guaranteed fees into the Rural Development appropriation in FY 2005.

Offsetting Receipts Line

Receipts are collections that are credited to the general, special, or trust fund receipt accounts. In addition, they represent offsetting receipts distributed to the Army. 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.

Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available are not included in the Spending Authority From Offsetting Collections on the Statement of Budgetary Resources or the Spending Authority for Offsetting Collections and Recoveries on the Statement of Financing.

Undelivered Orders

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

Note 21.	Disclosures Related to the Statement of Financing

The Statement of Financing is intended to articulate and detail the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. Intra-entity transactions have not been eliminated; therefore, the statements are presented as combined and combining.

Fluctuations and/or Abnormalities

Obligations incurred, Spending authority from offsetting collections and recoveries, and Unfilled Customer Orders decreased $13.2 billion or 22 percent, $14.7 billion or 54 percent, and $2.6 billion or 63 percent, respectively, due to the reduction in funds received due to the Continuing Resolution Act effective until December 31, 2005. A Treasury issuance of funds is expected in January 2006.

Offsetting receipts and Budgetary offsetting collections and receipts that do not affect net cost of operations increased $131.9 million primarily due to $44.7 million increase in Recoveries under the Foreign Military Sales and $83.1 million increase in Army General Fund Proprietary Receipts.

Transfers-in/out without reimbursement of $52.4 million is comprised of $27.6 million for Property, Plant and Equipment and $24.8 million for Construction in Progress (CIP). Property, Plant and Equipment was transferred in from Air Force for $10.5 million and other defense agencies for $17.1 million. CIP was transferred in from the Office of the Secretary of Defense for $28.0 million and transferred out to the other defense agencies for $3.2 million and Defense Logistics Agency for $84.6 million. Transfers-in/out are one time events that are not repeatable from year to year.

Imputed financing from costs absorbed by others has increased by $14.0 million or 5 percent primarily due to a $9.0 million increase in Civilian Health Imputed Financing.

Other Resources – Other decreased $557.9 million or 100 percent and Other resources or adjustments to net obligated resources that do not affect net cost operations – Other increased $782.8 million or 755 percent due to a mapping change that includes Other Gains and Losses. The majority of Other Gains and Losses 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.

Resources that fund expenses recognized in prior periods decreased $876.3 million or 75 percent primarily due to decreases of Defense Environmental Restoration Program liabilities.

Resources that finance the acquisition of assets increased by $5.2 billion or 230 percent and Depreciation and amortization increased by $3.1 billion or 73 percent. The Army bases the value of military equipment for financial statement presentation purposes on projections provided by the Bureau of Economic Analysis (BEA), Department of Commerce. BEA revised the military equipment projections resulting in increases in the projected purchase and depreciation of military equipment. Further explanation is provided in Note 10.

Increase in annual leave liability increased $42.1 million or 45 percent. The increase in annual leave fluctuates with personnel strengths and timing of leave and is not material to the $2.9 billion annual leave balance.

Other Components Requiring or Generating Resources in Future Period represents increases in future funded expense for various liabilities such as Federal Employment Compensation Act, Unemployment Compensation, and Closed Accounts Payable. The decrease of $18.5 million or 100 percent represents a change in reporting requirements in 3rd Quarter, FY 2005.

Revaluation of assets or liabilities represents CIP that was terminated. These are one time events that are not repeatable from year to year.

Other Trust Fund Exchange Revenue increased by $11.6 thousand or 125 percent due to investments earning higher revenue in FY 2005.

Cost of Goods Sold and Operating Material and Supplies Used can not be properly captured or estimated. The Army is continually reviewing and developing procedures to accurately report these values in the future.

