

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

	2006 Consolidated	2005 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 137,401,425,597.76	\$ 120,595,526,723.87
b. Non-Entity Seized Iraqi Cash	42,738,977.61	191,104,159.34
c. Non-Entity-Other	359,852,071.85	200,541,049.63
2. Investments (Note 4)	3,400,473.67	3,518,230.97
3. Accounts Receivable (Note 5)	564,834,070.70	426,720,473.29
4. Other Assets (Note 6)	639,696,180.68	540,788,215.14
5. Total Intragovernmental Assets	<u>\$ 139,011,947,372.27</u>	<u>\$ 121,958,198,852.24</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 1,421,593,176.07	\$ 1,571,490,154.04
C. Accounts Receivable (Note 5)	677,855,260.14	608,144,974.06
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	37,624,794,764.36	35,901,174,741.70
F. General Property, Plant and Equipment (Note 10)	123,181,197,841.84	114,541,558,792.47
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	4,369,896,873.41	3,488,672,039.15
2. TOTAL ASSETS	<u><u>\$ 306,287,285,288.09</u></u>	<u><u>\$ 278,069,239,553.66</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 2,287,943,435.72	\$ 1,939,118,999.63
2. Debt (Note 13)	11,148,162.00	0.00
3. Other Liabilities (Note 15 & 16)	3,162,883,204.14	2,666,661,014.64
4. Total Intragovernmental Liabilities	<u>\$ 5,461,974,801.86</u>	<u>\$ 4,605,780,014.27</u>
B. Accounts Payable (Note 12)	\$ 9,915,024,417.88	\$ 9,802,172,928.25
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)	39,038,481,095.00	39,086,597,000.00
E. Loan Guarantee Liability (Note 8)	957,620.72	12,352,470.32
F. Other Liabilities (Note 15 & Note 16)	6,712,254,668.32	9,449,721,001.51
4. TOTAL LIABILITIES	<u><u>\$ 62,792,342,432.63</u></u>	<u><u>\$ 64,589,466,225.31</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	131,843,536,892.52	108,111,051,846.81
C. Cumulative Results of Operations - Earmarked Funds	40,732,376.49	0.00
D. Cumulative Results of Operations - Other Funds	111,610,673,586.45	105,368,721,481.54
6. TOTAL NET POSITION	<u><u>\$ 243,494,942,855.46</u></u>	<u><u>\$ 213,479,773,328.35</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 306,287,285,288.09</u></u>	<u><u>\$ 278,069,239,553.66</u></u>

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CONSOLIDATED STATEMENT OF NET COST

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	\$ 83,086,786,576.81	\$ 73,945,734,129.51
B. (Less: Earned Revenue)	(4,834,360,581.48)	(4,511,992,759.60)
C. Net Program Costs	<u>\$ 78,252,425,995.33</u>	<u>\$ 69,433,741,369.91</u>
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	<u><u>\$ 78,252,425,995.33</u></u>	<u><u>\$ 69,433,741,369.91</u></u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2006 and 2005

	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	76,021,143,575.28	66,315,489,716.80
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	5,096,167.10	0.00
4.E.2 All other funds	0.00	6,652,353.95
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	1,532,173.84	0.00
4.F.2 All other funds	0.00	816,227.03
4.G. Transfers-in/out without reimbursement (+/-)	369,803,579.98	2,659,453,957.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	(814,483,588.47)	(3,961,029,192.44)
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 (+/-)	83,391,539.69	71,512,741.13
5.C. Imputed financing from costs absorbed by others	471,895,920.46	501,566,029.40
5.D. Other (+/-)	(1,477,170,858.59)	0.00
6. Total Financing Sources		
6.A. Earmarked funds	6,623,514.50	0.00
6.B. All other funds	74,654,584,994.79	65,594,461,832.87
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	1,030,840.66	0.00
7.B. All other funds	78,251,395,154.67	69,433,741,369.91
8. Net Change		
8.A. Earmarked funds	5,592,673.84	0.00
8.B. All other funds	(3,596,810,159.88)	(3,839,279,537.04)
9. Ending Balances		
9.A. Earmarked funds	40,732,376.49	0.00
9.B. All other funds	111,610,673,586.45	105,368,721,481.54

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>111,651,405,962.94</u>	\$ <u>105,368,721,481.54</u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2006 and 2005

	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	<u>74,704,745,376.80</u>	<u>73,238,303,727.98</u>
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	131,680,991,000.00	100,585,715,000.00
4.B. Appropriations transferred-in/out (+/-)	2,818,512,000.00	924,727,329.00
4.C. Other adjustments (rescissions, etc) (+/-)	(1,339,567,909.00)	(322,204,493.37)
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	(76,021,143,575.28)	(66,315,489,716.80)
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	<u>57,138,791,515.72</u>	<u>34,872,748,118.83</u>
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	57,138,791,515.72	34,872,748,118.83
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	57,138,791,515.72	34,872,748,118.83
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	131,843,536,892.52	108,111,051,846.81

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>131,843,536,892.52</u>	\$ <u>108,111,051,846.81</u>

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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended March 31, 2006 and 2005

	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	10,776,101,345.50	10,976,456,956.13
3. Budget authority		
3.A. Appropriation	131,688,432,976.68	100,594,056,817.14
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	9,526,493,107.72	9,417,090,212.79
3.D.1.b. Change in receivables from Federal sources	62,434,291.31	(360,363,160.08)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	70,672,965.95	138,485,572.58
3.D.2.b. Without advance from Federal sources	3,675,820,884.42	5,227,890,575.34
3.D.3. Anticipated for rest of year, without advances	822,712,139.73	558,080,177.37
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	145,846,566,365.81	115,575,240,195.14
4. Nonexpenditure transfers, net, anticipated and actual	2,818,512,000.00	924,727,329.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(1,339,567,909.00)	(322,204,493.37)
7. Total Budgetary Resources	\$ 173,578,902,834.06	\$ 150,034,976,430.54

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COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2006 and 2005

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 95,222,670,795.48	\$ 89,690,099,840.49
8.B. Reimbursable	8,882,208,094.46	9,154,119,616.07
8.C. Subtotal	<u>104,104,878,889.94</u>	<u>98,844,219,456.56</u>
9. Unobligated balance:		
9.A. Apportioned	66,661,044,191.17	48,682,628,215.18
9.B. Exempt from apportionment	37,378,908.72	31,938,592.77
9.C. Subtotal	<u>66,698,423,099.89</u>	<u>48,714,566,807.95</u>
10. Unobligated balance not available	2,775,600,844.23	2,476,190,166.03
11. Total status of budgetary resources	<u>\$ 173,578,902,834.06</u>	<u>\$ 150,034,976,430.54</u>
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	<u>\$ (16,351,456,802.92)</u>	<u>\$ (14,606,616,936.16)</u>
12.C. Total unpaid obligated balance	64,369,422,751.70	57,022,398,821.22
13. Obligations incurred net (+/-)	<u>\$ 104,104,878,889.94</u>	<u>\$ 98,844,219,456.56</u>
14. Less: Gross outlays	(90,768,140,626.00)	(80,402,213,977.57)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(10,776,101,345.50)</u>	<u>(10,976,456,956.13)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(3,738,255,175.73)	(4,867,527,415.26)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	83,281,516,473.06	79,094,564,280.24
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(20,089,711,978.65)</u>	<u>(19,474,144,351.42)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>63,191,804,494.41</u>	<u>59,620,419,928.82</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	90,768,140,626.00	80,402,213,977.57
19.B. Less: Offsetting collections	(9,597,166,073.67)	(9,555,575,785.37)
19.C. Less: Distributed Offsetting receipts	<u>(89,378,664.76)</u>	<u>(115,276,278.01)</u>
19.D. Net Outlays	<u>\$ 81,081,595,887.57</u>	<u>\$ 70,731,361,914.19</u>

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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended March 31, 2006 and 2005

	<u>2006 Combined</u>	<u>2005 Combined</u>
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	11,711,937.00	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	100,000.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>11,811,937.00</u>	<u>59,500.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 13,337,272.32</u></u>	<u><u>\$ 1,483,960.32</u></u>

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COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2006 and 2005

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 11,436,224.60	\$ 0.00
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>11,436,224.60</u>	<u>0.00</u>
9. Unobligated balance:		
9.A. Apportioned	1,143,775.40	1,483,960.32
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>1,143,775.40</u>	<u>1,483,960.32</u>
10. Unobligated balance not available	757,272.32	0.00
11. Total Status of Budgetary Resources	<u><u>\$ 13,337,272.32</u></u>	<u><u>\$ 1,483,960.32</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	0.00	0.00
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	0.00	0.00
13. Obligations incurred net (+/-)	\$ 11,436,224.60	\$ 0.00
14. Less: Gross outlays	(11,436,224.60)	0.00
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	0.00	0.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>0.00</u>	<u>0.00</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	(11,436,224.60)	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	<u><u>\$ (11,436,224.60)</u></u>	<u><u>\$ (59,500.00)</u></u>

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CONSOLIDATED STATEMENT OF FINANCING
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
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Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 104,116,315,114.54	\$ 98,844,219,456.56
2. Less: Spending authority from offsetting collections and recoveries (-)	(24,111,522,594.90)	(25,399,619,656.76)
3. Obligations net of offsetting collections and recoveries	80,004,792,519.64	73,444,599,799.80
4. Less: Offsetting receipts (-)	(89,378,664.76)	(115,276,278.01)
5. Net obligations	<hr/> 79,915,413,854.88	<hr/> 73,329,323,521.79
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	83,391,539.69	71,512,741.13
8. Imputed financing from costs absorbed by others	471,895,920.46	501,566,029.40
9. Other (+/-)	(1,477,170,858.59)	0.00
10. Net other resources used to finance activities	<hr/> (921,883,398.44)	<hr/> 573,078,770.53
11. Total resources used to finance activities	<hr/> \$ 78,993,530,456.44	<hr/> \$ 73,902,402,292.32
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 (-)	(2,356,738,385.72)	(6,908,505,424.38)
12b. Unfilled Customer Orders	3,746,493,850.37	5,366,376,147.92
13. Resources that fund expenses recognized in prior periods	(936,081,492.21)	(1,373,960,638.03)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	89,378,664.76	115,335,778.01
15. Resources that finance the acquisition of assets	(12,743,045,407.00)	(10,272,673,680.92)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	1,393,779,318.90	(71,512,741.13)
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ (10,806,213,450.90)	<hr/> \$ (13,144,940,558.53)
18. Total resources used to finance the net cost of operations	<hr/> \$ 68,187,317,005.54	<hr/> \$ 60,757,461,733.79

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CONSOLIDATED STATEMENT OF FINANCING

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
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Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	275,393,303.14	164,379,787.51
20. Increase in environmental and disposal liability	0.00	8,131,068.42
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 (+/-)	111,103,836.87	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 386,497,140.01	<hr/> 172,510,855.93
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	8,564,622,553.31	6,715,469,734.10
26. Revaluation of assets or liabilities (+/-)	360,431.61	1,524,116.24
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	(25,449.04)	(36,411.93)
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	1,113,654,313.90	1,786,811,341.78
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 9,678,611,849.78	<hr/> 8,503,768,780.19
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ 10,065,108,989.79	<hr/> \$ 8,676,279,636.12
30. Net Cost of Operations	<hr/> <hr/> \$ 78,252,425,995.33	<hr/> <hr/> \$ 69,433,741,369.91

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

These financial statements have been prepared to report the financial position and results of operations of the 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 General Fund 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 General Fund 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 General Fund financial statements are in addition to the financial reports prepared by the Army General Fund pursuant to OMB directives that are used to monitor and control the Army General Fund use of budgetary resources.

