Department of Defense
Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	$ 1,222,397,352.02	$ 892,959,522.65
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	0.00	0.00
2. Investments (Note 4)	0.00	0.00
3. Accounts Receivable (Note 5)	486,599,329.60	447,368,516.91
4. Other Assets (Note 6)	2,261,292.62	16,850,605.45
5. Total Intragovernmental Assets	$ 1,711,257,974.24	$ 1,357,178,645.01
B. Cash and Other Monetary Assets (Note 7)	$ 0.00	$ 0.00
C. Accounts Receivable,Net (Note 5)	228,072,244.07	227,263,608.49
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property,Net (Note 9)	33,908,115,451.66	21,476,972,519.61
F. General Property, Plant and Equipment,Net (Note 10)	1,183,888,485.98	1,173,832,477.16
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	538,558,675.14	332,793,273.05
2. TOTAL ASSETS	$ 37,569,892,831.09	$ 24,568,040,523.32
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$ 130,729,046.78	$ 266,667,442.38
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	163,626,276.53	140,476,799.72
4. Total Intragovernmental Liabilities	$ 294,355,323.31	$ 407,144,242.10
B. Accounts Payable (Note 12)	$ 398,752,582.79	$ 342,914,647.05
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	233,713,461.91	238,729,115.79
D. Environmental and Disposal Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	1,170,917,932.98	1,401,199,013.99
4. TOTAL LIABILITIES	$ 2,097,739,300.99	$ 2,389,987,018.93
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	$ 0.00	$ 0.00
B. Unexpended Appropriations - Other Funds	16,522,777.87	0.00
C. Cumulative Results of Operations - Earmarked Funds	0.00	0.00
D. Cumulative Results of Operations - Other Funds	35,455,630,752.23	22,178,053,504.39
6. TOTAL NET POSITION	$ 35,472,153,530.10	$ 22,178,053,504.39
7. TOTAL LIABILITIES AND NET POSITION	$ 37,569,892,831.09	$ 24,568,040,523.32

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	$ 6,595,415,742.39	$ 7,877,038,625.10
B. (Less: Earned Revenue)	(8,137,787,672.19)	(8,425,663,601.35)
C. Net Program Costs	$ (1,542,371,929.80)	$ (548,624,976.25)
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	$ (1,542,371,929.80)	$ (548,624,976.25)

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	$ 33,774,838,090.74	$ 21,890,389,890.99
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	33,774,838,090.74	21,890,389,890.99
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	27,766,222.13	0.00
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	(386,111,000.00)
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 (+/-)	(10,606,169.45)	0.00
5.C. Imputed financing from costs absorbed by others	121,260,679.01	125,149,637.15
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	138,420,731.69	(260,961,362.85)
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds	(1,542,371,929.80)	(548,624,976.25)
8. Net Change		
8.A. Earmarked funds	0.00	0.00
8.B. All other funds	1,680,792,661.49	287,663,613.40
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	35,455,630,752.23	22,178,053,504.39

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	$ 35,455,630,752.23	$ 22,178,053,504.39

Department of Defense

Air Force Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	$ 0.00	$ 0.00
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	0.00
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	44,476,500.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	(187,500.00)	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	0.00	0.00
4.D.2 All other Funds	(27,766,222.13)	0.00
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources		
6.A. Earmarked funds	0.00	0.00
6.B. All other funds	16,522,777.87	0.00
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	16,522,777.87	0.00
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	16,522,777.87	0.00

Department of Defense

Air Force Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	$ 16,522,777.87	$ 0.00

Department of Defense

Air Force Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	$ 292,678,750.15	$ 134,439,106.78
2. Recoveries of prior year unpaid obligations	2,384,122.69	0.00
3. Budget authority		
3.A. Appropriation	44,476,500.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	10,289,931,840.16	5,582,274,892.78
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	11,837,451,577.22	12,338,557,343.00
3.D.1.b. Change in receivables from Federal sources	(111,370.93)	(7,378,518.73)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	16,246,920.26	(109,860,997.60)
3.D.2.b. Without advance from Federal sources	277,411,347.01	532,779,774.49
3.D.3. Anticipated for rest of year, without advances	1,100,597,015.85	1,205,001,637.95
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	23,566,003,829.57	19,541,374,131.89
4. Nonexpenditure transfers, net, anticipated and actual	0.00	(386,111,000.00)
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(6,737,190,540.46)	0.00
7. Total Budgetary Resources	$ 17,123,876,161.95	$ 19,289,702,238.67

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2006 and 2005

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	$ 0.00	$ 0.00
8.B. Reimbursable	10,913,012,095.10	11,319,448,935.44
8.C. Subtotal	10,913,012,095.10	11,319,448,935.44
9. Unobligated balance:		
9.A. Apportioned	6,098,372,537.26	7,862,458,799.22
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	6,098,372,537.26	7,862,458,799.22
10. Unobligated balance not available	112,491,529.59	107,794,504.01
11. Total status of budgetary resources	$ 17,123,876,161.95	$ 19,289,702,238.67
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	8,621,327,352.90	8,980,235,422.78
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	$ (4,967,391,264.45)	$ (4,224,253,591.14)
12.C. Total unpaid obligated balance	3,653,936,088.45	4,755,981,831.64
13. Obligations incurred net (+/-)	$ 10,913,012,095.10	$ 11,319,448,935.44
14. Less: Gross outlays	(11,839,812,722.95)	(12,000,737,053.52)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	0.00	0.00
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	(2,384,122.69)	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	(277,299,976.08)	(525,401,255.76)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	7,692,142,602.36	8,298,947,304.70
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(5,244,691,240.53)	(4,749,654,846.90)
18.C. Total, unpaid obligated balance, net, end of period	2,447,451,361.83	3,549,292,457.80
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	11,839,812,722.95	12,000,737,053.52
19.B. Less: Offsetting collections	(11,853,698,497.48)	(12,228,696,345.40)
19.C. Less: Distributed Offsetting receipts	0.00	0.00
19.D. Net Outlays	$ (13,885,774.53)	$ (227,959,291.88)

Department of Defense

Air Force Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended June 30, 2006 and 2005

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

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2006 and 2005

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

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	$ 10,913,012,095.10	$ 11,319,448,935.44
2. Less: Spending authority from offsetting collections and recoveries (-)	(12,133,382,596.25)	(12,754,097,601.16)
3. Obligations net of offsetting collections and recoveries	(1,220,370,501.15)	(1,434,648,665.72)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	(1,220,370,501.15)	(1,434,648,665.72)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(10,606,169.45)	0.00
8. Imputed financing from costs absorbed by others	121,260,679.01	125,149,637.15
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	110,654,509.56	125,149,637.15
11. Total resources used to finance activities	$ (1,109,715,991.59)	$ (1,309,499,028.57)
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 (-)	509,788,215.27	442,565,712.02
12b. Unfilled Customer Orders	293,658,267.27	422,918,776.89
13. Resources that fund expenses recognized in prior periods	0.00	0.00
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.00	0.00
15. Resources that finance the acquisition of assets	(3,962,429,545.09)	(3,871,065,957.12)
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 (+/-)	10,606,169.45	0.00
17. Total resources used to finance items not part of the net cost of operations	$ (3,148,376,893.10)	$ (3,005,581,468.21)
18. Total resources used to finance the net cost of operations	$ (4,258,092,884.69)	$ (4,315,080,496.78)

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2006 and 2005

	2006 Consolidated	2005 Consolidated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	6,499.91	0.00
23. Other (+/-)	0.00	33,794,210.97
24. Total components of Net Cost of Operations that will require or generate resources in future periods	6,499.91	33,794,210.97
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	123,814,298.36	142,083,116.39
26. Revaluation of assets or liabilities (+/-)	437,774,235.32	894,767,745.37
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	3,744,444,153.12	3,634,732,261.88
27c. Operating Material & Supplies Used	37,619,298.92	263,906,747.74
27d. Other	(1,627,937,530.74)	(1,202,828,561.82)
28. Total components of Net Cost of Operations that will not require or generate resources	2,715,714,454.98	3,732,661,309.56
29. Total components of net cost of operations that will not require or generate resources in the current period	$ 2,715,720,954.89	$ 3,766,455,520.53
30. Net Cost of Operations	$ (1,542,371,929.80)	$ (548,624,976.25)

Note 1.	Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and operating results of the United States Air Force Working Capital Fund (AFWCF), as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of AFWCF in accordance with the "Department of Defense Financial Management Regulation (DoDFMR)," the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which AFWCF is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that is not discernable. The AFWCF's financial statements are in addition to the monthly financial reports that are prepared by the United States Air Force pursuant to OMB directives to monitor and control the Air Force's use of budgetary resources.