Other Components not Requiring or Generating Resources of $376.1 million is primarily comprised of Other Expenses not Requiring Budgetary Resources for the Iraqi Relief and Reconstruction Fund and Cost Capitalized Offset. The Iraqi Relief and Reconstruction Fund is a material child transfer where Army is the child and the Department of the Executive Office of The President is the parent. Treasury requires that the financial statements of a material child transfer account be presented in the child's financial statements except for the Statement of Budgetary Resources. A reconciling item is included in Other because Obligations incurred on the Statement of Financing does not include expenses related to the Iraqi Relief and Reconstruction Fund. Cost Capitalized Offset is a new account established to facilitate reconciliation of interagency expenses and revenues, agencies may no longer post costs directly to "in-process type" asset accounts. Agencies must first record costs, such as direct labor and direct materials under the capitalization thresholds in the Cost Capitalized Offset account. The $305.9 million decrease is largely attributed to $503.1 million in cost capitalized first reported in FY 2006. The remaining increase of $197.2 million is primarily attributed to expenses related to Security and Law Enforcement due to the need for additional police training and border enforcement for Iraqi citizens' protection.

Note Reference

For additional information related to the Statement of Financing, see:
Note 8, Direct Loan and/or Loan Guarantee Programs
Note 10, General Property Plant & Equipment, Net
Note 11, Liabilities Not Covered By Budgetary Resources
Note 14, Environmental Liabilities and Disposal Liabilities
Note 16, Commitments and Contingencies
Note 20, Disclosures Related to the Statement

Note 22. Disclosures Related to the Statement of Custodial Activity

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

Development Fund for Iraq (DFI)

The DFI is for urgent humanitarian assistance, reconstruction, and other projects carried out for the benefit of the Iraqi people. In the current year, there were $16.3 million in disbursements by the Multi-National Force-Iraq with no additional deposits. Some of the disbursements for FY 2005 were incorrectly classified. Disbursements during FY 2006 were processed to correct the misclassification which caused negative disbursements on some of the lines.

(Amounts in Thousands)	**During FY 2006**	**Cumulative from Inception**
Source of Collections		
Deposits By Foreign Governments	$ 0	$ 136,000
Disposition of Collections		
Security and Law Enforcement	$ 0	$ 763
Electric Sector	14,576	38,943
Oil Infrastructure	36	466
Water Resources and Sanitation	8,459	15,121
Transportation and Telecommunications	(203)	5,005
Roads, Bridges and Construction	207	4,438
Health Care	59	2,779
Private Sector Development	376	4,192
Education, Refugees, Human Rights, and Governance	(7,164)	27,252
Total Disbursed on Behalf of Foreign Governments	16,346	98,959
Retained for Future Support of Foreign Governments (Note)	(16,346)	37,041
Total Disposition of Collections	$ 0	$ 136,000
Net Custodial Collection Activity	$ 0	$ 0

Note – The Retained for Future Support of Foreign Governments is reflected as 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. As of December 31, 2005, $57.7 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 2006**	**Cumulative from Inception**
Source of Collections		
Seized Iraqi Cash	$ 0	$ 927,215
Disposition of Collections		
Iraqi Salaries	$ 0	$ 30,838
Repair/Reconstruction/Humanitarian Assistance	3,654	498,613
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	0	264,737
Fuel/Supplies	0	75,312
Total Disbursed on Behalf of Iraqi People	3,654	869,500
Retained for Future Support of the Iraqi People	(3,654)	57,715
Total Disposition of Collections	$ 0	$ 927,215
Net Custodial Collection Activity	$ 0	$ 0