The Army General Fund 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 General Fund 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 General Fund cannot currently implement every aspect of Federal GAAP and OMB Circular A-136. The Army General Fund 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 General Fund 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 General Fund changed to facilitate these reporting requirements.

1.B. Mission of the Reporting Entity

The overall mission of the Army General Fund 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 General Fund remains constant: to fight and win the nation's wars. In an uncertain world, the Army General Fund 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 General Fund is frequently deployed both at home and abroad in response to natural disasters. Nationally, the Army General Fund provides substantial support to relief operations associated with storms, tornadoes, and hurricanes. The Army General Fund also provides support and relief assistance abroad. Whatever the mission, committing the Army General Fund commits the nation.

1.C. Appropriations and Funds

The Army General Fund appropriations and funds are divided into the general, working capital (revolving funds), trust, special, deposit funds and earmarked funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Army General Fund 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 General Fund 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 General Fund generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2006, the Army General Fund financial management systems were unable to meet all of the requirements for full accrual accounting. Many of the Army General Fund 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 General Fund financial management systems do not comply with the U.S. Government Standard General Ledger (USSGL) at the transaction level. The Army General Fund 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 General Fund accounting systems to record transactions based on the USSGL. Until such time as the Army General Fund systems and processes are updated to collect and report financial information as required by Federal GAAP, the Army General Fund 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 General Fund identifies programs based upon the major appropriation groups provided by Congress. The Army General Fund does not, however, accumulate costs for major programs based upon the performance measures as required by the Government and Performance and Results Act (GPRA). The Army General Fund

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 General Fund recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Full cost pricing is the Army General Fund standard policy for services provided as required by OMB Circular A-25. Revenue is recognized when earned under the reimbursable order process.

The Army General Fund 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 General Fund 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 General Fund 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 General Fund 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 General Fund, 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 General Fund as though the agency was a stand-alone entity.

The Army General Fund's 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 General Fund 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 General Fund 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 General Fund 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 General Fund 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 General Fund 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 General Fund must be eliminated; however, the Army General Fund, 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 General Fund. 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 General Fund 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 General Fund 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 General Fund and other federal agencies. In September 2000, FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Army General Fund 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 General Fund, 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 General Fund 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 General Fund 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 General Fund 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 General Fund 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

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

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

The Army General Fund conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (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 General Fund bases the allowances for uncollectible accounts that are due from the public upon analysis of collection experience by fund type. The Army General Fund 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 General Fund 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 General Fund 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 General Fund manages only military or government-specific material. The Army General Fund 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 General Fund holds material based on military need and support for contingencies. Therefore, the Army General Fund 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 General Fund 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 General Fund uses the purchase method - that is, items are expensed when purchased. The Army General Fund 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 General Fund 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 General Fund reports investments in Department of the 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 General Fund intends to hold investments until maturity, unless needed to finance claims or otherwise sustain operations. Consequently, the Army General Fund does not make provisions for unrealized gains or losses on these securities.

The Army General Fund invests in both marketable and nonmarketable securities. Marketable securities are investments trading on a public market. The two types of nonmarketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded. 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 Property, Plant and Equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of \$15,000, \$25,000, and \$50,000 for fiscal years 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below \$100,000 were written off General Fund financial statements in FY 1998. No adjustment was made for Working Capital Fund (WCF) assets. These assets remain capitalized and reported on WCF financial statements.

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 General Fund 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 General Fund provides government property to contractors that is necessary to complete their contract work. Such property is either owned or leased by the Army General Fund, 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 General Fund 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 General Fund reports only the portion of government property in the possession of contractors that is maintained in the Army General Fund property systems.

To bring the Army General Fund 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 General Fund records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The Army General Fund records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor), or the asset's fair value. The Army General Fund 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 General Fund 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 General Fund conducts business with commercial contractors under two primary types of contracts--fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army General Fund provides financing payments. One type of financing payment that the Army General Fund makes, for real property, is based upon a percentage of completion. In accordance with 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 General Fund makes financing payments under fixed price contracts. The Army General Fund reports these financing payments in the "Other Assets" line item, because the Army General Fund 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 General Fund is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Army General Fund for the full amount of the advance.

1.S. Contingencies and Other Liabilities

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, which 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 General Fund. 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 General Fund 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 General Fund 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 General Fund 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 General Fund, 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 General Fund recognizes the loan guarantee liability. The Army General Fund 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 General Fund obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered.

1.Y. Undistributed Disbursements and 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 DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. The Army General Fund uses specific identification to categorize supported undistributed collections as federal or nonfederal accounts receivable. The Army General Fund 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 General Fund. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The Army General Fund follows this procedure.

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 million transferred from IIG to the Multi-National Force-Iraq in August 2004, will require additional disclosure in future financial statements. The Army General Fund has established a plan to reconcile and account for these amounts and record DFI funds received. As of the 2nd Quarter, FY 2006, the Army General Fund has reconciled the \$86 million transferred from IIG. The Army General Fund has recorded a total of \$136 million in DFI assets, which includes the \$86 million reconciled and a \$50 million transfer in 2nd Quarter, FY 2005. See Note 22 for additional discussion on DFI.

Note 2.	Nonentity Assets
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As of March 31	2006	2005
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 402,591,049.46	\$ 391,645,208.97
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 402,591,049.46	\$ 391,645,208.97
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 1,421,593,176.07	\$ 1,571,490,154.04
B. Accounts Receivable	81,105,694.44	82,076,457.69
C. Other Assets	0.00	(180.00)
D. Total Nonfederal Assets	\$ 1,502,698,870.51	\$ 1,653,566,431.73
3. Total Nonentity Assets	\$ 1,905,289,919.97	\$ 2,045,211,640.70
4. Total Entity Assets	\$ 304,381,995,368.12	\$ 276,024,027,912.96
5. Total Assets	\$ 306,287,285,288.09	\$ 278,069,239,553.66

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 and/or Abnormalities

Nonfederal Cash and Other Monetary Assets decreased \$149.9 million, or 10 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to continued support of the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom.

Nonentity Seized Iraqi Cash and Nonentity Other, as presented on the Balance Sheet, decreased \$148.3 million, or 78 percent, and increased \$159.3 million, or 79 percent, respectively, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to Development Fund for Iraq cash being reported as Nonentity Seized Iraqi Cash in FY 2005 and Nonentity Other in FY 2006.

Other Disclosures

Nonentity Fund Balance with Treasury of \$402.6 million consists of \$246.4 million in deposit funds, \$42.7 million in Seized Iraqi Cash, and \$28.4 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.

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 Reference

For additional line item discussion, see:

Note 3, Fund Balance with Treasury

Note 5, Accounts Receivable

Note 6, Other Assets

Note 3.	Fund Balance with Treasury
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As of March 31	2006	2005
1. Fund Balances		
A. Appropriated Funds	\$ 137,321,956,361.24	\$ 110,255,038,207.48
B. Revolving Funds	38,750,474.95	50,262,337.90
C. Trust Funds	925,500.30	775,319.59
D. Special Funds	39,793,261.27	40,810,057.32
E. Other Fund Types	402,591,049.46	10,640,286,010.55
F. Total Fund Balances	\$ 137,804,016,647.22	\$ 120,987,171,932.84
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 138,121,995,608.28	\$ 120,976,320,678.10
B. Fund Balance per Army	137,804,016,647.22	120,987,171,932.84
3. Reconciling Amount	\$ 317,978,961.06	\$ (10,851,254.74)

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 March 2006, Army made a net adjustment of \$37.9 million for unsupported undistributed disbursements and collections to bring the Fund Balance reported by Army into agreement with the Department of Treasury.

The Department of Treasury reports an additional \$318 million in Fund Balance with Treasury than the Army reports. This includes \$387.2 million in child transfers with the Executive Office of the President. In addition, \$69.2 million in parent transfers with the Department of Transportation and Department of Agriculture were reported in the Army Fund Balance but not in the Treasury Trial Balance.

When the Department of Treasury appropriates funds to an entity and the entity allows another federal entity to execute an apportioned amount of those funds, the entity that receives the original appropriation is deemed the parent and the entity that is allowed to execute those funds is the child. In these type of transactions, the parent entity, not the child, reports the activity in its Fund Balance unless the balance is material to the child.

Fluctuations and/or Abnormalities

Appropriated Funds increased \$27.1 billion, or 25 percent, and Other Fund Types decreased \$10.2 billion, or 96 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to an 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 FY 2005, the fund reported \$10.2 billion and in FY 2006 reported \$4.9 billion for a net decrease of \$5.3 billion. Appropriated Funds also increased \$7.5 billion primarily due to the increase of funds received for the procurement of equipment to address immediate

shortfalls for the National Guard and Reserve. Operations and Maintenance increased \$6.3 billion primarily due to the increase in funds received to fully fund key readiness programs critical to the Global War on Terror. Military Personnel Appropriations increased \$2.6 billion due to an overall pay increase of 3.1 percent and an increase in Basic Allowance for Housing to eliminate out-of-pocket expenses for military personnel. The creation of both the Afghanistan and Iraq security forces fund since 2nd Quarter, FY 2005, caused a \$4.4 billion increase.

Revolving Funds decreased \$11.5 million, or 23 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to an \$11.3 million decrease in Conventional Ammunition Working Capital Fund (CAWCF), which is expected as the program progresses toward its final closeout on September 30, 2007.

Trust Funds increased \$150.2 thousand, or 19 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to investments made of \$152 thousand by the Army General Gift Fund in FY 2006.

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 March 2006.

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 March 2006, 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	\$263,043	(\$49,297)	\$0	\$213,746
Columbus (Army DSSNs)*	\$16,065	(\$345)	\$0	\$15,720
Columbus (Transp Pay)	\$731	\$0	\$0	\$731
Columbus (Def Agencies)	\$0	\$0	\$0	\$0
TOTAL (2100 ARMY)	\$279,839	(\$49,642)	\$0	\$230,197

*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 April 2006.

Deposit Differences

The deposit differences are reconcilable differences reported by the Department of Treasury or the Army. The Army has \$9.3 million in deposit differences greater than 180 days old as of March 2006. The primary cause for this increase is non-timely processing of documents by U.S. Army Forces Central Command disbursing station in Kuwait. The Army is researching and should have them corrected by April 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 Department of 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)	<u>Amount</u>
Collected	\$ 1,724,131
Disbursed	
Iraqi Salaries	\$ 1,184,791
Repair/Reconstruction/Humanitarian Assistance	148,756
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	<u>356,818</u>
Total Disbursed	<u>\$ 1,690,365</u>
Remaining Funds	<u>\$ 33,766</u>

Other Fund Types

The \$402.6 million in Other Fund Types consists of \$246.4 million in deposit funds, \$42.7 million in Seized Iraqi Cash, \$28.4 million in Development Fund for Iraq, and \$85.1 million in receipt accounts. 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.

Condition One

Condition One errors reflect appropriation accounts that have negative closing balances and the Department of Treasury has issued a stop pay status. As of March 31, Army did not have any appropriations with a negative balance. However, Army Reserve Personnel is in a potential status with only \$955 thousand in Treasury and \$43.9 million over-obligated due to Army underestimating costs related to health care. It is expected to become a condition one error in April 2006.