The AFWCF is unable to fully implement all elements of GAAP and OMB Circular A-136, due to limitations of using nonfinancial feeder systems and processes that feed into the financial statements. The AFWCF derives its reported values and information for major asset and liability categories largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations, rather than preparing financial statements in accordance with GAAP. The AFWCF currently has several material departures from GAAP. The five primary auditor-identified financial statement material weaknesses are: (1) financial and nonfinancial feeder systems do not contain an adequate audit trail for the proprietary and budgetary accounts; (2) the Defense Finance and Accounting Service (DFAS) cannot accurately identify all intergovernmental transactions by customer, which is required for eliminations when preparing consolidated financial statements; (3) operating materials and supplies are not reflected at historical cost; (4) the problem disbursement and in-transit disbursements that have been reported by a disbursing station to the Department of Treasury have not been precisely matched against specific source obligations; this condition adversely affects the Balance Sheet line item for fund balance with treasury, and (5) adjustments for undistributed disbursements and collections are not supported at the detail level, which precludes expressing an opinion on accounts payable and accounts receivable.

The AFWCF continues to implement process and system improvements addressing these limitations, many of which are detailed below.

1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the Department of Defense (DoD) and made the Air Force a department within DoD. The overall mission of DoD is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. The overall mission of the Air Force is to deliver sovereign options for the defense of the United States of America and its global interest—to fly and fight in air, space, and cyberspace. Our priorities are: 1) win the Global War on Terrorism; 2) develop and care for our airmen, and 3) modernize and recapitalize our aircraft and equipment.

The stock and industrial revolving fund accounts were created by the National Security Act of 1947, as amended in 1949 and codified in Title 10, U.S.C., and Section 2208. The revolving funds were established as a means to more effectively control the cost of work performed by DoD. The DoD began operating under the revolving fund concept as early as July 1, 1951.

1.C. Appropriations and Funds

The Air Force receives its appropriations and funds as general, working capital (revolving funds), trust, special, deposit funds, and earmarked funds. The Air Force uses these appropriations and funds to execute mission requirements and report on resource usage.

Working Capital Funds (WCF) receive their initial funding through an appropriation or a transfer of resources from existing appropriations or funds and uses those capital resources to finance the initial startup. The WCF activities provide goods and services to customers on a reimbursable basis. Reimbursable receipts fund ongoing operations and generally are available in their entirety for use without further congressional action.

Air Force systems are not transaction driven for budgetary accounts. Therefore, in some cases proprietary and statistical accounts are used to develop the Report on Budget Execution (SF133) and Statement of Budgetary Resources for reporting budgetary data.

The FY 2006 AFWCF operations consist of two major activity groups: Supply Management and Depot Maintenance. Prior to FY 2006, there was a third activity group called Information Services. This activity was closed in 2005 and is in the process of liquidating balance sheet accounts.

Supply Management

The Air Force Stock Funds were established within the DoD under 10 U.S.C. 2208, as described in DoD 7000.14-R, Financial Management Regulation, to finance supply inventories. The majority of Air Force supply requirements are financed and managed within the stock fund. Exceptions include an item financed with a procurement appropriation or when financing by other means has been deemed to be more economical and efficient. A stock fund operates as a revolving fund replenishing inventories with funds received from sales to customers.

There are four active business activities in the Supply Management Activity Group (SMAG): 1) Materiel Support Division (MSD); 2) General Support Division (GSD); 3) Medical-Dental Division, and 4) Air Force Academy Division. The Fuels Division and Troop Support Division were closed prior to FY 2001. The residual accounts for these two divisions are in the process of being closed by end of year FY 2006.

A brief description is provided below for four active business activities.

Wholesale Supply
- MSD manages over 130 thousand depot-level repairables and consumable items, for which the Air Force is the Inventory Control Point, which are used to maintain weapon system.

Retail Supply
- GSD manages over 1.5 million different supply items, which support field and depot maintenance of aircraft, ground and airborne communication and electronic systems.
- Medical-Dental manages over seven thousand different items, which are used to support medical and dental supply requirements
- Air Force Academy finances the purchase of uniforms and uniform accessories for the sale to cadets.

<u>Depot Maintenance</u>
The Air Force Depot Maintenance Activity Group (DMAG) repairs systems and spare parts that ensure readiness in peacetime and provide sustainment to combat forces in wartime. In peacetime, the Air Force enhances readiness by efficiently and economically repairing, overhauling, and modifying aircraft, engines, missiles, depot-level reparables, and software to meet customer demands. Depots have unique skills and equipment required to support and overhaul both new, complex components as well as aging weapon systems. An extremely important facet of the depots is that during wartime or contingencies, the Air Force can surge repair operations and realign capacity to support the war-fighters' immediate needs. This is achieved by employing the unique strengths of organic (in-house) and contracted (contract) repair resources.

<u>Air Force Working Capital Fund Component</u>
The purpose of the Air Force Component Activity is to provide an activity within AFWCF to record transactions that cannot be identified to a specific business area. The January 21, 1997 memorandum "Policy and Procedures for Cash Management Working Capital Funds (DWCF)" established the "Component-Level Adjustment" column. The Component account's primary activities involve fund balance transactions and are minimal in both number of transaction and dollar values.

Additional Defense Finance and Accounting Service (DFAS)-Arlington memorandums provided specific and detailed instructions and procedures to maintain accountability for fund balance with treasury.

Business Operations

Operations of the activities within the AFWCF are based on policies and procedures that include funds management. The AFWCF receives two fund types: operating authority and capital authority. These two fund types are received on a funding document.

(1) Operating Authority:

Funding is used for the daily recurring business operating expenses incurred to produce the service or supply items being demanded.

(2) Capital Program Authority:

Funding is used to procure investment items. These items are classified into four categories: 1) Equipment; 2) Software; 3) Hardware, and 4) Minor Construction. Procured items must be greater than $100,000 and provide more than one year of service. These items are currently depreciated over the expected life of the asset.

All AFWCF groups establish rates and prices for full cost recovery. If an operating loss or gain is incurred, the activity will make the appropriate adjustment in following year prices to recoup the loss or return the gain to their customers.

1.D. Basis of Accounting

For FY 2006, AFWCF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of AFWCF's financial and non-financial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of AFWCF's legacy systems were designed to record information on a budgetary basis.

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

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

Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

1.E. <u>Revenues and Other Financing Sources</u>
Each working capital activity group recognizes revenue in the following manner:

<u>Supply Management</u>

Supply Management WCF activities recognize revenue from the sale of inventory items. Air Force Supply Management revenue is recognized at the time of sale under constructive delivery terms (normally when an item is released from inventory or delivered to the customer). Foreign military sale transactions also require proof of shipment before revenue is recognized. The wholesale group recognizes revenue by billing a customer at exchange price and the receipt of reimbursement revenue for the customer requested purchase of Readiness Spare Packages (RSP) kits and initial spares for weapon systems. The retail group recognizes revenue by billing a customer at standard price and the receipt of reimbursement revenue for the customer requested purchase of War Readiness Material (WRM) and Basic Expeditionary Airfield Resources. IntraAFWCF supply management sales have been eliminated.

<u>Depot Maintenance</u>

Depot Maintenance (Organic) activities recognize revenue according to the percentage of completion method. Depot Maintenance (Contract) activities recognize revenue based on the number of units produced times the Unit Sales Price (USP) which is recognized upon completion of the repair. Due to the anticipated closure of contract activity in FY 2007, it is not cost-effective to implement system modifications to support the percentage of completion method.

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

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

Under the accrual method revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. In addition to the accrual basis of accounting, Depot Maintenance also uses the full absorption accounting principal. During FY 1996, the Defense Finance and Accounting Service-Denver Center (DFAS-DE); Secretary of the Air Force, Deputy Assistant Secretary Budget (SAF/FMB); and the Office of the Secretary of Defense, Financial Management (OSD/FM) jointly agreed on the use of this principal by Depot Maintenance. This principal requires that overhead costs, such as depreciation and bad debt expenses, are included in the cost of services sold.

1.G. <u>Accounting for Intragovernmental Activities</u>

The Air Force, 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 Air Force as though the agency was a stand-alone entity.