Note 23. Earmarked Funds

BALANCE SHEET As of December 31	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
ASSETS				
Fund balance with Treasury	$ 0.00	$ 0.00	$ 43,603,983.62	$ 43,603,983.62
Investments	0.00	0.00	3,426,477.97	3,426,477.97
Accounts and Interest Receivable	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	0.00	0.00
Total Assets	$ 0.00	$ 0.00	$ 47,030,461.59	$ 47,030,461.59
LIABILITIES and NET POSITION				
Military Retirement Benefits and Other Employment Related Actuarial Liabilities	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Other Liabilities	0.00	0.00	8,309,596.11	8,309,596.11
Unexpended Appropriations	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	38,720,865.48	38,720,865.48
Total Liabilities and Net Position	$ 0.00	$ 0.00	$ 47,030,461.59	$ 47,030,461.59
STATEMENT OF NET COST As of December 31				
Program Costs	$ 0.00	$ 0.00	$ 1,640,340.99	$ 1,640,340.99
Less Earned Revenue	0.00	0.00	(27,702.40)	(27,702.40)
Net Program Costs	$ 0.00	$ 0.00	$ 1,612,638.59	$ 1,612,638.59
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00
Net Cost of Operations	$ 0.00	$ 0.00	$ 1,612,638.59	$ 1,612,638.59
STATEMENT OF CHANGES IN NET POSITION As of December 31				
Net Position Beginning of the Period	$ 0.00	$ 0.00	$ 38,147,811.51	$ 38,147,811.51
Net Cost of Operations	0.00	0.00	1,612,638.59	1,612,638.59
Other Nonexchange Revenue	0.00	0.00	2,185,692.56	2,185,692.56
Change in Net Position	$ 0.00	$ 0.00	$ 573,053.97	$ 573,053.97
Net Position End of Period	$ 0.00	$ 0.00	$ 38,720,865.48	$ 38,720,865.48

Earmarked Funds:

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

Sale of Hunting and Fishing Permits. Fees are received from individuals for the issuance of special hunting and fishing permits. The funds for this account are used for wildlife, fish, and game conservation and rehabilitation on military reservations.

Restoration of Rocky Mountain Arsenal. Funds are received from private industry for the cleanup of contamination areas of Rocky Mountain Arsenal.

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.

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.

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.

Bequest of MG 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.

Department of the Army General Gift Fund. Funds are received from private parties and estates and used for various purposes.

Fluctuation and/or Abnormalities:

The Fund Balance with Treasury of $43.6 million is comprised of:

(Amounts in thousands)		
Restoration of Rocky Mountain Arsenal	$	34,623
Forest and Wildlife Conservation		3,461
Sale of Hunting and Fishing Permits		4,539
Army General Gift Fund		859
National Science Center		64
Royalties for use of DoD/Military Insignia Trademarks		54
Walter Reed Army Medical Center		4
Total	$	43,604

Investments of $3.4 million are primarily comprised of the Federal Securities for the Army General Gift Fund.

Other Liabilities for $8.3 million is primarily representing Accounts Payable for Restoration of Rocky Mountain Arsenal.

Program Costs of $1.6 million is primarily comprised of costs for Sale of Hunting and Fishing Permits of $340.7 thousand, Restoration of Rocky Mountain Arsenal of $210.4 thousand, and Army General Gift Fund of $1.1 million.

Earned Revenue of $27.7 thousand represents interest received on the Army General Gift Fund and the Walter Reed Army Medical Center.

Other Nonexchange Revenue of $2.2 million is primarily comprised of collections received for the Restoration of Rocky Mountain Arsenal.

Note 24. Other Disclosures

As of December 31	2006 Asset Category			
	Land and Buildings	Equipment	Other	Total
1. ENTITY AS LESSEE- Operating Leases				
Future Payments Due				
Fiscal Year				
2006	$ 4,723,979.63	$ 0.00	$ 0.00	$ 4,723,979.63
2007	6,298,011.17	0.00	0.00	6,298,011.17
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
After 5 Years	15,550,306.33	0.00	0.00	15,550,306.33
Total Future Lease Payments Due	$ 37,434,476.80	$ 0.00	$ 0.00	$ 37,434,476.80

Definitions

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for payment of funds.
Operating Lease - A lease which does not substantially transfer all the benefits and risks of ownership. Payments are charged to an expense account over the lease term as it becomes payable.

Relevant Information for Comprehension

Land and Building lease periods vary and are not expected to be renewed at the end of the lease term. There are no material escalation clauses or contingent rental restrictions. Costs are gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements of which the largest component is office space. 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.