Note Reference

For additional line item discussion, see:

Note 1.I., Significant Accounting Policies

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 March 31	2006	2005
1. Unobligated Balance		
A. Available	\$ 65,876,854,735.56	\$ 48,156,614,806.45
B. Unavailable	2,776,258,116.55	2,476,190,166.03
2. Obligated Balance not yet Disbursed	\$ 83,281,516,473.06	\$ 59,616,919,807.16
3. Nonbudgetary FBWT	\$ 5,963,843,772.17	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (20,104,799,317.45)	\$ 0.00
5. Total	\$ 137,793,673,779.89	\$ 110,249,724,779.64

Definitions

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

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

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

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

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

Fluctuations and/or Abnormalities

Unobligated Balance – Available increased \$17.7 billion, or 37 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to the \$31.1 billion, or 31 percent, increase in appropriation received. Appropriations received increased in Army’s operation and maintenance to fully fund key readiness programs critical to the Global War on Terror, in military pay due to an overall pay increase of 3.1 percent and an increase in basic allowance for housing to eliminate out-of-pocket expenses for military personnel, and for the procurement of equipment to address immediate shortfalls for the National Guard and Reserve.

Unobligated Balance - Unavailable increased \$300.1 million, or 12 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to \$374 million in National Guard Military Construction Funds received in FY 2006 that have not yet been apportioned for obligation.

Obligated Balance not yet Disbursed increased \$23.7 billion, or 40 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to the breakout of Non-FBWT Budgetary Accounts into a separate line item in 4th Quarter, FY 2005.

Non-Budgetary FBWT represents \$4.9 billion in Iraqi Relief and Reconstruction Fund which is a material child transfer from the Executive Office of the President, \$246.4 million in deposit funds, \$42.7 million in Seized Iraqi Cash, \$28.4 million in Development Fund for Iraq, and \$622.4 million in suspense accounts. The change in DoD policy to classify Non-Budgetary FBWT in this schedule took place in 4th Quarter, FY 2005 consequently causing a \$6 billion increase.

Non-FBWT Budgetary Accounts represents \$20.1 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 \$20.1 billion decrease.

The total Status of Funds with Treasury disagrees with Army Fund Balance with Treasury by \$10.3 million primarily due to discrepancies in the recording of budgetary resources and proprietary balances for the loan guarantee program for the Armament Retooling and Manufacturing Support Initiative. Coordination must be performed between the Department of Defense policy and Treasury guidance to correct this discrepancy.

Disclosures Related to Suspense/Budget Clearing Accounts

As of March 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
F3875 – Disbursing Officer Suspense	\$ 375,273,358.33	\$ 92,552,543.88	\$ 594,907,851.29	\$ 502,355,307.41
F3880 – Lost or Cancelled Treasury Checks	(3,830,858.97)	9,818,096.28	8,306,786.02	(1,511,310.26)
F3882 – Uniformed Services Thrift Savings Plan Suspense	(834,085.89)	(960,799.25)	30,522,034.63	31,482,833.88
F3885 – Interfund/IPAC Suspense	(92,895,522.62)	(6,674,796.31)	(12,628,421.63)	(5,953,625.32)
F3886 – Thrift Savings Plan Suspense	191,139.42	266,611.91	110,187.68	(156,424.23)
Total	\$ 277,904,030.27	\$ 95,001,656.51	\$ 621,218,437.99	\$ 526,216,781.48

The F3875 suspense clearing accounts represents the primary sources of the overall positive balance. Account F3875 reported a positive balance of \$594.9 million that represents the Disbursing Officer's (DO) suspense, which includes military pay's Federal Income tax withholding (FITW) monies. The \$502.4 million increase from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 is primarily caused by the military pay's FITW disbursement held until April 2006. Account F3885, includes the Interfund/IPAC suspense and reported a negative balance of \$12.6 million. Account F3886 has a positive balance of \$110 thousand represented by the (payroll) Thrift Savings Plan suspense. These three suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

The F3880 suspense account reported a positive balance of \$8.3 million. This amount represents the balance of Treasury checks that have either been lost by the payee and need to be reissued, have never been cashed by the payee, or have been cancelled by the Treasury and need to be transferred to the original appropriation.

The F3882 suspense account reported a positive balance of \$30.5 million. This account was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the Thrift Savings Plan deductions by the National Finance Center and the posting of these amounts in the military accounting systems in the following month. The increase of 31.5 million from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 is primarily caused by the military pay withholdings of Thrift Savings Plan contributions until disbursement in April 2006.

The Army General Fund 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, the 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 March 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 242,278,349.76	\$ 129,091,055.21	\$ 177,237,061.93	\$ 48,146,006.72
B. Negative Unliquidated Obligations (NULO)	73,107,833.64	42,799,990.80	81,990,310.46	39,190,319.66
2. Total In-transit Disbursements, Net	\$ 2,115,823,036.37	\$ 1,954,240,930.12	\$ 1,622,599,001.50	\$ (331,641,928.62)

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 \$87.9 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 March 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 3,411,025.00	Effective Interest	\$ (34,598.20)	\$ 3,376,426.80	\$ 3,365,420.01
B. Accrued Interest	24,046.87			24,046.87	24,046.87
C. Total Intragovernmental Securities	<u>\$ 3,435,071.87</u>		<u>\$ (34,598.20)</u>	<u>\$ 3,400,473.67</u>	<u>\$ 3,389,466.88</u>
2. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

As of March 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 3,508,025.00	Effective Interest	\$ (6,878.34)	\$ 3,501,146.66	\$ 3,488,512.65
B. Accrued Interest	17,084.31			17,084.31	17,084.31
C. Total Intragovernmental Securities	<u>\$ 3,525,109.31</u>		<u>\$ (6,878.34)</u>	<u>\$ 3,518,230.97</u>	<u>\$ 3,505,596.96</u>
4. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

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.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the Department of the Treasury, which uses the cash for general government purposes. The Department of Treasury securities are issued to the Army General Fund as evidence of its receipts. Treasury securities are an asset to the Army General Fund and a liability to the Department of Treasury. Because the Army and the

Department of Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. The Department of the Treasury securities provide the Army General Fund with authority to draw upon the Department of the Treasury to make future benefit payments or other expenditures. When the Army General Fund requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

Note Reference

For additional line item discussion, 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
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As of March 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 564,834,070.70	N/A	\$ 564,834,070.70	\$ 426,720,473.29
2. Nonfederal Receivables (From the Public)	\$ 774,509,524.04	\$ (96,654,263.90)	\$ 677,855,260.14	\$ 608,144,974.06
3. Total Accounts Receivable	\$ 1,339,343,594.74	\$ (96,654,263.90)	\$ 1,242,689,330.84	\$ 1,034,865,447.35

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

Intragovernmental Receivables increased \$138.1 million, or 32 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to an Army system change in 1st Quarter, FY 2006 that allowed for more detailed capture of trading partner data thus increasing the reliability of the allocation of intragovernmental receivables within Army General Fund and with other DoD and non-DoD entities.

Net Non-Federal Receivables (from the Public) increased \$69.7 million, or 11 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The majority of increases were seen from Non-Appropriated Funds Instrumentalities which increased \$28 million. The Allowance for Loss on Accounts Receivables decreased \$39.9 million, resulting in an increase in the Net Non-Federal Receivables. The increase in receivables is due to reimbursement expected for realignment of employees from the Installation Management agency appropriated funds to the Non-Appropriated Fund in 1st Quarter, FY 2006.

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:

<u>Type of Debt</u> (Amounts in thousands)	<u>Amount</u>
Contractor Debt	\$99,500
Individual (Out-of-Service)	180,287
Military Pay (In-Service)	112,471
Civilian Pay (In-Service)	32,851
Sales of Goods & Services	29,785
Interest	35,585
Foreign Military Sales	10,330
Foreign Governments	176,090
Non-Appropriated Funds Instrumentalities	38,990
Vendor Debt	9,689
Other	<u>48,955</u>
Subtotal	\$774,533
Undistributed Collections Public	<u>(23)</u>
Gross Non-Federal Accounts Receivable (from the Public)	<u>\$ 774,510</u>

Relevant Information for Comprehension

Allocation of Undistributed Collections

The Army General Fund reported \$35.3 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 General Fund is unable to reconcile intragovernmental accounts receivable balances with its trading partners. The Army General Fund 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 General Fund activities.

Accounts Receivable Over 180 Days

The Army reported \$372.9 million of Non-Federal Accounts Receivable (from the Public) and \$2.0 million of Intragovernmental Accounts Receivable over 180 days. 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.

<u>Accounts Receivables Groups (thousands)</u>		
Category	Intragovernmental	Non-Federal
Nondelinquent		
Current	\$1,265,208	\$ 347,371
Noncurrent	0	0
Delinquent		
1 to 30 days	8,992	41,693
31 to 60 days	30,115	(694)
61 to 90 days	12,241	13,219
91 to 180 days	4,894	60,113
181 days to 1 year	1,771	60,103
Greater than 1 year and less then or equal to 2 years	87	141,168
Greater than 2 years and less than or equal to 6 years	146	38,732
Greater than 6 years and less than 10 years	0	65,066
Greater than 10 years	0	<u>7,762</u>
Total	\$ 1,323,454	\$ 774,533
Less Undistributed	35,296	23
Less Eliminations	<u>723,325</u>	
Total Gross Amount Due	<u>\$ 564,833</u>	<u>\$ 774,510</u>

The Intragovernmental Receivables for each delinquent age category are disputed bills which total \$52.8 million.

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.

(Amounts in thousands)		
<u>FY 2006 Non-Federal Refunds Receivable</u>	<u>FY 2006 Non-Federal Accounts Receivable (Net)</u>	<u>Percent of Net Amount</u>
\$436,240	\$338,269	56%

Note Reference

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

Note 6.	Other Assets
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As of March 31	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 639,696,180.68	\$ 540,788,215.14
B. Total Intragovernmental Other Assets	\$ 639,696,180.68	\$ 540,788,215.14
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 3,892,354,814.94	\$ 3,034,679,417.57
B. Other Assets (With the Public)	477,542,058.47	453,992,621.58
C. Total Nonfederal Other Assets	\$ 4,369,896,873.41	\$ 3,488,672,039.15
3. Total Other Assets	\$ 5,009,593,054.09	\$ 4,029,460,254.29

Fluctuation and/or Abnormalities

Intragovernmental advances and prepayments increased \$98.9 million, or 18 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. Use of the Department of the Treasury's Intragovernmental Reconciliation Analysis System allowed Army General Fund to capture advances to others with agencies outside of DoD. The increase is primarily comprised of advances with the Department of Homeland Security for Hurricane Katrina relief efforts for \$54.9 million, Office of Personnel and Management for the purposes of background investigations and security clearances for work previously performed by the Defense Security Services for \$33.5 million, and Department of Energy for \$4 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 \$857.7 million or 28 percent, from 2nd Quarter, FY 2005. The majority of the increase occurred in the appropriations for Missile Procurement, Army of \$296.1 million; Procurement of Weapons and Tracked Combat Vehicles, Army of \$211.7 million; Other Procurement, Army of \$279.5 million, and Operation and Maintenance, Army \$21.7 million in support of the Global War on Terrorism.

Other Relevant Information for Comprehension

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

The Other Assets (With the Public) which consist of Military Pay and Travel Advances increased \$23.5 million or 5 percent.

(Amounts in thousands)

<u>Other Assets (With the Public)</u>	<u>FY 2006</u>	<u>FY 2005</u>
Advances to Others:		
Military Pay Advances	\$ 160,382	\$ 197,021
Travel Advances	317,160	256,972
Totals	\$ <u>477,542</u>	\$ <u>453,993</u>

Intragovernmental Eliminations

The buyer-side Advances and Prepayments balances were adjusted upward \$724.3 million to agree with seller-side unearned revenue on the books for other DoD and non-DoD reporting entities. In addition, \$86.6 million of intra-Army General Fund transactions were eliminated leaving a balance of \$637.7 million.