The Air Force's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, civilian employees covered by FERS and military personnel covered by MRS receive varying coverage under Social Security. The AFWCF funds a portion of the civilian and military pensions. Reporting civilian pension information under the CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The AFWCF 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 in the Statement of Changes in Net Position.

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

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" and the Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide," provide guidance for reporting and reconciling intragovernmental balances. While AFWCF is unable to fully reconcile intragovernmental transactions with all federal partners, AFWCF is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the Office of Personnel Management (OPM). The DoD's proportionate share of public debt and related expenses of the federal government are not included. The federal government does not apportion debt and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

1.H. <u>Transactions with Foreign Governments and International Organizations</u>

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

1.I. <u>Funds with the U.S. Treasury</u>

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

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

Material disclosures are provided in Note 3.

1.J. <u>Foreign Currency</u>

Not applicable.

1.K. Accounts Receivable

As presented on the Balance Sheet, accounts receivable includes accounts receivables, claims receivables, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies (per Code of Federal Regulations 4 CFR 101).

The AFWCF maintains an aging schedule of receivables. Aging allows for the management of collection action. The receivables are considered delinquent if not received within 30 days from date of invoice or notice of payment due, unless different terms are specified by contract or other agreements. Interest, penalty and administrative charges are calculated on delinquent accounts from the public in accordance with 31 United States Code (U.S.C.) 3717. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type.

Material disclosures are provided in Note 5.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

Inventory for AFWCF is all held in SMAG except for work-in-process inventory, which is in the Depot Management Activity Group. Prior to fiscal year 2004, SMAG inventory was reported at approximate historical cost based on Latest Acquisition Cost (LAC), adjusted for holding gains and losses. During fiscal years 2004 and 2005, 99 % of SMAG inventory changed from the LAC method to the Moving Average Cost (MAC) method of valuation. This allowed SMAG to comply with the SFFAS No. 3, “Accounting for Inventory and Related Property,” for that percentage of the inventory. The conversion to MAC included programming changes for the SMAG accounting system to convert from the Air Force General Ledger (AFGL) to the USSGL for supply accounting.

Under the LAC method of inventory valuation, gains and losses resulting from valuation changes for inventory items were recognized and reported in the Statement of Net Cost and included in the calculation of cost of goods sold. To calculate the allowances for gain or loss on inventories, DFAS-DE prepared an inventory worksheet monthly for each fund code within SMAG. SFFAS No. 3, "Accounting for Inventory and Related Property," directs that using a historical cost valuation method does not require an allowance for holding gains and losses. Additionally, SFFAS No. 3 provides for either the direct or allowance method to be used in valuing inventory held for repair. Therefore, the change to a historical costing method also included the elimination of the allowance for holding gains and losses, revaluation of all inventories to a historical basis, and the creation of an allowance for repairs. The implementation of MAC for SMAG inventories in fiscal year 2004 and 2005 eliminated the need for the gains and losses allowance account for that portion of the inventory and has been credited against a prior period.

Inventory held for repair is now valued at MAC, with an allowance for repair equal to the latest repair cost, to account for spares requiring repair.

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

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

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

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

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

Material disclosures related to inventory and related property are provided in Note 9.

1.N. <u>Investments in U.S. Treasury Securities</u>
Not applicable.

1.O. <u>General Property, Plant and Equipment</u>
The SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," established generally accepted accounting principles for valuing and reporting military equipment (e.g. ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The Department is moving away from a standard capitalization threshold for all categories (e.g. real property, military equipment, etc.) of General Property, Plant and Equipment (PP&E) to one that is specific for each individual category. The Under Secretary of Defense Comptroller issued a memorandum dated March 13, 2006 regarding a "Capitalization Threshold Policy for Real Property". This memorandum revised the Department's capitalization threshold from $100,000 to $20,000 in order to meet the Department's audit readiness objective to capitalize 99% of all real property expenses. All entities are required to update records and fully implement the new policy no later than March 31, 2008. The AFWCF is in the process of implementing this revised policy. The 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 DoD capitalization threshold of $100,000. DoD also requires capitalization of improvements over DoD capitalization threshold of $100,000 for PP&E. The DoD depreciates all PP&E, other than land, on a straight-line basis. Minor construction projects that cost $100,000 or more, but less than $300,000, are funded through a separate section of the capital budget, and depreciated over a 20-year period.

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 WCF assets. These assets remain capitalized and reported on WCF financial statements.

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

The DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Air Force reports only government property in the possession of contractors that is maintained in the Air Force's property systems. The DoD has issued new property accountability and reporting requirements that require Air Force 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 are provided in Note 10.

1.P. <u>Advances and Prepayments</u>

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

1.Q. <u>Leases</u>

Not applicable.

1.R. <u>Other Assets</u>

The AFWCF 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, AFWCF provides financing payments. One type of financing payment that AFWCF makes for real property is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the general PP&E line on the Balance Sheet and in the related note.

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

1.S. <u>Contingencies and Other Liabilities</u>

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

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The AFWCF's loss contingencies arise as a result of pending or threatened litigation or claims and assessments that 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 AFWCF's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government." The DoD recognizes non-environmental disposal liabilities for military equipment nuclear-powered assets when placed into service. Such amounts are developed in conjunction with, and not easily identifiable separately from, environmental disposal costs.

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Comparative Data

Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or 10 percent from the previous period presented are explained within the notes to the financial statements.

1.X. Unexpended Obligations

The AFWCF 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. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The AFWCF follows this procedure.

Note 2. Nonentity Assets

As of June 30	2006	2005
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0.00	$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	$ 0.00	$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 0.00	$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	$ 0.00	$ 0.00
3. Total Nonentity Assets	$ 0.00	$ 0.00
4. Total Entity Assets	$ 37,569,892,831.09	$ 24,568,040,523.32
5. Total Assets	$ 37,569,892,831.09	$ 24,568,040,523.32

Asset accounts are categorized as either entity or nonentity. Entity accounts consist of resources that are available for use in the operations of the entity. The Air Force is authorized to decide how to use resources in entity accounts. The Air Force may be legally obligated to use these resources to meet entity obligations. Nonentity accounts, on the other hand, consist of assets that are held by an entity that are not available for use in the operations of the entity.

The Air Force Working Capital Fund does not have any nonentity assets.

Note 3. Fund Balance with Treasury

As of June 30	2006	2005
1. Fund Balances		
A. Appropriated Funds	$ 0.00	$ 0.00
B. Revolving Funds	1,222,397,352.02	892,959,522.65
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	$ 1,222,397,352.02	$ 892,959,522.65
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 920,828,073.21	$ 1,276,382,823.51
B. Fund Balance per AFWCF	1,222,397,352.02	892,959,522.65
3. Reconciling Amount	$ (301,569,278.81)	$ 383,423,300.86

The reconciling amount on line 3 above represents $(301.6) million for the United States Transportation Command (USTC), which is reported at the Department of the Treasury as part of the Air Force Working Capital Fund (AFWCF). However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations (ODO) reporting, which is separate from the AFWCF. Therefore, USTC cash is not included on the AFWCF AFS statements.

Fluctuations

The $329.4 million (37%) increase in fund balance is attributable to two cash transfers that occurred in the 3rd and 4th Quarters of FY 2005 which resulted in a net increase in fund balance of $312.2 million. On June 30th, 2005, a memorandum was issued by the Office of the Under Secretary of Defense – (OUSD)-Comptroller directing the transfer of $967.2 million in cash from the Air Force Working Capital Fund Treasury Account to the Air Force General Fund Treasury account due to internal reprogramming actions. The memorandum indicated that $500.0 million was to come from USTC (reported with ODO for WCF purposes) and that $467.2 million was to come from the AFWCF. Based on the late issue of the memorandum, $467.2 million was transferred out of the AFWCF in the 3rd Quarter, FY 2005. Upon clarification of the memorandum in the 4th Quarter of FY 2005, it was determined that the entire amount should have been transferred from the USTC and the $467.2 million was returned to the AFWCF. This return of cash resulted in an increase in cash between the two periods reported in these financial statements of $467.2 million. This increase was offset by another cash transfer in the 4th Quarter, FY 2005. On September 16, 2005 a memorandum was issued by OUSD reprogramming $155.0 million from AFWCF to the Army General Fund. Upon receipt of the memorandum, the fund balance was reduced by $155.0 million.

Note Reference

See Note Disclosure 1.I, Significant Accounting Policies, for additional discussion on financial reporting requirements and Department of Defense policies governing funds with the U.S Treasury.

Status of Fund Balance with Treasury

As of June 30		2006		2005
1. Unobligated Balance				
A. Available	$	5,110,267,051.00	$	6,765,251,665.28
B. Unavailable		0.00		0.00
2. Obligated Balance not yet Disbursed	$	7,692,142,602.36	$	(5,872,292,142.65)
3. Nonbudgetary FBWT	$	0.00	$	0.00
4. NonFBWT Budgetary Accounts	$	(11,580,012,301.34)	$	0.00
5. Total	$	1,222,397,352.02	$	892,959,522.63

<u>Fluctuations</u>

The decrease of $1.7 billion (24%) on Line 1 can be attributed to a policy change in the treatment of contract authority that was implemented by the Under Secretary of Defense Comptroller's office in September of FY 2005. Contract authority invoked is no longer reflected as available, it is now reflected on Line 2. This policy change had no impact on actual Fund Balance with Treasury. The increase of $13.6 billion (231%) on Line 2 is due to two factors. The first factor is the offset of the change on Line 1. The second factor is the establishment of a NonFBWT Budgetary Accounts (Line 4) that occurred in the 4th Quarter, FY 2005. In FY 2005, the Line 4 amounts were included on Line 3. This factor also accounts for the $11.6 billion (100%) change on Line 4.

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

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

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
F3845 – Personal Property Proceeds	$ 0.00	$ 0.00	$ 0.00	$ 0.00
F3875 – Disbursing Officer Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	$ 35,967,263.68	$ 71,070,872.13	$ 16,832,133.10	$ (54,238,739.03)
B. Negative Unliquidated Obligations (NULO)	8,379,875.10	5,746,315.08	1,784,952.45	(3,961,362.63)
2. Total In-transit Disbursements, Net	$ 475,181,350.06	$ 215,559,777.06	$ 267,096,121.60	$ 51,536,344.54

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

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

The In-transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity and have not been posted to the accounting system.

The Air Force Working Capital fund had a $58.2 million decrease in problem disbursements and a $51.5 million increase in In-transit disbursements. The Defense Finance and Accounting Service has efforts underway to improve the systems, to resolve all previous problem disbursements, and to process all in-transit disbursements in a timely manner. The amount of Unmatched Disbursements (UMDs) over 180 days old is $0.00, Negative Unliquidated Obligations (NULO) is $0.00, and In-transit is ($979,124.71). The amount of UMDs over 120 days old is $0.00, NULO is $0.00, and In-transit is ($1,139,608.96). The current absolute value of In-transit disbursements is $324.4 million. The increase in Intransit was mainly due to a $57.8 million increase in Interfund transactions. A large volume of interfund bills were received in June 2006 that will be transferred to accounting sites to be posted in July 2006.

Note 4. Investments and Related Interest

As of June 30	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	$ 0.00		$ 0.00	$ 0.00	$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	$ 0.00		$ 0.00	$ 0.00	$ 0.00
2. Other Investments					
A. Total Investments	$ 0.00		$ 0.00	$ 0.00	N/A

As of June 30	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	$ 0.00		$ 0.00	$ 0.00	$ 0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	$ 0.00		$ 0.00	$ 0.00	$ 0.00
4. Other Investments					
A. Total Investments	$ 0.00		$ 0.00	$ 0.00	N/A

Not Applicable.

Note 5. Accounts Receivable

As of June 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 486,599,329.60	N/A	$ 486,599,329.60	$ 447,368,516.91
2. Nonfederal Receivables (From the Public)	$ 228,072,244.07	$ 0.00	$ 228,072,244.07	$ 227,263,608.49
3. Total Accounts Receivable	$ 714,671,573.67	$ 0.00	$ 714,671,573.67	$ 674,632,125.40

Information Related to Accounts Receivables

Allowance Method

The Supply Management Activity Group uses an allowance method based on historical data for non-federal receivables. The Depot Maintenance and the Information Services Activity Groups generally use the direct write-off method for uncollectible accounts.

Allocation of Undistributed Collections

The Department of Defense (DoD) policy is to allocate supported undistributed collections between federal and non-federal categories based on the percentage of federal and non-federal accounts receivable. Unsupported undistributed collections are recorded in Unites States Standard General Ledger (USSGL) account 2400, Liability For Deposit Funds, Clearing Accounts, and Undeposited Collections. The Air Force Working Capital Fund (AFWCF) followed this allocation procedure, applying $321.5 thousand in undistributed collections to accounts receivable and recording $54.4 million of unsupported undistributed to USSGL account 2400.

Elimination Adjustments

Accounts receivable within the AFWCF have been eliminated for statement presentation purposes. The total value of the receivables that were eliminated on these financial statements is $346.4 million.

The Air Force accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile intragovernmental accounts receivable balances with its trading partners. Through the ongoing Business Management Modernization Program, the Department intends to develop long-term systems improvements that will capture the data necessary to perform reconciliations.

Aged Accounts Receivable

As of June 30	2006 Intragovernmental	2006 Nonfederal	2005 Intragovernmental	2005 Nonfederal
CATEGORY				
Nondelinquent				
Current	$ 829,195,943.00	$ 205,069,642.00	$ 756,615,733.00	$ 199,938,016.00
Noncurrent	0.00	0.00	118,397.00	0.00
Delinquent				
1 to 30 days	$ 540,095.00	$ 174,869.00	$ 0.00	$ 0.00
31 to 60 days	(923,414.00)	550,179.00	0.00	0.00
61 to 90 days	752,570.00	590,054.00	6,870,741.00	5,496,265.00
91 to 180 days	2,569,255.00	1,099,469.00	1,923,999.00	559,958.00
181 days to 1 year	382,312.00	6,560,853.00	1,732,482.00	10,848,693.00
Greater than 1 year and less than or equal to 2 years	319,860.00	12,920,533.00	7,035,585.00	5,657,441.00
Greater than 2 years and less than or equal to 6 years	38,648.00	712,310.00	81,718.00	4,344,730.00
Greater than 6 years and less than or equal to 10 years	0.00	121,792.00	0.00	98,455.00
Greater than 10 years	0.00	2,793.00	0.00	1,227.00
Subtotal	$ 832,875,269.00	$ 227,802,494.00	$ 774,378,655.00	$ 226,944,785.00
Less Supported Undistributed Collections	125,371.00	276,675.00	(417,276.00)	276,675.12
Less Eliminations	(346,408,234.95)	0.00	(326,473,298.15)	0.00
Less Other	6,924.55	(6,924.93)	(119,563.94)	42,148.37
Total	$ 486,599,329.60	$ 228,072,244.07	$ 447,368,516.91	$ 227,263,608.49

Delinquent accounts receivables are referred to either Columbus Contract Debt Collection Office or the Defense Debt Management System at the Defense Finance and Accounting Service - Denver for collection action.

The abnormal amount in the 31-60 day category is due to the deletion of records that created accounts receivable in the Financial Inventory Accounting Billing System (FIABS). The system glitch occurred in the 3rd Quarter, FY 2006 and is being researched and will be corrected for 4th Quarter reports.

The “Other” Line for prior year represents disconnects in values between the Monthly Report on Receivables (MRR) and the trial balance. These disconnects were corrected for FY 2006. The 2006 “Other” amounts represent foreign military sales for the Information Services Activity Group that were incorrectly reported as federal on the MRR.

Note Reference

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

Note 6. Other Assets

As of June 30		2006		2005
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	2,261,292.62	$	16,850,605.45
B. Total Intragovernmental Other Assets	$	2,261,292.62	$	16,850,605.45
2. Nonfederal Other Assets				
A. Outstanding Contract Financing Payments	$	155,261,199.35	$	0.00
B. Other Assets (With the Public)		383,297,475.79		332,793,273.05
C. Total Nonfederal Other Assets	$	538,558,675.14	$	332,793,273.05
3. Total Other Assets	$	540,819,967.76	$	349,643,878.50

Fluctuations and Abnormalities

Intragovernmental other assets (Line 1)

The $14.6 million (87%) decrease to intragovernmental other assets is primarily due to an advance to the Defense Information Systems Agency (DISA) in the amount of $11.4 million in 3rd Quarter, FY 2005. In FY 2005, DISA was directed by the Office of the Under Secretary of Defense, Comptroller to advance bill to resolve the Defense Logistic Agency cash flow concerns. To date, there has been no advance billings required for this year.

The Air Force accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile intragovernmental other assets balances with its trading partners.

Non-federal other assets (Line 2)

Nonfederal Other Assets (Line 2) increased $205.8 million (62%).