Note Reference

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

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
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As of March 31	2006	2005
1. Cash	\$ 943,425,786.16	\$ 1,180,622,741.81
2. Foreign Currency	478,167,389.91	390,867,412.23
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 1,421,593,176.07	\$ 1,571,490,154.04

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 and non-purchased foreign currencies held in foreign currency fund accounts.

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 General Fund.

Fluctuations and/or Abnormalities

Cash decreased \$237.2 million, or 20 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to continued support of the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom requiring less cash in the hand of Disbursing Officers and Agents. Foreign currency increased \$87 million, or 22 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 which includes currency to pay foreign vendors and cash in the custody of foreign agents primarily in support of the Army General Fund 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 General Fund cash and foreign currency is non-entity and is therefore restricted.

During the “Audit of Controls over Army Cash and Other Monetary Assets,” the Department of Defense Office of Inspector General raised doubts as to the reliability and auditability of the \$377.3 million reported as Cash in the Custody of Agents. The amount reported as Cash in the Custody of Agents reflects cash provided to the agents. However, this amount was not properly reduced by agent disbursements thus causing the Disbursing Officer’s cash to be subject to material overstatement. As of March 31, 2006, the Army General Fund had not determined the exact amount of the overstatement. Efforts are in process to isolate the cause and solution to this overstatement.

Breakdown of Cash

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

Note Reference

For additional line item discussion, see:

(Amounts in thousands)	U.S. \$ / Negotiable Instruments	Foreign Currency
Cash on Deposit in Bank	\$ 91,560	\$ 474,441
Cash on Hand	345,196	2,866
Cash – Undeposited Collections	274	0.00
Cash in Transit	50,053	0.00
Cash – Other	72,002	0.00
Cash adjustments	<u>7,056</u>	<u>.00</u>
Total Cash on Hand	\$ 566,141	\$ 477,307
Total Cash in Custody of Agents	<u>\$ 377,285</u>	<u>\$ 860</u>
Total Cash	<u>\$ 943,426</u>	<u>\$ 478,167</u>

Note 1.J., Significant Accounting Policies, Foreign Currency

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

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

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

Army General Fund

Direct Loans Obligated After FY 1991

As of March 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.

Army General Fund

Total Amount of Direct Loans Disbursed

As of March 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 March 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	
<hr/>						
		2006	2005			
5. Total Direct Loan Subsidy Expense: Military Housing Privatization Initiative	\$	0.00	\$	0.00		

Not applicable.

Army General Fund

Subsidy Rate for Direct Loans

As of March 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 March 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 March 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 March 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	\$ 26,968,716.40	\$ 24,172,975.13
3. Total	\$ 26,968,716.40	\$ 24,172,975.13
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 739,852.83	\$ 628,874.91
3. Total	\$ 739,852.83	\$ 628,874.91
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 increase in the face value of the guaranteed loans of \$740 thousand and the amount of principal guaranteed of \$629 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 March 31

	2006	2005
Loan Guarantee Program		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	957,620.72	12,352,470.32
3. Total	\$ 957,620.72	\$ 12,352,470.32

The Loan Guarantee Program decreased \$11.4 million or 92 percent from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to a Jan 2006 payment on a loss claim to a bank for a defaulted loan to make bullet casings.

Subsidy Expense for Post-1991 Loan Guarantees

As of March 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	0.00		
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00		
Total	\$ 0.00	\$ 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%	20.00%	0.00%	0.00%	18.21%

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

As of March 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	(11,436,224.60)	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	\$ (11,436,224.60)	\$ 59,500.00
4. Ending Balance of the Loan Guarantee Liability before Re-estimates	\$ 957,620.72	\$ 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	\$ 957,620.72	\$ 12,352,470.32

The Fees Received decreased \$59.5 thousand, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to a FY 2005 guaranteed fees on the \$12.3 million in loan obligations that were not received in FY 2006.

The Claim Payments to Lenders decreased \$11.4 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to a Jan 2006 payment on a loss claim to a bank for a defaulted loan to make bullet casings.

Army General Fund

Administrative Expense

As of March 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
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As of March 31	2006	2005
1. Inventory, Net	\$ 109,648,797.26	\$ 109,566,228.89
2. Operating Materials & Supplies, Net	37,515,145,967.10	35,791,608,512.81
3. Stockpile Materials, Net	0.00	0.00
4. Total	<u>\$ 37,624,794,764.36</u>	<u>\$ 35,901,174,741.70</u>

Inventory, Net

As of March 31

	2006			2005		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 21,267,896.83	\$ (1,147,915.50)	20,119,981.33	\$ 20,086,519.22		LAC
B. Held for Repair	0.00	0.00	0.00	0.00		
C. Excess, Obsolete, and Unserviceable	2,297,950.00	(2,297,950.00)	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	89,479,709.67		SP
F. Total	\$ 113,094,662.76	\$ (3,445,865.50)	109,648,797.26	\$ 109,566,228.89		

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

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. Standard General Ledger does not include a separate Work in Process account unrelated to sales.

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

The Army General Fund expects a year-to-year decrease in CAWCF Inventory 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

For additional line item discussion, 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 March 31

	2006			2005	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
1. OM&S Categories					
A. Held for Use	\$ 37,515,145,967.10	\$ 0.00	\$ 37,515,145,967.10	\$ 35,791,608,512.81	LAC
B. Held for Repair	0.00	0.00	0.00	0.00	
C. Excess, Obsolete, and Unserviceable	1,071,948,427.51	(1,071,948,427.51)	0.00	0.00	SP
D. Total	\$ 38,587,094,394.61	\$ (1,071,948,427.51)	\$ 37,515,145,967.10	\$ 35,791,608,512.81	

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

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

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

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

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

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

Note Reference

For additional line item discussion, see:

Note 1.M., Significant Accounting Policies, Inventories and Related Property.

Stockpile Materials, Net

As of March 31

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

Legend for Valuation Methods:

LAC= Latest Acquisition Cost

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

Note 10. General PP&E, Net

As of March 31	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	\$ 479,445,951.98	N/A	\$ 479,445,951.98	\$ 465,283,871.98	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	44,372,361,579.07	\$ (28,868,090,137.68)	15,504,271,441.39	15,035,061,931.28	
C. Leasehold Improvements	S/L	lease term	13,134,856.00	(10,256,177.00)	2,878,679.00	1,257,549.00	
D. Software	S/L	2-5 Or 10	768,500,276.86	(215,141,415.87)	553,358,860.99	283,757,919.86	
E. General Equipment	S/L	5 or 10	3,319,579,282.56	(2,100,895,717.25)	1,218,683,565.31	787,016,141.86	
F. Military Equipment	S/L	Various	412,110,000,000.00	(313,400,000,000.00)	98,710,000,000.00	92,430,000,000.00	
G. Assets Under Capital Lease	S/L	lease term	166,616,689.13	(142,862,999.60)	23,753,689.53	31,803,428.63	
H. Construction-in- Progress	N/A	N/A	6,668,689,578.64	N/A	6,668,689,578.64	5,487,969,779.86	
I. Other			20,116,075.00	0.00	20,116,075.00	19,408,170.00	
J. Total General PP&E			<u>\$ 467,918,444,289.24</u>	<u>\$ (344,737,246,447.40)</u>	<u>\$ 123,181,197,841.84</u>	<u>\$ 114,541,558,792.47</u>	

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Fluctuations and/or Abnormalities

Leasehold Improvements Net Book Value (NBV) increased \$1.6 million, or 129 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to quarterly quality assurance/quality control reviews by the Army Assistant Chief of Staff for Installation Management.

Software NBV increased \$269.6 million, or 95 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to an initiative to establish the baseline to report Internal Use Software that concluded in 1st Quarter, FY 2006. Internal Use Software 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.

General Equipment NBV increased \$431.7 million, or 55 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to an Army initiative to establish capital asset visibility of government furnished equipment at government owned contractor operated Army installations. Additionally, the Army General Fund performed data cleanup initiatives to ensure quality information beginning in 4th Quarter, FY 2005.

Assets under Capital Leases NBV decreased \$8.0 million, or 25 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to straight-line amortization of leased assets.

Construction in Progress increased \$1.2 billion, or 22 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The majority of this increase occurred in 4th Quarter, FY 2005. Major components of the increase include: \$448.0 million from Other Defense Organizations for safety upgrades and training facilities; \$453.2 million in Installation Management Agency funded projects; \$122.4 million 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 in current transfers, and completions for Washington Headquarters Service, Services Medical Activity, and the Office of the Secretary of Defense.

Other includes \$20.1 million in projected value of forest product sales (timber reserve).

Other Information Related to Military Equipment

The Army reported military equipment with an acquisition value of \$412.1 billion and accumulated depreciation of \$313.4 billion for a NBV of \$98.7 billion in FY 2006.

The Federal Accounting Standards Advisory Board (FASAB) 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 to accumulate information necessary to value military equipment in accordance with GAAP from internal records. The DoD decided to use data provided by the Bureau of Economic Analysis (BEA) and the 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 eighty-four groups of equipment such as aircraft, ships and combat vehicles. BEA uses DoD budget, expenditure, and delivery data to calculate the Army General Fund'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 effective June 2006.

Other Information Related to Heritage Assets and Stewardship Land

In accordance to the FASAB, SFFAS No. 29, *Heritage Assets and Stewardship Land*, note disclosures are required for heritage assets and stewardship land. Army is committed to preserving and accounting for its heritage asset's historical, cultural, educational, or artistic importance. Additionally, Army General Fund 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 which governs 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
- Historic Sites

Note Reference

For additional line item discussion, see:

Note 1.O., Significant Accounting Policies, General Property, Plant and Equipment.

Assets Under Capital Lease

As of March 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. Accumulated Amortization	(142,862,999.60)	(134,267,135.82)
D. Total Capital Leases	<u>\$ 23,753,689.53</u>	<u>\$ 31,803,428.63</u>

Fluctuations and/or Abnormalities

Assets Under Capital Lease decreased by \$8.0 million, or 25 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to straight-line amortization of leased assets.

Relevant Information Related to Assets under Capital Lease

The Army General Fund is the lessee in eight Section 801 Family Housing Leases which consist of two on-post and six off-post housing facilities. These leases have between two and eight years remaining on their terms. In addition, the Eighth U.S. Army G3 Aviation leases equipment for a training simulator first reported in 3rd Quarter, FY 2005. As shown in Note 15, the liability is valued at \$14.6 million for current and \$25.6 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 \$9.3 million and \$7.3 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

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

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of March 31	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	559,586,349.24	514,822,873.00
D. Total Intragovernmental Liabilities	\$ 559,586,349.24	\$ 514,822,873.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 166,719,608.89	\$ 73,446,287.91
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,663,649,828.85	1,632,842,810.96
C. Environmental Liabilities	36,800,360,095.00	37,290,831,000.00
D. Other Liabilities	4,470,743,783.34	5,177,991,688.20
E. Total Nonfederal Liabilities	\$ 43,101,473,316.08	\$ 44,175,111,787.07
3. Total Liabilities Not Covered by Budgetary Resources	\$ 43,661,059,665.32	\$ 44,689,934,660.07
4. Total Liabilities Covered by Budgetary Resources	\$ 19,131,282,767.31	\$ 19,899,531,565.24
5. Total Liabilities	\$ 62,792,342,432.63	\$ 64,589,466,225.31

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.

Intragovernmental Liabilities

The schedule below identifies the Army Other Intra-governmental liabilities.

(Amounts in thousands)	FY 2006	FY 2005	Change
Federal Employees' Compensation Act	\$ 219,876	217,107	\$ 2,769
Unemployment Benefits	132,714	124,181	8,533
Cancelled Accounts Receivable	121,880	173,535	(51,655)
Custodial Liability	85,116	0	85,116
Total Intragovernmental - Other Liabilities	\$ 559,586	\$ 514,823	\$ 44,763

Cancelled accounts receivable decreased \$51.7 million, or 30 percent, 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to management initiatives and emphasis in identifying valid accounts receivable and taking the appropriate corrective action to collect these receivables.

Custodial liability increased \$85.1 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to first reporting the liability associated with the collection of funds into the Army's receipt account in 2nd Quarter, FY 2006. These funds represent collections not earmarked by law for a specific purpose and are returned to the Department of Treasury at yearend.

Nonfederal Liabilities

The Nonfederal Accounts Payable represents cancelled accounts payable. The \$93.3 million, or 127 percent, increase from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 is primarily due to 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.

The schedule below identifies the Army Other Nonfederal liabilities.

(Amounts in thousands)	FY 2006	FY 2005	Change
Annual Leave	2,990,070	2,819,563 \$	179,507
Non-Environmental – Disposal	1,184,106	1,334,017	(149,911)
Contingent Liabilities	202,568	806,362	(603,793)
Iraqi Seized Cash	42,739	83,109	(40,370)
Development Fund for Iraq	28,352	107,995	(79,643)
Capital Leases	13,909	26,946	(13,037)
Total Intragovernmental - Other Liabilities	\$ 4,461,744	\$ 5,177,992	\$ (707,247)

Nonenvironmental – Disposal had a decrease of \$149.9 million, or 11 percent, from 2nd Quarter FY 2005 to 2nd Quarter, FY 2006 due to the change in calculating the estimate of generations from a 7 year forecast to a 5 year forecast.

Contingent Liabilities' decrease of \$603.8 million, or 75 percent, from 2nd Quarter FY 2005 to 2nd Quarter, FY 2006 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.

Iraqi Seized Cash continues to be disbursed to the Iraqi people accounting for a decrease of \$40.4 million, or 51 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006.

The Development Fund for Iraq also decreased \$79.6 million, or 74 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 which can be attributed to government control and assets being distributed to the Iraqi Interim Government.

Capital Leases decreased by \$13 million, or 48 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 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
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As of March 31	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 2,287,943,435.72	\$ N/A	\$ 2,287,943,435.72	\$ 1,939,118,999.63
2. Non-Federal Payables (to the Public)	9,914,973,798.65	50,619.23	9,915,024,417.88	9,802,172,928.25
3. Total	\$ 12,202,917,234.37	\$ 50,619.23	\$ 12,202,967,853.60	\$ 11,741,291,927.88

Definitions

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

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

Fluctuations and/or Abnormalities

Intragovernmental payables with entities other than the Army General Fund increased \$348.4 million, or 18 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily from a \$224.4 million increase with the Defense Logistics Agency use of the new Business Systems Modernization systems beginning in 4th Quarter, FY 2005. The Business Systems Modernization systems provide better trading partner data than previously reported information by the legacy systems. In addition, there was an \$81.4 million increase from the United States Postal Service (USPS). Due to the limitations of the Army's accounting systems, payables are based upon data provided by the USPS. In the past the USPS had recorded all payables, including the Army, to Other Defense Agencies. Beginning in 2nd Quarter, FY 2006, the USPS has broken out payables to each reporting entity rather than recording everything to Other Defense Agencies.

Other Information Related to Payables

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.

Summary level seller accounts receivable reported by other government agencies was compared to the Army's accounts payable. An adjustment was posted to accounts payables based on the comparison with the accounts receivable of the other agencies providing goods and services to the Army. Intragovernmental payables were adjusted downward for \$73.3 million while Non-federal payables were 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, \$723.3 million of Intra-Army General Fund transactions were eliminated leaving a balance of \$2.3 billion. 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 \$2.1 billion and \$2.3 billion in FY 2006 and FY 2005, respectively. 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
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As of March 31	2006			2005
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
1. Agency Debt				
A. Debt to the Treasury	\$ 0.00	\$ 11,148,162.00	\$ 11,148,162.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 11,148,162.00	\$ 11,148,162.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 11,148,162.00	\$ 11,148,162.00	\$ 0.00

Debt to the Treasury increased \$11.1 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 for borrowing authority received from the Department of Treasury in 2nd Quarter, FY 2006 for a loan default relating to the Armament Retooling and Manufacturing Support Initiative (ARMS). This initiative 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. 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. The borrowing authority was received from Treasury to pay for a loan 90 percent guaranteed by ARMS to make bullet casings. The loan was defaulted in 1999 and the Army has been in litigation since to determine the actual amount of debt owed.

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of March 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities-- Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 370,891,000.00	\$ 2,665,635,000.00	\$ 3,036,526,000.00	\$ 3,347,193,000.00
2. Active Installations—Military Munitions Response Program (MMRP)	11,486,000.00	5,166,996,000.00	5,178,482,000.00	5,496,554,000.00
3. Formerly Used Defense Sites—IRP and BD/DR	128,405,000.00	4,037,080,000.00	4,165,485,000.00	4,233,380,000.00
4. Formerly Used Defense Sites--MMRP	76,496,000.00	14,490,195,000.00	14,566,691,000.00	13,924,609,000.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	15,239,000.00	362,305,000.00	377,544,000.00	259,034,000.00
2. Environmental Closure Requirements	2,759,000.00	94,088,000.00	96,847,000.00	51,215,000.00
3. Environmental Response at Operational Ranges	6,489,000.00	297,596,000.00	304,085,000.00	267,632,000.00
4. Other	0.00	35,676,095.00	35,676,095.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	59,962,000.00	463,481,000.00	523,443,000.00	597,347,000.00
2. Military Munitions Response Program	20,549,000.00	613,544,000.00	634,093,000.00	480,122,000.00
3. Environmental Corrective Action / Closure Requirements	5,909,000.00	48,237,000.00	54,146,000.00	24,965,000.00
4. Other	140,415,000.00	0.00	140,415,000.00	172,690,000.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	1,399,521,000.00	8,525,527,000.00	9,925,048,000.00	10,231,856,000.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 2,238,121,000.00	\$ 36,800,360,095.00	\$ 39,038,481,095.00	\$ 39,086,597,000.00

Environmental Disclosures

As of March 31	2006	2005
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	40,432,873.00	371,473,877.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	97,000.00	51,000.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

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

Applicable Laws and Regulations for Cleanup Requirements

Defense Environmental Restoration Program

The Army General Fund is required to cleanup contamination resulting from past waste disposal practices, leaks, spills and other past activity prior to 1986 from hazardous substances and wastes that created a public health or environmental risk and prior to FY 2003 from unexploded ordnance (UXO), discarded military munitions, and munitions constituents at other than operational ranges under the 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. DERP generally follows the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

Non - Defense Environmental Restoration Program

The Army General Fund is also required to cleanup contamination resulting from waste disposal practices, leaks, spills and other activity after 1986 from hazardous substances and wastes and after FY 2003 from UXO, discarded military munitions, and munitions constituents migrating from an operational range under the Army Compliance Cleanup Program. The Resource Conservation and Recovery Act (RCRA), as well as host nation requirements for overseas installations, require the Army General Fund 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 General Fund 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 DoD Instruction 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.

Base Realignment and Closure

The Base Realignment and Closure (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 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.

Low Level Radioactive Waste

The Low Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

Chemical Demilitarization Program

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

The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations. The major regulations applicable to the program are as follows:

- CERCLA
- Clean Water Act
- Clean Air Act
- RCRA
- Toxic Substances Control Act (TSCA)

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

DERP, Non-DERP, and BRAC

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

In compliance with accounting standards, the Army General Fund expenses the costs for cleanup associated with general property, plant and equipment (PP&E) placed into service prior to October 1, 1997 unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the Army

General Fund, expenses the portion of the asset that has passed since the general PP&E was placed into service and systematically recognizes the remaining cost over the life of the asset.

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

Chemical Demilitarization Program

The basis for calculating environmental liabilities for the Army General Fund components of the Chemical Demilitarization Program is an estimate developed using several procedures. The schedule component of the estimate is based on analysis of historical processing rates with down time adjustments. The cost methodology is based on the historical costs of the project and utilizes the Army cost analysis community directed Automated Cost Estimating Integrated Tools software as the platform for cost modeling. To the greatest extent possible, actual costs are broken down to produce a site-specific model based on actual or analogous costs. Inclusion of site-specific schedules in the model results in the current working estimate.

Types of Environmental Liabilities and Disposal Liabilities Identified

DERP, Non-DERP, and BRAC

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

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

Chemical Demilitarization Program

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

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to inflation, deflation, technology, or applicable laws and regulations

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

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

DERP, Non-DERP, and BRAC

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

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

Chemical Demilitarization Program

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

Fluctuations and Abnormalities

Accrued Environmental Restoration Liabilities (DERP)

Active Installations—Installation Restoration Program and Building Demolition and Debris Removal decreased \$310.7 million, or 9 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The increase is attributable to increased expenditure of appropriated funds against current liabilities for completion of clean-up activities during 2nd Quarter, FY 2006.

Other Accrued Environmental Liabilities—Active Installations (Non-DERP)

Active Installations - Environmental Corrective Action decreased \$118.5 million, or 46 percent, and Response at Active Ranges increased \$36.5 million, or 14 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to implementation of a new Compliance Cleanup (CC) reporting database that specifically targets corrective actions at an installation. Installations previously reported these requirements in the EPR database along with all other installation environmental program requirements. The installation must use site-level detail and a standard estimating tool, the RACER. This reporting change began in 3rd Quarter, FY 2005.

Active installations – Closure Requirements increased \$45.6 million, or 89 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to identification and reporting of previously omitted closure requirements from an Army Major Command. This omission was identified during the transition to the new CC reporting database 3rd Quarter, FY 2005.

Other Accrued Environmental Liabilities - Other increased \$35.7 million, or 100 percent from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to a reclassification by program managers of the Low Level Radio Active Waste (LLRW) environmental liability in the 2nd Quarter, FY 2006. This information was formerly disclosed on Note 16 – Commitments and Contingencies as a contingent liability during 4th Quarter, FY 2005.

Base Realignment and Closure

Installation Restoration Program decreased \$73.9 million, or 12 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to improved cost estimating while using the RACER tool at the site-level during 4th Quarter, FY 2005.

Military Munitions Response Program (MMRP) requirements increased \$154 million, or 32 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 because mandated use of RACER and site level data provided better cost estimates beginning in 3rd Quarter, FY 2005. This increase is primarily due to an agreement concerning the Resource Conservation and Recovery Act (RCRA) post-closure permit at a BRAC location which resulted in an additional \$135 million being added to the liability. This event was initially identified during 4th Quarter, FY 2005.

Environmental corrective action increased \$29.2 million, or 117 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. This increase is primarily due to a new agreement with a state organization to cleanup contamination related to former Army housing locations for \$22.6 million. This event was initially identified during 4th Quarter, FY 2005.

The BRAC Other decreased \$32.3 million, or 19 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The BRAC received funding later in 2nd Quarter, FY 2006 which resulted in disbursements that reduced unliquidated obligations for this reporting period.

Environmental Disclosures

The Army is working on processes to more accurately disclose information in the environmental disclosures table. Specifically, the amount of resources disbursed to remediate legacy waste; the unrecognized portion of the estimated cleanup costs associated with general PP&E; and changes in estimates due to changes in laws, regulations and/or technology.