Line 2.A. increased $155.3 million. This increase is attributed to a reclassification of other assets that occurred for the first time in the 2nd Quarter, FY 2006. A portion of the Air Force Working Capital Funds advances were determined to be financing payments on long term contracts, therefore they are now correctly reported on Line 2A. For reporting periods prior to 2nd Quarter, 2006 they were reflected on Line 2B.

Line 2.B has an increase of $50.5 million, which is primarily the result of several events. The composition of Line 2.B is reflected in the schedule at the end of this note.

The first event is an increase of $84.3 million in the Supply Management Activity Group (SMAG) advances to contractors for intransit inventory. This increase is the result of a systematic issue within the Financial Inventory Accounting and Billing System (FIABS). When FIABS was converted to Standard General Ledger Programming in October of 2003, intransit inventory was split so that the portion of inventory that had already been billed but not received was recorded as an advance to contractors. The advances values have been slowly increasing since October 2004, and it is believed that the system is not computing and updating the billed not received values correctly. To properly identify the valid amounts, hard copy source documents are being reconciled with an expected completion date of 1st Quarter, FY 2007.

The second event is the reclassification of contract financing payments discussed in Line 2A. This reclassification resulted in a decrease of $153.5 million, which was the 3rd Quarter, FY 2005 outstanding advances amounts.

The third event is an increase of $42.1 million in the Depot Maintenance Activity Group (DMAG) advances. The DMAG increase can be attributed to the increase in the advances to contractors account, in Contract DMAG, at the Oklahoma City Air Logistic Center (OC-ALC). The OC-ALC has a large contract with Boeing that includes a unique clause that permits Boeing to advance bill. In FY 2006, Boeing has advance billed over $37.0 million dollars on task orders initiated under this contract. A large portion of the advances occurred in 3rd Quarter, FY 2006 thus causing a $35.0 million increase in the overall advances to contractors account in DMAG.

The fourth event is an increase of $75.1 million in SMAG returns awaiting the vendor to process a credit. The main contributor to this increase was shipments not credited for the Material Support Division in the amount of $67.0 million. Prior to FY 2006 these could not be validated due to the limited availability of transaction level detail. In 1st Quarter, FY 2006 a reconciliation/validation tool was implemented resulting in accurate balances in FY 2006.

Line 2.B Non-Federal Other Assets –Other Assets (With the Public)
(in Thousands)

Types of Asset	2006	2005
Advances -		
SMAG - Advances and Prepayments to Contractors	$191,361	$107,058
SMAG – Contract Financing Payments	0	$153,537
DMAG - Advances and Prepayments to Contractors	43,016	939
Total Advances	**234,377**	**261,534**
Other Assets -		
SMAG - Air Force assets – other DoD foreign military sales (depot)	0	0
SMAG - Other assets returns to vendors pending credit	144,361	69,246
DMAG – Unallocated labor and materials	4,559	2,013
Total Other Assets	**148,920**	**71,259**
Total Non-Federal Other Assets	**$383,297**	**$332,793**

Note Reference

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

Note 7. Cash and Other Monetary Assets

As of June 30	2006	2005
1. Cash	$ 0.00	$ 0.00
2. Foreign Currency	0.00	0.00
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 0.00	$ 0.00

The Air Force Working Capital Fund currently has no cash or other monetary assets.

Definitions

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

Foreign Currency – The total U.S. dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

Other Monetary Assets – included gold, special drawing rights, and U.S Reserve in the International Monetary Fund. This category is principally for use by the Department of Treasury.

Note 8. Direct Loan and/or Loan Guarantee Programs

As of June 30

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

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

Direct loans are reported at the net present value of the following projected cash flows:

- Loan disbursements;
- Repayments of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties and other recoveries.

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

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

Military Housing Privatization Initiative

The Military Housing Privatization Initiative (MHPI) includes both Direct Loan and Loan Guarantee Programs. The Department obtains private sector capital to leverage government dollars. The Department provides protection against specific risks, such as base closure or member deployment, for the private sector partner. The Loan Guarantee Program is authorized by the National Defense Authorization Act for FY 1996, Public Law (P.L.) 104-106 Statute 186, Section 2801.

Armament Retooling and Manufacturing Support Initiative

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 USC 4551-4555, is a Loan Guarantee Program 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 production capacity of these facilities is greater than current military requirements; however, this capacity may be needed by the military in the future. The revenues from the property rental are used to pay for the operation, maintenance and environmental cleanup at the facilities. The resulting savings in overhead costs lower the production cost of the goods manufactured and fund environmental cleanup at no cost to the government.

Direct Loans Obligated After FY 1991

As of June 30	2006	2005
Loan Programs		
1. Military Housing Privatization Initiative		
A. Loans Receivable Gross	$ 0.00	$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	$ 0.00	$ 0.00
2. Total Loans Receivable	$ 0.00	$ 0.00

Not Applicable

Total Amount of Direct Loans Disbursed

As of June 30	2006	2005
Direct Loan Programs		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Total	$ 0.00	$ 0.00

Not Applicable

Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

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

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

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

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

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

Not Applicable

Subsidy Rate for Direct Loans

As of June 30	Interest Differential	Defaults	Fees and other Collections	Other	Total
Direct Loan Programs					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not Applicable

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

As of June 30	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 Reestimate	0.00	0.00
C. Total of the above Reestimate Components	$ 0.00	$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	$ 0.00	$ 0.00

Not Applicable

Defaulted Guaranteed Loans from Post FY 1991 Guarantees

As of June 30	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, Net	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0.00	$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	$ 0.00	$ 0.00
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.00	$ 0.00

Not Applicable

Guaranteed Loans Outstanding

As of June 30	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 0.00	$ 0.00
3. Total	$ 0.00	$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 0.00	$ 0.00
3. Total	$ 0.00	$ 0.00
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

Not Applicable

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of June 30	2006	2005
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	$ 0.00	$ 0.00

Not Applicable

Subsidy Expense for Post FY 1991 Loan Guarantees

As of June 30

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	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	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	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

Not Applicable

Subsidy Rates for Loan Guarantees

As of June 30	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantee Programs:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not Applicable

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

As of June 30	2006	2005
1. Beginning Balance of the Loan Guarantee Liability	$ 0.00	$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	$ 0.00	$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	$ 0.00	$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	$ 0.00	$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	$ 0.00	$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	$ 0.00	$ 0.00
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	$ 0.00	$ 0.00
6. Ending Balance of the Loan Guarantee Liability	$ 0.00	$ 0.00

Not Applicable

Administrative Expenses

Administrative Expense is limited to separately identified expenses administered to direct and guaranteed loans. DoD does not maintain a separate program to capture the expenses related to direct and guaranteed loans for the MHPI. Administrative Expense for the ARMS is a fee paid to the US Department of Agriculture Rural Business-Cooperative Service (RBS) for administering the loan guarantees under the ARMS, which is a joint program. There were no administrative expenses in FY 2006*.*

Note 9. Inventory and Related Property

As of June 30		2006		2005
1. Inventory, Net	$	33,493,369,878.63	$	21,002,845,398.54
2. Operating Materials & Supplies, Net		414,745,573.03		474,127,121.07
3. Stockpile Materials, Net		0.00		0.00
4. Total	$	33,908,115,451.66	$	21,476,972,519.61

Inventory, Net

As of June 30	2006 Inventory, Gross Value	2006 Revaluation Allowance	2006 Inventory, Net	2005 Inventory, Net	Valuation Method
1. Inventory Categories					
A. Available and Purchased for Resale	$ 23,171,215,705.45	$ (3,632,025.94)	23,167,583,679.51	$ 11,273,437,048.63	LAC,MAC
B. Held for Repair	14,308,494,583.21	(4,199,046,033.32)	10,109,448,549.89	9,445,629,616.83	LAC,MAC
C. Excess, Obsolete, and Unserviceable	812,702,611.43	(812,702,611.43)	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	216,337,649.23	0.00	216,337,649.23	283,778,733.08	AC
F. Total	$ 38,508,750,549.32	$ (5,015,380,670.69)	33,493,369,878.63	$ 21,002,845,398.54	

Legend for Valuation Methods:

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

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

1) Distributions without reimbursement are made when authorized by Department of Defense (DoD) directives.

2) War Reserve Material includes fuels and subsistence items that are considered restricted.

3) Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

Definitions

Inventory available and purchased for resale includes consumable spare and repair parts as well as repairable items owned and managed by the Department. Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies.

Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because the Department often relies on weapon systems and machinery no longer in production, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

Excess, obsolete, and unserviceable inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. Potentially reusable material, presented in previous years as excess, obsolete, and unserviceable, is included in the held for use or held for repair categories, according to its condition.

Work in process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work in process also includes the value of finished products or completed services pending the submission of bills to the customer. The work in process designation may also be used to accumulate the amount paid to a contractor under cost-reimbursable contracts, including the amount withheld from payment to ensure performance and the amount paid to other government plants for accrued costs of end-items of material ordered but not delivered.

Fluctuations

Net Inventory increased $12.5 billion (58%) due to the following factors.

Inventory Available and Purchased for Resale values for the Supply Management Activity Group (SMAG) had an increase of $11.9 billion. The increase is primarily the result of an inventory valuation change from Latest Acquisition Cost to Moving Average Cost. In the 4th Quarter, FY 2005, the Material Support Division’s inventory account increased by $11.3 billion. Of that amount, $7.2 billion represented the elimination of the allowance account and $4.1 billion was the restatement of gross inventory values.

Work in Process (WIP) had a decrease of $67.4 million in the Depot Maintenance Activity Group (DMAG). The continuing phase out of Contract Depot Maintenance Activity Group (CDMAG) operations from the Working Capital Fund is the primary contributor. The phase-out began in FY 2004 and is scheduled to be complete in FY 2008. This phase-out caused a $51.1 million WIP decrease in CDMAG.

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, fuels, and ammunition. Inventory is tangible personal property that is (1) held for sale or held for repair for eventual sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.

The category inventory held for repair consists of damaged material that requires repair to make it usable. Excess inventory is condemned material that must be retained for management purposes. The category held for sale includes all issuable material. The category held for repair includes all economically reparable material. Work in process includes 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. Inventory is assigned to categories based on guidance in the DoD Financial Management Regulation, Volume 11B.

Note Reference

See Note Disclosure 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 June 30	2006						2005		
		OM&S Gross Value		Revaluation Allowance		OM&S, Net		OM&S, Net	Valuation Method
1. OM&S Categories									
A. Held for Use	$	414,745,573.03	$	0.00	$	414,745,573.03	$	474,127,121.07	SP, LAC
B. Held for Repair		0.00		0.00		0.00		0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable		0.00		0.00		0.00		0.00	NRV
D. Total	$	414,745,573.03	$	0.00	$	414,745,573.03	$	474,127,121.07	

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

Fluctuations

The $59.4 million (13%) decrease in Operating Materials and Supplies (OM&S) was primarily caused by a $59.3 million decrease in Organic DMAG. The decrease can be attributed to the clean up effort of on hand material and supplies, coupled with a financial system reconcilation at Warner Robins Air Logistic Center (WR-ALC). In the 4th Quarter of 2005, WR-ALC identified and cleaned up all excess and obsolete floating stock spares and material showing no action for 60 days. This effort has resulted in a decrease in the OM&S account of $55.8 million. In addition to the physical inventory clean up, WR-ALC also cleaned up of their financial system balances by reconciling exception and error reports. This effort began in the 3rd Quarter and was completed at the end of the 4th Quarter 2005 resulting in a $3.5 million decrease in the OM&S account. The clean up combined with the reconciliation of the financial statement values accounts for a $59.3 million decrease.

General Composition of Operating Materials and Supplies

OM&S include spare and repair parts. The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes, i.e. accountability and visibility. The reported balances from these systems are not recorded at historical cost, in conformance with the valuation requirements in the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, “Accounting for Inventory and Related Property.” Instead, the Air Force uses standard price to value OM&S without computing unrealized holding gains or losses. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the OM&S quantities used to derive the balances reported in the financial statements.

For the most part, DMAG uses the consumption method of accounting for OM&S, since OM&S is defined in the SFFAS No. 3 as material which has not yet been issued to the end user. Once issued, the material is expensed. As stated above, current financial and logistics systems cannot fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is

(1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, (3) identifying feeder systems that are used to manage OM&S items, and (4) developing plans to revise those systems to support the consumption method. The department 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.

There are no restrictions on the use of OM&S.

Note Reference

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

Stockpile Materials, Net

As of June 30	2006			2005	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
1. Stockpile Materials Categories					
A. Held for Sale	$ 0.00	$ 0.00	$ 0.00	$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other

Not Applicable.

Note 10. General PP&E, Net

As of June 30	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	$	0.00		N/A	$	0.00	$	0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40		882,426,742.14	$	(569,003,564.57)		313,423,177.57		258,645,810.53
C. Leasehold Improvements	S/L	lease term		0.00		0.00		0.00		0.00
D. Software	S/L	2-5 Or 10		1,043,245,284.57		(726,706,731.66)		316,538,552.91		352,738,689.53
E. General Equipment	S/L	5 or 10		2,090,840,088.89		(1,578,850,115.78)		511,989,973.11		527,136,602.21
F. Military Equipment	S/L	Various		0.00		0.00		0.00		0.00
G. Assets Under Capital Lease	S/L	lease term		0.00		0.00		0.00		0.00
H. Construction-in-Progress	N/A	N/A		41,936,782.39		N/A		41,936,782.39		35,311,374.89
I. Other				0.00		0.00		0.00		0.00
J. Total General PP&E			$	4,058,448,897.99	$	(2,874,560,412.01)	$	1,183,888,485.98	$	1,173,832,477.16

[1] Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Information Related to General PP&E, Net

Real property reported by the Automated Civil Engineering System (ACES) and personal property reported by the Air Force Equipment Management System (AFEMS) and the Information Processing Management System (IPMS) has not been validated and reconciled. However, the Depot Maintenance Air Logistic Centers (ALC) and Aerospace Maintenance and Regeneration Center (AMARC) use the ACES to capture the costs of real property based on preponderance of use for each building. They use the straight-line method for recording depreciation maintained on spreadsheets in place of the ACES schedule. The accounting entries are recorded directly into the field-level trial balances.

The value of Air Force General PP&E in the possession of contractors is included in the value reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E (Major Asset Classes of Software and Equipment) does not include all of the General PP&E in the possession of contractors that is above the Department of Defense (DoD) capitalization threshold. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with a strategy approved by the Office of Management and Budget, the Government Accountability Office, and the DoD Inspector General, DoD is developing new policies and a contractor-reporting process to capture General PP&E information for future reporting purposes in compliance with generally accepted accounting practices.

Past audit results have identified uncertainties as to whether all General PP&E assets in the possession or control (existence) of the Department are properly and accurately recorded in the system (completeness).

There are no restrictions on the use or convertibility of General PP&E. Air Force Working Capital Fund does not possess any heritage assets or stewardship land.

Note Reference

See Note Disclosure 1. N, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing General PP&E.

Assets Under Capital Lease

As of June 30	2006	2005
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 0.00	$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	$ 0.00	$ 0.00

Not Applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of June 30	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0.00	$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
D. Total Intragovernmental Liabilities	$ 0.00	$ 0.00
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0.00	$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	233,713,461.91	238,729,115.79
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	0.00	0.00
E. Total Nonfederal Liabilities	$ 233,713,461.91	$ 238,729,115.79
3. Total Liabilities Not Covered by Budgetary Resources	$ 233,713,461.91	$ 238,729,115.79
4. Total Liabilities Covered by Budgetary Resources	$ 1,864,025,839.08	$ 2,151,257,903.14
5. Total Liabilities	$ 2,097,739,300.99	$ 2,389,987,018.93

Information Related to Liabilities Not Covered by Budgetary Resources

Line 2.B. represent the Actuarial Federal Employee Compensation future liabilities as provided annually by the Department of Labor.

Note Reference

For additional line item discussion, see:

Note 8, Direct Loans and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Liabilities Not Covered and Covered by Budgetary Resources
Note 14, Environmental Restoration Liabilities and Environmental Disposal Liabilities
Note 15, Other Liabilities
Note 16, Commitments and Contingencies
Note 17, Military Retirement Benefits and Other Employment Related

Note 12. Accounts Payable

As of June 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	$ 130,729,046.78	$ N/A	$ 130,729,046.78	$ 266,667,442.38
2. Nonfederal Payables (to the Public)	398,752,582.79	0.00	398,752,582.79	342,914,647.05
3. Total	$ 529,481,629.57	$ 0.00	$ 529,481,629.57	$ 609,582,089.43

Definition

Intragovernmental payables consist of amounts owed to other federal agencies for goods or services ordered and received but not yet paid for. Interest, penalties, and administrative fees are not applicable to intragovernmental payables. Non-federal payables (to the public) are payments to non-federal entities.