Meanwhile, the estimated cleanup costs associated with general PP&E include the costs to clean up contamination resulting from post-1986 waste disposal practices, leaks, and spills which have created a public health or environmental risk. Also, the estimated closure costs associated with general PP&E include only the costs of closing permitted landfills. The liability estimates for other 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 for environmental closure costs includes an estimation of expenditure based on the disbursement goals for the current year appropriation only. The Army General Fund 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 General Fund does not have unrecognized costs associated with general property, plant, and equipment under its Compliance Cleanup Program. The Army General Fund is constantly researching sites for possible issues that would result in liability recognition. Through the continued research, the Army General Fund 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 RCRA, the Army General Fund 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.

Other Disclosures

Others Category Disclosure Comparative Table		
(Amounts in thousands)	2006	2005
Other Accrued Environmental Costs - Other		
Low Level Radio Active Waste	\$ 35,676	\$ 0
Base Realignment and Closure - Other		
BRAC Unliquidated Liabilities	140,415	178,781
Total	\$ 176,091	\$ 178,781

Note Reference

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

Note 15.	Other Liabilities
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As of March 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 149,620,673.94	\$ 0.00	\$ 149,620,673.94	\$ 129,947,817.52
B. Deposit Funds and Suspense Account Liabilities	868,752,785.69	0.00	868,752,785.69	297,196,271.61
C. Disbursing Officer Cash	1,421,593,176.07	0.00	1,421,593,176.07	1,571,489,974.04
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	217,728,265.16	102,282,238.13	320,010,503.29	313,484,477.15
F. Other Liabilities	402,906,065.15	0.00	402,906,065.15	354,542,474.32
G. Total Intragovernmental Other Liabilities	\$ 3,060,600,966.01	\$ 102,282,238.13	\$ 3,162,883,204.14	\$ 2,666,661,014.64
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 647,286,546.88	\$ 0.00	\$ 647,286,546.88	\$ 2,427,208,683.98
B. Advances from Others	924,246,602.46	0.00	924,246,602.46	945,227,173.52
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	211,296.72	1,184,106,143.59	1,184,317,440.31	1,334,066,216.22
G. Accrued Unfunded Annual Leave	2,999,070,314.79	0.00	2,999,070,314.79	2,819,562,985.71
H. Capital Lease Liability	14,575,998.16	25,613,603.71	40,189,601.87	53,694,098.60
I. Other Liabilities	714,576,393.01	202,567,769.00	917,144,162.01	1,869,961,843.48
J. Total Nonfederal Other Liabilities	\$ 5,299,967,152.02	\$ 1,412,287,516.30	\$ 6,712,254,668.32	\$ 9,449,721,001.51
3. Total Other Liabilities	\$ 8,360,568,118.03	\$ 1,514,569,754.43	\$ 9,875,137,872.46	\$ 12,116,382,016.15

Fluctuations and/or Abnormalities

Intragovernmental

Advances from Others increased \$19.7 million, or 15 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to advances from National Aeronautics and Space Administration and the Executive Office of the President to fund new initiatives related to classified missions associated with national and military security.

Deposit Funds and Suspense Account liabilities increased by \$571.6 million, or 192 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 attributable to increases in Army uniform personnel leveraging the services Thrift Saving Program of \$31.5 million, withheld state income taxes of \$55.4 million, and \$502.4 million in suspense budget clearing accounts since 2nd Quarter, FY 2005. 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.

Disbursing Officer Cash decreased \$149.9 million, or 10 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to continued support of the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom.

The schedule below identifies the intragovernmental other liabilities.

(Amounts in thousands)	FY 2006	FY 2005	Change
Unemployment	\$ 132,714	\$ 128,128	4,586
Accounts Receivable Cancelled	121,880	173,535	(51,655)
Custodial Liability	85,116	0	85,116
Employee Benefits			
Retirement (CSRS/FERS)	35,923	29,205	6,718
Health	25,921	22,041	3,880
Life Insurance	606	496	110
Education Benefits Trust Fund	746	1,137	(391)
Total Intragovernmental - Other Liabilities	<u>\$ 402,906</u>	<u>\$ 354,542</u>	<u>48,364</u>

Cancelled accounts receivable decreased \$51.7 million, or 30 percent, 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to management initiatives and emphasis in identifying valid accounts receivable and taking the appropriate corrective action to collect these receivables.

Custodial liability increased \$85.1 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to first reporting the liability associated with the collection of funds into the Army's receipt account in 2nd Quarter, FY 2006. These funds represent collections not earmarked by law for a specific purpose and are returned to the Department of Treasury at year-end.

Employee benefits increased \$10.7 million, or 64 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 which includes Civilian Service Retirement System/Federal Employees Retirement System of \$6.7 million, health benefits of \$3.8 million, and life insurance of \$110 thousand. The increase is attributed to a timing difference on the accrual basis. The liability in FY 2005 is based on nine working days; while, the liability in FY 2006 is based on 10 working days.

Education benefits trust fund decreased \$391 thousand, or 35 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to increased estimated present value benefit in 4th Quarter, FY 2005, for educational benefit for mobilized reservists. As a result, the liability decreased in FY 2006.

Non-federal

Accrued Funded Payroll and Benefit decreased \$1.8 billion, or 73 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to a timing difference of the military payroll disbursement. In FY 2005, the liability reflected 15 days of military payroll accrual compared to no military payroll accrual in FY 2006.

Conventional Munitions Disposal decreased \$149.7 million, or 11 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the change in calculating the estimate of generations from a seven year forecast down to a five year forecast in 2nd Quarter, FY 2006.

Capital Lease Liability decreased \$13 million, or 25 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 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	\$ 391,479	\$ 509,872	\$ (118,393)
Contingent Funded/Non-Funded	216,332	841,857	(625,525)
Contract Holdbacks	238,242	327,129	(88,887)
Iraqi Seized Cash	42,739	83,109	(40,370)
Development Fund for Iraq	28,352	107,995	(79,643)
Total Non-Federal - Other Liabilities	\$ 917,144	\$ 1,869,962	\$ (952,818)

Employer Contributions and Payroll Taxes decreased \$118.4 million, or 24 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to erroneously adjusting employer contributions and payroll taxes in FY 2005 to reconcile differences between the budgetary and proprietary trial balances related to funded liabilities. In FY 2006, the reconciling adjustment was performed against accounts payable.

Contingent liabilities decreased \$625.5 million, or 75 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to a change in reporting of chemical demilitarization. The Army General Fund performed analysis and determined that these liabilities were more properly reported as environmental liabilities see Note 14, beginning 3rd Quarter, FY 2005.

Contract holdbacks decreased \$88.9 million, or 28 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to a change in computation of contract holdbacks for mechanization of contract administration systems.

Iraqi seized cash decreased \$40.4 million, or 49 percent, and Development Fund for Iraq decreased \$79.6 million, or 74 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 because the Army General Fund disbursed to the Iraqi people.

Note Reference

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

Capital Lease Liability

As of March 31	2006				2005
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2006	\$ 10,392,462.55	\$ 73,274.00	\$ 0.00	\$ 10,465,736.55	\$ 31,177,387.65
B. 2007	18,009,100.98	149,952.00	0.00	18,159,052.98	18,009,100.99
C. 2008	8,528,654.77	155,951.00	0.00	8,684,605.77	8,528,654.77
D. 2009	5,375,522.96	93,058.00	0.00	5,468,580.96	5,375,522.96
E. 2010	5,375,522.96	0.00	0.00	5,375,522.96	5,375,522.96
F. 2011	4,509,788.83	0.00	0.00	4,509,788.83	0.00
G. After 5 Years	4,172,606.44	0.00	0.00	4,172,606.44	8,682,395.27
H. Total Future Lease Payments Due	\$ 56,363,659.49	\$ 472,235.00	\$ 0.00	\$ 56,835,894.49	\$ 77,148,584.60
I. Less: Imputed Interest Executory Costs	16,526,220.39	120,072.24	0.00	16,646,292.63	24,000,610.99
J. Net Capital Lease Liability	\$ 39,837,439.10	\$ 352,162.76	\$ 0.00	\$ 40,189,601.86	\$ 53,147,973.61
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 26,281,005.01	\$ 26,747,756.99
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 13,908,596.86	\$ 26,946,341.61

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

Capital Lease Liabilities Covered by Budgetary Resources

The present value of the lease payments, \$26.3 million, for leases originating after FY 1991 plus the current portion of the Pre-1992 leases are shown as Covered by Budgetary Resources.

Capital Lease Liabilities Not Covered by Budgetary Resources

The remaining six leases, that originated before FY 1992, are funded on a fiscal year basis causing the noncurrent amounts of \$13.9 million to be shown as Not Covered by Budgetary Resources.

The Future Payments due in FY 2006 and FY 2011 decreased \$20.7 million and \$4.5 million respectively due to DoD guidance changing the number of years reflected in the schedule. The amounts in 2005 Future Payments due of \$31 million reflects both FY 2006 and FY 2007 and the FY 2011 balance is included in After 5 Years.

Note 16.	Commitments and Contingencies
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Disclosures Related to Commitments and Contingencies

Relevant Information for Comprehension

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

Nature of Contingency

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 March 31, 2006, the Army General Fund has approximately \$272.1 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Each estimate for litigations, claims and assessments are required to be fully supported. Additionally, Army General Fund is working to ensure that estimates agree with the legal representation letters and management summary schedule.

Estimate of the Possible Liability

(Amounts in thousands)

Title of Contingent Liabilities	Estimate
Litigation Division	\$98,151
Administrative Tort Claims (Army Fund)	50,000
European Environmental Claims (Army Fund)	50,000
Army Environmental Law Division	46,226
Army Contract Appeals Division	26,946
Network Enterprise Technology Command	400
Army Personnel Claims	349
Total	<u>\$272,072</u>

Other Information Pertaining to Commitments

The Army General Fund has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations, undelivered

orders, and cancelled accounts payable. The amount of contractual commitments for 2nd Quarter, FY 2006 is presented in the following schedule.

(Amounts in thousands)

Title of Contractual Commitments

Long-term lease obligations	\$40,190
Undelivered Orders	\$77,300,433
Cancelled accounts payable	\$166,720

Note Reference

For additional line item discussion, see:

Note 1. S., Significant Accounting Policies

Note 15, Other Liabilities

Note 20, Disclosures Related to the Statement of Budgetary Resources

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

As of March 31	2006				2005
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
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. <i>{Enter Program Name}</i>	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
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Intragovernmental Costs and Exchange Revenue		
As of March 31	2006	2005
1. Intragovernmental Costs	\$ 23,216,543,373.82	\$ 19,820,620,636.92
2. Public Costs	59,870,243,202.99	54,125,113,492.59
3. Total Costs	\$ 83,086,786,576.81	\$ 73,945,734,129.51
4. Intragovernmental Earned Revenue	\$ (4,276,894,818.08)	\$ (3,959,060,225.23)
5. Public Earned Revenue	(557,465,763.40)	(552,932,534.37)
6. Total Earned Revenue	\$ (4,834,360,581.48)	\$ (4,511,992,759.60)
7. Net Cost of Operations	\$ 78,252,425,995.33	\$ 69,433,741,369.91

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

The amounts presented in the Consolidated Statement of Net Cost are based on funding, obligation, accrual and disbursing transactions, which are not always recorded using accrual accounting. Army 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.

Definitions

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

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

Fluctuation and/or Abnormalities

Intragovernmental gross costs increased \$3.4 billion, or 17 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to a \$2.5 billion increase in health care normal cost contribution rates provided by the Board of Actuaries for DoD eligible military retirees in 4th Quarter, FY 2005.

Gross costs with the public increased \$5.7 billion, or 11 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to a \$4.7 billion increase in financing the cost of TRICARE benefits accrued by active component uniformed service members. Beginning in 1st Quarter, FY 2006, military departments are required to maintain appropriate balances to cover the Medicare Eligible Retiree Health Fund Contribution accrual costs associated with the component's military personnel strength in each fiscal year.

Other Information Regarding Costs

The Army General Fund 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 General Fund was unable to reconcile intragovernmental costs to the related intragovernmental revenue that generated the cost.

Summary level seller revenue reported by other government agencies was compared to the Army's expenses. An adjustment was posted to expenses based on the comparison with the revenue of the other agencies providing goods and services to the Army. Intragovernmental expenses were adjusted downward for \$13.8 billion while Non-federal expenses were adjusted upward for the same amount. The Army General Fund 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, \$4.7 billion of Intra-Army General Fund transactions were eliminated leaving a balance of \$23.1 billion.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of March 31	2006	2006	2005	2005
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	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	\$ 143,834,607.23	\$ 0.00	\$ 147,174,412.24	\$ 0.00
B. Civilian Health	277,227,185.00	0.00	257,175,920.00	0.00
C. Civilian Life Insurance	816,056.52	0.00	744,728.19	0.00
D. Judgment Fund	50,018,071.71	0.00	96,470,968.97	0.00
E. Intra-Entity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 471,895,920.46	\$ 0.00	\$ 501,566,029.40	\$ 0.00

Fluctuations and/or Abnormalities

Imputed Financing

The \$71.3 thousand, or 10 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 increase in Civilian Life Insurance is attributable to an increase in the Cost of Living Allowance.

The \$46.5 million, or 48 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 decrease in Judgment Fund is attributable to a decrease in the number of court of claims, small claims, and torts filed and the dollar amount of the claims filed for each appropriation account and the adjudication of those claims as follows:

(Amounts in Thousands)	Number of Claims			
	FY 2006	FY 2005	Difference	
Court of Claims	1 \$	0.3 \$	1.2 \$	(0.9)
Torts	295	49.7	94.4	(44.7)
Small Claims	0	0	.9	(0.9)
Totals	296 \$	50.0 \$	96.5 \$	(46.5)

Earmarked Funds

Earmarked Funds represent funds received from outside sources for specific purposes. Earmarked Funds were first reported as separate line items in 1st Quarter, FY 2006; thus a 100 percent difference will be found on all the Earmarked Fund line items on the Statement of Net Position.

Cumulative Results of Operations

Appropriations used (All other funds) increased \$9.7 billion, or 15 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the \$31.1 billion, or 31 percent, increase in appropriations received.

Non-Exchange revenue (Earmarked funds) and Non-Exchange revenue (All other funds) increased \$5.1 million, or 100 percent, and decreased \$6.7 million, or 100 percent, respectively, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to reporting of revenue received for Wildlife Conservation on Military Reservations; Restoration, Rocky Mountain Arsenal; Forest and Wildlife Conservation, Military Reservations; and National Science Center Facilities as earmarked funds for the first time in 1st Quarter, FY 2006.

Donations and forfeitures of cash and cash equivalents (Earmarked funds) increased \$1.5 million, or 100 percent, and Donations and forfeitures of cash and cash equivalents (All other funds) decreased \$816 thousand, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to reclassification of Army gift fund accounts to reflect the new guidance on Earmarked funds for current activity for an overall increase of \$716 thousand, or 88 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to increases in donations to the West Point Military Academy in FY 2006.

Budgetary financing sources transfers-in/out without reimbursement decreased \$2.3 billion, or 86 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. Transfers-in/out are one time events that are not repeatable from year to year. The FY 2006 transfer of \$369.8 million and the FY 2005 transfers of \$2.7 billion represent funds received from the Executive Office of the President for the Iraqi Relief and Reconstruction Fund funds are available only to assist the Iraqi people and to assist in the reconstruction of Iraq. Funds were also provided for necessary expenses to carry out the purposes of the Foreign Assistance Act of 1961 for security, relief, rehabilitation, and reconstruction of Iraq.

Other budgetary financing sources (All other funds) and Other Financing Sources (Other) represent adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. The net effect of these adjustments is reflected on Other budgetary financing sources and Other Financing Sources on the Statement of Net Position. The \$3.1 billion, or 79 percent, decrease in Other budgetary financing sources (All other funds) and \$1.1 billion, or 100 percent, increase in Other Financing Sources from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 is entirely

due to DoD policy changing the reporting of other gains and losses from Other budgetary financing sources to Other Financing Sources in 1st Quarter, FY 2006.

Other Financing Sources Transfers-in/out without reimbursement is comprised of transfers of property, plant and equipment and construction in progress. Transfers-in without reimbursement of \$83.4 million for FY 2006 and \$71.5 million for FY 2005 represent an increase of \$11.9 million, or 17 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. 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				
Other Defense Agencies	\$ 44.5	\$ 5.4	\$ 0.0	\$ 0.0
Defense Logistic Agency	0.0	1.7	0.0	0.0
Air Force	0.0	0.0	32.0	0.0
Total Property Plant & Equipment	\$ 44.5	\$ 7.1	\$ 32.0	\$ 0.0
Construction in Progress				
Office of the Secretary of Defense	\$ 0.8	\$ 0.0	\$ 32.6	\$ 0.0
Washington Headquarters Service	0.3	0.0	0.0	0.0
Missile Defense Agency	0.0	1.9	3.9	0.0
Special Operations Command	0.0	0.0	12.7	0.0
Defense Logistic Agency	0.0	0.0	0.0	14.2
Defense Emergency Response Fund	0.0	0.0	4.5	0.0
Office of the Secretary of Defense, Army	38.4	0.0	0.0	0.0
Services Medical Activity (formerly Defense Health Program)	8.4	0.0	0.0	0.0
Total Construction in Progress	\$ 47.9	\$ 1.9	\$ 53.7	\$ 14.2
Totals	\$ 92.4	\$ 9.0	\$ 85.7	\$ 14.2

Unexpended Appropriations

Appropriations received (All other funds) increased \$31.1 billion, or 31 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to \$19.9 billion increase in Army General Fund's operation and maintenance to fully fund key readiness programs critical to the Global War on Terror, a \$3.5 billion increase in military pay due to an overall pay increase of 3.1 percent and an increase in basic allowance for housing to eliminate out-of-pocket expenses for military personnel, a \$4.7 billion increase in funds to cover the Medicare Eligible Retiree Health Fund Contribution accrual costs associated with the component's military personnel strength first reported in 1st Quarter, FY 2005, and a \$2.6 billion increase for the procurement of equipment to address immediate shortfalls for the National Guard and Reserve.

Appropriations transferred-in/out increased \$1.9 billion, or 205 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the reporting of Net Transfers of \$2.8 billion in FY 2006 and \$924.7 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
Marine Corps General Fund	\$ 155.0	\$ 0.0
Tricare Medical Activity	0.0	1.2
Other Defense Agencies	2500.6	114.2
Office of the Secretary of Defense	278.3	0.0
Total	<u>\$ 2933.9</u>	<u>\$ 115.4</u>

Other adjustments increased \$1 billion, or 316 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due primarily due to the 1 percent rescission passed in the FY 2006, Defense Appropriations Act. Rescissions are one time events that are not repeatable from year to year.

Appropriations used (All other funds) increased \$9.7 billion, or 15 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the \$31.1 billion, or 31 percent, increase in appropriations received.

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 23, Earmarked Funds

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of March 31	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 73,879,910,005.76	\$ 67,479,667,063.09
2. Available Borrowing and Contract Authority at the End of the Period	11,711,937.00	0.00

The Net Amount of Budgetary Resources Obligated for Undelivered Orders increased \$6.4 billion, or 9.5 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 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.

Available Borrowing and Contract Authority at the End of Period increased \$11.7 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to a loan default relating to the Armament Retooling and Manufacturing Support Initiative. The borrowing authority was received from Treasury in 2nd Quarter, FY 2006 to pay for a loan 90 percent guaranteed by ARMS to make bullet casings. The loan was defaulted in 1999 and the Army has been in litigation since to determine the actual amount of debt owed.

Fluctuations and/or Abnormalities

Unobligated balance, brought forward, October 1st decreased \$7.4 billion, or 32 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 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.

Appropriations Received increased \$31.1 billion, or 31 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to increases in the Army’s Operation and Maintenance, Military Personnel, and Procurement appropriations. Army’s Operation and Maintenance increased \$20.2 billion to fully fund key readiness programs critical to the Global War on Terror. Military Personnel Appropriations increased \$7.3 billion due to an overall pay increase of 3.1 percent, an increase in Basic Allowance for Housing to eliminate out-of-pocket expenses for military personnel, and funds received for the first time for Medicare-Eligible Retiree Health Fund Contributions totaling \$4.7 billion. Procurement appropriations increased \$2.8 billion for the procurement of equipment to address immediate shortfalls for the National Guard and Reserve.

Changes in receivables from Federal sources, Advance received, Without advance from Federal Services, and Anticipated for the rest of the year, without advances increased \$422.8 million, or 117 percent; \$67.8 million, or 49 percent; \$1.5 billion, or 30 percent; and \$264.6 million, or 47 percent, respectively, primarily due to changes in the status of Spending

Authority from offsetting collections. The overall total increased \$30.2 billion, or 26 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to increases in reimbursable activity for the installation infrastructure that provides an acceptable quality of life to the operating forces soldiers and family and to ensure proper accountability for civilian end strength utilization.

Nonexpenditure transfers, net, anticipated and actual of \$2.8 billion consists of current year appropriation transfers of \$1.7 billion from Iraq Freedom Fund; Defense, \$155 million from Procurement, Marine Corps; \$278.3 million from Drug Interdiction, Defense; \$253.8 million from Restoration Formerly Used Sites, Defense; \$1.2 million to Defense Health Program, Defense; \$20 million to Humanitarian Assistance, 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 million from Iraq Freedom Fund, Defense; and \$94.2 million to DoD Family Housing Improvement Fund, Defense. The overall increase of \$1.9 billion, or 205 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 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.

Permanently not available increased \$1 billion, or 316 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the 1 percent rescission passed in the FY 2006, Defense Appropriations Act. Rescissions are one time events that are not repeatable from year to year.

Obligations incurred and Unobligated balance – Apportioned increased \$5.3 billion, or 5 percent, and \$18 billion, or 37 percent, respectively, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 based on the increase in appropriations received from the FY 2006 Defense Appropriations Act that was enacted on December 30, 2005.

Unobligated Balance – Exempt from Apportionment increased \$5.4 million, or 17 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to an increase in the Forest & Wildlife Conservation, Military Reservations appropriation in 1st Quarter, FY 2005.

Unobligated Balances Not Available increased \$299.4 million, or 12 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the decrease in allotments of expired authority in the Military Personnel appropriations in 1st Quarter, FY 2006. This was offset by an increase of \$374.3 million, or 100 percent, in the National Guard Military Construction appropriation in 2nd Quarter, FY 2006 due to a one year construction appropriation to fund the rebuilding in the Gulf Coast that was enacted in January 2006 and has not yet been apportioned.

Unpaid Obligations, brought forward increased \$9.1 billion, or 13 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due the Procurement appropriations. Uncollected Customer payments from Federal Sources, brought forward increased \$1.7 billion, or 13 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to fluctuations in the status of Spending Authority from Offsetting Collections.