Fluctuations and Abnormalities

Intragovernmental payables decreased by $135.9 million (51%). There are two business events causing the decrease.

The first event is a $45.4 million decrease in payables to the Defense Logistics Agency (DLA) within the Depot Maintenance Activity Group (DMAG). This was a result of DLA payables being aggressively worked in late FY 2005 and FY 2006 by Air Force and DLA.

The second event is a $59.4 million decrease in payables caused by an abnormal receivable reported by the Air Force General Fund (AFGF). The DMAG had to adjust its payables to agree with the abnormal amount per elimination guidance. The Defense Finance and Accounting Service – Dayton is researching the abnormal receivable and related documentation. Resolution in expected by the end of the 4th Quarter, FY 2006.

Nonfederal Payables increased by $55.8 million (16%). The increase was the result of four primary events.

The first event was an increase of $59.4 million in DMAG due to the reclassification of excess intragovernmental payables to public based on the abnormal receivable issue discussed above.

The second event was an increase of $29.9 million in DMAG due to an abnormal public payable balance reported in 3rd Quarter, FY 2005. In the 1st Quarter, FY 2006 it was identified that DMAG was not properly accruing expenses and associated payables throughout FY 2005, resulting from systems limitations restricting the proper classification of payables as government or public. The omission has been corrected in FY 2006.

The third event is an increase of $74.3 million in the Supply Management Activity Group. In the 3rd Quarter of FY 2006 it was determined that a systematic journal voucher in the Financial Inventory Accounting and Billing System (FIABS) is incorrectly updating accounts payable for intransit inventory estimated amounts, which has been causing a gradual increase. The journal voucher will be corrected to exclude accounts payable in July 2006.

The fourth event is a decrease of $107.3 million resulting from the closure of the Information Services Activity Group on September 30, 2005. The outstanding accounts payable balances are being liquidated.

Undistributed Disbursements

Undistributed disbursements consist of the difference between (1) disbursements/collections recorded at the transaction level to a specific obligation, payable, or receivable in the activity field records, and (2) those disbursements/collections reported by the U.S. Treasury via the reconciled DD1329 and DD1400. The total undistributed disbursement amounts displayed in this note should agree with the undistributed amounts reported on accounting reports (SF 133/(M) 1002/(M) 1307). In-transit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to each entity's outstanding accounts payable balance at year-end. Accounts payable were adjusted downward in the amount of $285.1 million for these payments.

Allocation of Undistributed Disbursements

The Department of Defense (DoD) policy is to allocate supported undistributed disbursements between intragovernmental and non-federal categories based on the percentage of intragovernmental and non-federal accounts payable. Unsupported undistributed disbursements should be recorded in U.S. Standard General Ledger account (USSGLA) 2120, Disbursements in Transit. The AFWCF followed this allocation policy reporting $184.7 million in USSGLA 2120.

Intragovernmental Eliminations

For the majority of intra-agency sales, the AFWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AFWCF was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. Elimination adjustments are made at the consolidated business activity level instead of at the fund-code level, resulting in less distortion of the actual payable amounts.

The DoD 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. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished with the existing or foreseeable resources.

Note Reference

See Note Disclosure 1.G., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing accounting for intragovernmental activities.

Note 13. Debt

As of June 30	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Total Debt	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Not Applicable.

Note 14. Environmental Liabilities and Disposal Liabilities

As of June 30	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)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	0.00	0.00	0.00	0.00
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Not Applicable.

Environmental Disclosures

As of June 30	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.	0.00	0.00
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Not Applicable.

Note 15. Other Liabilities

As of June 30	2006 Current Liability	2006 Noncurrent Liability	2006 Total	2005 Total
1. Intragovernmental				
A. Advances from Others	$ 158,422,776.22	$ 0.00	$ 158,422,776.22	$ 126,032,837.18
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00	0.00
F. Other Liabilities	5,203,500.31	0.00	5,203,500.31	14,443,962.54
G. Total Intragovernmental Other Liabilities	$ 163,626,276.53	$ 0.00	$ 163,626,276.53	$ 140,476,799.72
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	$ 97,508,858.80	$ 0.00	$ 97,508,858.80	$ 144,853,711.96
B. Advances from Others	12,057,391.70	0.00	12,057,391.70	11,884,348.61
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	54,432,731.97	0.00	54,432,731.97	51,175,960.81
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	1,006,918,950.51	0.00	1,006,918,950.51	1,193,284,992.61
J. Total Nonfederal Other Liabilities	$ 1,170,917,932.98	$ 0.00	$ 1,170,917,932.98	$ 1,401,199,013.99
3. Total Other Liabilities	$ 1,334,544,209.51	$ 0.00	$ 1,334,544,209.51	$ 1,541,675,813.71

Fluctuations and Abnormalities

Intragovernmental Other Liabilities increased $23.1 million (16%) due to the following events:

Line 1.A – The Intragovernmental advances from others increased $32.4 million (26%). The increase is caused by two events in the Contract Depot Maintenance Activity Group (CDMAG). The first event is the result of an error of $19.5 million in the creation of a trading partner file at Warner-Robins Contract in 3rd Quarter, FY 2005. The trading partner file was not in agreement with the total reported advances; therefore the difference had to be reported as DMAG advances since they could not properly be identified to a specific federal agency. As a result, the advances were eliminated on the 3rd Quarter, FY 2005 reports, understating the Air Force Working Capital Fund's advances with other federal agencies. The second event is an increase of $14.6 million caused by Odgen Contract executing its total program at a higher rate than in FY 2005 due to improved processes and productivity. As a result, advances are being collected at a faster rate.

Line 1.F – The intragovernmental other liabilities decrease of $9.2 million (64%) represents employee benefits that are payable to the Office of Personnel Management (OPM). The benefits include retirement, health insurance and life insurance. Liabilities fluctuate based on staffing levels and participation in benefit programs by employees. The amounts in this account are calculated by OPM and provided by a data call. This year the employee benefits decreased because less accrued days were used in the 3rd Quarter, FY 2006 calculation than in 3rd Quarter, FY 2005.

Nonfederal Other Liabilities decreased $230.3 million (16%) due to the following events:

Line 2.A – The amounts included on this line include accrued wages, leave earned but not used, benefits not currently due to OPM and payroll taxes. The accrued funded payroll and benefits decrease of $47.3 million (33%) was primarily caused by the DMAG business area. The DMAG accrued salary and wage account decreased $35.4 million between the two respective periods reported in these financial statements. This decrease can be attributed to less days being accrued in June 2006, then the number accrued in June 2005. The last payroll disbursement in June 2006 was made on the last day of the month, June 30th. Therefore, no additional days were required to be accrued. However, in June 2005, there were nine days after the last payroll disbursement that were required to be accrued. The Supply Management Activity Group (SMAG) also had decreases in payroll and benefits, however SMAG has far less employees than DMAG, therefore the impact was minimal.

Line 2.I – The decrease of $186.4 million (16%) in Other Liabilities is as follows:

Information Related to Other Liabilities (Line 2.I)

(In thousands)	FY2006	FY 2005
Misc Liabilities	309	1,275
DMAG – WIP Accrued Expenses	938,129	1,147,032
SMAG – Future Purchase - Foreign Military Sales	28,377	29,359
SMAG – Other Accrued Liabilities	40,104	15,619
Total	1,006,919	1,193,285

The DMAG work in process accrued expenses has a decrease of $208.9 million. The decrease is a result of the removal of Contract DMAG from the Working Capital Fund which began in FY 2004, which has resulted in a decline in material, labor, and overhead cost accruals.

The SMAG future purchase – foreign military sales consist of money that various countries have deposited with the SMAG as a buy-in on future purchases they plan to make under the foreign military sales program. These funds are considered a liability as the funds are returned if the countries do not make future purchases. Revenue is not recognized on these transactions until the purchase takes place. The decrease of $982.0 thousand in this account is caused by some foreign governments canceling agreements in FY 2006.

The SMAG – Other Accrued Liabilities had an increase of $24.5 million which is primarily due to the clean up of invalid transactions reported in liability accounts. In June of FY 2006 erroneous updates from October, 2005 forward were reversed, which resulted in an increase to the accrued liabilities. In July, 2006 the accounts will be reconciled to supporting documentation.

Note Reference

See Note Disclosure 1.S, Significant Accounting Policies, for additional discussion on financial reporting requirements and Department of Defense policies governing contingencies and other liabilities.