Gross outlays increased \$10.3 billion, or 13 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the obligation and disbursement of FY 2005 funds for the procurement of aircraft, weapons, and tracked combat vehicles.

Distributed Offsetting receipts are primarily comprised of \$65.7 million in Army General Fund Proprietary Receipts, \$8.6 million in Recoveries of Government Property Lost or Damaged, \$5.5 million in Recoveries under the Foreign Military Sales, and \$4.5 million in Collections of Receivables from Cancelled Accounts. The \$25.9 million, or 22 percent, decrease from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 is largely attributed to \$6.3 million increase in General Fund Proprietary Receipts and \$31.1 million decrease in Recoveries under the Foreign Military Sales.

Accounting Standard U.S. Standard General Ledger

The Army General Fund 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 General Fund 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 General Fund 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 \$91.0 billion in Category A, Direct; \$4.2 billion in Category B, Direct; \$6.8 billion in Category A, Reimbursable; and \$2.1 billion in Category B, Reimbursable. This disclosure agrees with the aggregate of the related information as reported on the Budgetary Execution Report and Obligations Incurred on the Statement of Budgetary Resources.

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.

Borrowing authority increased \$11.7 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to a loan default relating to the ARMS. This initiative 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. 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). The borrowing authority was received from Treasury to pay for a loan 90 percent guaranteed by ARMS to make bullet casings. The loan was defaulted in August 1999 and the Army has been in litigation since to determine the actual amount of debt owed.

Spending authority from offsetting collections – Collected decreased \$59.5 thousand, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the collection of guaranteed fees into the Rural Development appropriation in FY 2005.

Anticipated for rest of year, without advance; Obligations incurred, direct; Unobligated balance, apportioned; Unobligated balance not available; and Gross outlays increased \$100 thousand, or 100 percent; \$11.4 million, or 100 percent; \$340.2 thousand, or 23 percent; \$757.3 thousand, or 100 percent; and \$11.4 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 due to the receipt of authority and disbursement on the ARMS loan guarantee.

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 General Fund. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the United States Government.

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
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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

Offsetting receipts and Budgetary offsetting collections and receipts that do not affect net cost of operations increased \$32.2 million, or 28 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to \$31.1 million increase in Recoveries under the Foreign Military Sales.

Other Financing Sources Transfers-in/out without reimbursement is comprised of transfers of Property, Plant and Equipment and Construction in Progress. Transfers in/out without reimbursement of \$83.4 million for FY 2006 and \$71.5 million for FY 2005 represent an increase of \$11.9 million, or 17 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. 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)	<u>Transfers In</u> <u>FY 2006</u>	<u>Transfers Out</u> <u>FY 2006</u>	<u>Transfer In</u> <u>FY 2005</u>	<u>Transfers Out</u> <u>FY 2005</u>
Property Plant & Equipment				
Other Defense Agencies	\$ 44.5	\$ 5.4	\$ 0.0	\$ 0.0
Defense Logistic Agency	0.0	1.7	0.0	0.0
Air Force	0.0	0.0	32.0	0.0
Total Property Plant & Equipment	\$ 44.5	\$ 7.1	\$ 32.0	\$ 0.0
Construction in Progress				
Office of the Secretary of Defense	\$ 0.8	\$ 0.0	\$ 32.6	\$ 0.0
Washington Headquarters Service	0.3	0.0	0.0	0.0
Missile Defense Agency	0.0	1.9	3.9	0.0
Special Operations Command	0.0	0.0	12.7	0.0
Defense Logistic Agency	0.0	0.0	0.0	14.2
Defense Emergency Response Fund	0.0	0.0	4.5	0.0
Office of the Secretary of Defense, Army	38.4	0.0	0.0	0.0
Services Medical Activity (formerly Defense Health Program)	8.4	0.0	0.0	0.0
Total Construction in Progress	\$ 47.9	\$ 1.9	\$ 53.7	\$ 14.2
Totals	\$ 92.4	\$ 9.0	\$ 85.7	\$ 14.2

Imputed financing from costs absorbed by others has decreased by \$29.6 million, or 5 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to a \$20.1 million increase in Civilian Health Imputed Financing.

Other Resources – Other increased \$1 billion, or 100 percent, and Other resources or adjustments to net obligated resources that do not affect net cost operations – Other decreased \$1 billion, or 1,439 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 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 \$450.1 million, or 32.7 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to decreases in the Defense Environmental Restoration Program liabilities attributed to increased expenditure of appropriated funds against current liabilities for completion of clean-up activities during 2nd Quarter, FY 2006.

Unfilled Customer Orders decreased \$1.6 billion, or 30 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily due to fluctuation in the status of Spending Authority from Offsetting Collections. The overall balance for Spending Authority from Offsetting Collections decreased \$1.3 billion, or 5 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 indicating similar patterns in authority between fiscal years.

Resources that finance the acquisition of assets increased by \$2.8 billion, or 24 percent, and Depreciation and amortization increased by \$1.9 billion, or 28.2 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The Army General Fund bases the value of military equipment for financial statement presentation purposes on projections provided by the Bureau of Economic Analysis (BEA), Department of Commerce. The BEA revised the military equipment projections resulting in increases in the projected purchase and depreciation of military equipment.

Increase in annual leave liability increased \$111 million, or 68 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. The increase in annual leave fluctuates with personnel strengths and timing of leave and is not material to the \$3 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 increase of \$111.1 million, or 100 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 primarily represents an increase in closed accounts payable due to the 2nd Quarter, FY 2005 balance not including the prior years rollover of cancelled accounts payable.

Revaluation of assets or liabilities decreased \$1.2 billion, or 76 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006. These are one time events that are not repeatable from

year to year. The \$360 thousand in FY 2006 and \$1.5 million in FY 2005 represents terminated construction in progress.

Other Trust Fund Exchange Revenue decreased by \$10.9 thousand, or 30 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 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 General Fund is continually reviewing and developing procedures to accurately report these values in the future.

Other Components not Requiring or Generating Resources of \$1.1 billion 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 General Fund is the child and the Department of the Executive Office of the President is the parent. The Department of 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.

Other Components not Requiring or Generating Resources decreased \$673.1 million, or 38 percent, from 2nd Quarter, FY 2005 to 2nd Quarter, FY 2006 largely due to \$1.1 billion in cost capitalized first reported in FY 2006. The remaining increase of \$415.4 million is primarily attributed to security and law enforcement expenses due to the need for additional police training and border enforcement for Iraqi citizens' protection.

Note Reference

For additional line item discussion, 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
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The Statement of Custodial Activity displays current year collections and disbursements for two custodial accounts: Development Fund for Iraq and Iraqi Seized Assets. Funds held in a Custodial Activity are only used for their stated purposes and are not available for 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 \$25.0 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 for Transportation and Telecommunications and Education, Refugees, Human Rights, and Governance.

	(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	\$ 161	\$ 924
Electric Sector	16,262	40,629
Oil Infrastructure	36	466
Water Resources and Sanitation	8,643	15,305
Transportation and Telecommunications	(136)	5,072
Roads, Bridges and Construction	553	4,783
Health Care	59	2,779
Private Sector Development	3,337	7,154
Education, Refugees, Human Rights, and Governance	<u>(3,880)</u>	<u>30,536</u>
Total Disbursed on Behalf of Foreign Governments	25,035	107,648
Retained for Future Support of Foreign Governments *	<u>(25,035)</u>	<u>28,352</u>
Total Disposition of Collections	<u>\$ 0</u>	<u>\$ 136,000</u>
Net Custodial Collection Activity	<u>\$ 0</u>	<u>\$ 0</u>

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

Seized Assets

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi Government that are used in support of the Iraqi people. As of March 31, 2006, \$42.7 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	18,631	513,590
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	0	264,736
Fuel/Supplies	<u>0</u>	<u>75,312</u>
Total Disbursed on Behalf of Iraqi People	18,631	884,476
Retained for Future Support of the Iraqi People	<u>(18,631)</u>	<u>42,739</u>
Total Disposition of Collections	<u>\$ 0</u>	<u>\$ 927,215</u>
Net Custodial Collection Activity	<u>\$ 0</u>	<u>\$ 0</u>

Note 23.	Earmarked Funds
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BALANCE SHEET				
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As of March 31

MRF

MERHCF

Other Earmarked
FundsTotal Earmarked
Funds**ASSETS**

Fund balance with Treasury	\$	0.00	\$	0.00	\$	40,718,761.57	\$	40,718,761.57
Investments		0.00		0.00		3,400,473.67		3,400,473.67
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	\$	44,119,235.24	\$	44,119,235.24

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Employment Related Actuarial Liabilities	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Other Liabilities Unexpended Appropriations		0.00		0.00		3,386,858.75		3,386,858.75
Cumulative Results of Operations		0.00		0.00		0.00		0.00
Total Liabilities and Net Position	\$	0.00	\$	0.00	\$	44,119,235.24	\$	44,119,235.24

STATEMENT OF NET COST

As of March 31

Program Costs	\$	0.00	\$	0.00	\$	1,056,289.70	\$	1,056,289.70
Less Earned Revenue		0.00		0.00		(25,449.04)		(25,449.04)
Net Program Costs	\$	0.00	\$	0.00	\$	1,030,840.66	\$	1,030,840.66
Less Earned Revenues Not Attributable to Programs		0.00		0.00		0.00		0.00
Net Cost of Operations	\$	0.00	\$	0.00	\$	1,030,840.66	\$	1,030,840.66

STATEMENT OF CHANGES IN NET POSITION

As of March 31

Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	35,139,702.65	\$	35,139,702.65
Net Cost of Operations		0.00		0.00		1,030,840.66		1,030,840.66
Other Nonexchange Revenue		0.00		0.00		6,623,514.50		6,623,514.50
Change in Net Position	\$	0.00	\$	0.00	\$	5,592,673.84	\$	5,592,673.84
Net Position End of Period	\$	0.00	\$	0.00	\$	40,732,376.49	\$	40,732,376.49

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.

Earmarked Funds are presented in this footnote as combined and do not reflect eliminations within the Army. All intra-governmental earmarked assets, liabilities, revenue, and costs reflect transactions with entities outside of the DoD.

Fluctuation and/or Abnormalities

The Fund Balance with Treasury of \$40.7 million is comprised of:

(Amounts in thousands)	
Restoration of Rocky Mountain Arsenal	\$ 30,597
Forest and Wildlife Conservation	4,626
Sale of Hunting and Fishing Permits	4,432
Army General Gift Fund	925
National Science Center	67
Royalties for use of DoD/Military Insignia Trademarks	54
Walter Reed Army Medical Center	23
Total	<u>\$ 40,724</u>

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

Other Liabilities of \$3.4 million primarily represents accounts payable for restoration of Rocky Mountain Arsenal.

Program Costs of \$1.1 million is primarily comprised of costs for Army Gift Fund of \$1.5 million, Restoration of Rocky Mountain Arsenal of (\$558) thousand, and Sale of Hunting and Fishing Permits of \$71 thousand.

Earned Revenue of \$25.5 thousand represents interest received on the Army General Gift Fund and the Walter Reed Army Medical Center.

Other Non-exchange Revenue of \$6.6 million is primarily comprised of collections received for the restoration of Rocky Mountain Arsenal.

Note 24.	Other Disclosures
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As of March 31	2006			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due

Fiscal Year

2006	\$	3,149,026.42	\$	0.00	\$	0.00	\$	3,149,026.42
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		15,483,652.33		0.00		0.00		15,483,652.33

**Total Future Lease
Payments Due**

	\$	35,792,869.59	\$	0.00	\$	0.00	\$	35,792,869.59
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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.