Capital Lease Liability

As of June 30	2006				2005
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2006	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
B. 2007	0.00	0.00	0.00	0.00	0.00
C. 2008	0.00	0.00	0.00	0.00	0.00
D. 2009	0.00	0.00	0.00	0.00	0.00
E. 2010	0.00	0.00	0.00	0.00	0.00
F. 2011	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 0.00	$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 0.00	$ 0.00

Not Applicable.

Note 16.	Commitments and Contingencies

Not Applicable

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

As of June 30	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. Military 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	$ 233,713,461.91		$ 0.00	$ 233,713,461.91	$ 238,729,115.79
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other	$ 233,713,461.91		$ 0.00	$ 233,713,461.91	$ 238,729,115.79
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$ 233,713,461.91		$ 0.00	$ 233,713,461.91	$ 238,729,115.79

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

Military Retirements Pensions

Not applicable

Military Retirement Health Benefits

Not applicable

Federal Employees Compensation Act (FECA)

The Air Force Working Capital Fund's (AFWCF) actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the AFWCF at the end of each fiscal year. The FECA is not related to and should not be misinterpreted to represent the Federal Unemployment Compensation Act. 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. The projected annual benefit payments are then discounted to the present value using the Office of Management and Budget's (OMB'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.

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2001	2002	2003	2004	2005
5.21% in year 1	5.20% in year 1	3.84% in year 1	4.883% in year 1	4.528% in year 1
5.21% in year 2	5.20% in year 2	4.35% in year 2	5.235% in year 2	5.020% in year 2
And thereafter	And thereafter	And thereafter	And thereafter	And thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2005 were also used to adjust the methodology's historical payments to current-year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2005	2.20%	4.33%
2006	3.33%	4.09%
2007	2.93%	4.01%
2008	2.40%	4.01%
2009+	2.40%	4.01%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

<u>Note Reference</u>

For regulatory discussion on "Military Retirement Benefits and Other Employment Related Actuarial Liabilities," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1019.

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

Intragovernmental Costs and Exchange Revenue				
As of June 30		2006		2005
1. Intragovernmental Costs	$	3,398,520,970.22	$	3,844,116,025.97
2. Public Costs		3,196,894,772.17		4,032,922,599.13
3. Total Costs	$	6,595,415,742.39	$	7,877,038,625.10
4. Intragovernmental Earned Revenue	$	(7,532,300,603.58)	$	(7,971,602,443.03)
5. Public Earned Revenue		(605,487,068.61)		(454,061,158.32)
6. Total Earned Revenue	$	(8,137,787,672.19)	$	(8,425,663,601.35)
7. Net Cost of Operations	$	(1,542,371,929.80)	$	(548,624,976.25)

General Disclosures related to Statement of Net Cost

Fluctuations and Abnormalities

Gross Costs
Gross Costs had a decrease of $1.3 billion (16%).

Intragovernmental costs had a decrease of $445.6 million. This decrease was caused in the Supply Management Activity Group (SMAG) and the Depot Maintenance Activity Group (DMAG).

For SMAG two events occurred in the Material Support Division (MSD). The first event is a decrease of $45.2 million that can be attributed to a change in procedure to fund the Information Systems Activity Group (ISAG) system support actions for financial and logistics systems. In 1st Quarter, FY 2006, MSD began paying for system support actions as they occurred rather then in advance as they have in previous years. This change in procedure, coupled with slower than anticipated execution of engineering projects has resulted in a decrease in overhead expenses. The slower execution is the result of late obligations. It is projected that by the end of FY 2006 overhead costs will increase to the same level as FY 2005. The second event can be attributed to tighter controls and scrutiny of the over ocean and storage cost from the Defense Logistic Agency (DLA). The MSD began scrutinizing the monthly cost accrual that DLA had been previously passing on to the Air Force on a monthly basis in FY 2005. These tighter controls, coupled with reduced costs, have resulted in a decrease of $44.2 million in overall DLA costs from FY 2005.

Secondly, a decrease of $208.9 million in DMAG is caused by a decrease in expenses with the Army Working Capital Fund (WCF). The Army WCF is reporting less revenue with DMAG this quarter because of a computer processing error, which accounts for $64.3 million of the decrease. The DMAG had to adjust its expenses to agree with the revenue amounts reported by Army WCF per elimination guidance. The remaining difference of $144.6 million will need to be further researched by Air Force WCF with the Army WCF before 4th Quarter, FY 2006 to identify if amounts reported in 3rd and 4th Quarter, FY 2005 were reported accurately. Air Force WCF cannot identify a business event this quarter that would cause a decrease in expenses with Army WCF.

Public costs had a decrease of $836.0 million. The majority of this decrease, $808.5 million, was caused by the General Support Division (GSD). This decrease can be attributed to two events. The first event is a $176.2 million decrease in the transfer of assets to the Defense Re-utilization & Marketing Office (DRMO). During FY 2005 a few inventory items had erroneous Moving Average Cost (MAC) values when transferred to DRMO for disposal. These erroneous values were the result of programmatic errors in the MAC system calculation, thus resulting in an overstated loss in 2005. The second event is also a direct result of MAC system calculations in FY 2005 which resulted in the overstatement of inventory values. In 2006, the MAC system calculation has been corrected resulting in an inventory valuation decrease of $492.0 million. Further information regarding MAC and Latest Acquisition Costs (LAC) inventory valuation is disclosed in Note 9.

Information Related to the Statement of Net Cost (SoNC)

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

While the Air Force Working Capital Fund (AFWCF) generally records transactions on an accrual basis as is required by generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the SoNC is primarily based on budgetary obligations, disbursements, or collection transactions, as well as information from nonfinancial feeder systems.

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The AFWCF is not able to compare its intragovernmental costs and revenues with the corresponding balances of its intragovernmental trading partners.

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

As of June 30	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	$ 0.00	$ 0.00	$ 0.00	$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 40,580,344.28	$ 0.00	$ 45,735,240.64	$ 0.00
B. Civilian Health	80,489,376.00	0.00	79,218,452.85	0.00
C. Civilian Life Insurance	190,958.73	0.00	195,943.66	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	$ 121,260,679.01	$ 0.00	$ 125,149,637.15	$ 0.00

Information Related to the Statement of Changes in Net Position

Imputed Financing

The amounts remitted to the Office of Personnel Management (OPM) by and for employees covered by the Civil Service Retirement System, Federal Employee Retirement System, Federal Employees Health Benefits program, and the Federal Employee Group Life Insurance program do not fully cover the Government's cost to provide these benefits. An imputed cost is recognized as the difference between the Government's cost of providing these benefits to the employees and contributions made by and for them. The OPM provides the cost factors to the Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. Then DFAS provides the costs to the OUSD (Personnel and Readiness) for validation. Approved imputed costs are provided to the reporting components for inclusion in their financial statements.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of June 30	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 6,427,761,339.62	$ 6,675,276,257.40
2. Available Borrowing and Contract Authority at the End of the Period	6,335,321,060.81	9,421,584,600.45

Information Related to the Statement of Budgetary Resources

Intra-entity Transactions

The Statement of Budgetary Resources (SBR) does not eliminate intra-entity transactions because the statements are presented as combined and combining.

Apportionment Categories

Office of Management and Budget Circular A-136, specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment. This disclosure should agree with the aggregate of the related information as included in each reporting entity's SF 133 and in the SBR, lines 8A and 8B. There are no Category A direct or reimbursable obligations. Category B reimbursable obligations total $10.9 billion. There are no category B direct or exempt obligations.

Undelivered Orders

Undelivered orders presented in the SBR includes undelivered orders-unpaid for both direct and reimbursable funds.

Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the SBR), are not included in the "Spending Authority from Offsetting Collections and Adjustments" line on the SBR or the "Spending Authority for Offsetting Collections and Adjustments" line on the Statement of Financing.

Appropriations Received

The Medical Dental Division of Supply Management received a Congressional appropriation of $43.3 million in February 2006 to maintain War Readiness Materials. Of this amount, $27.8 million has been obligated as of June 30, 2006.

Note 21. Disclosures Related to the Statement of Financing

The objective of the Statement of Financing is to reconcile the difference between budgetary obligations and the net cost of operations reported. It is presented as combined or combining statements rather than consolidated statements due to intragovernmental transactions not being eliminated. Due to the Department of the Air Force's financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data constitutes a previously identified deficiency.

Note 1A and Note 1F provide additional detail.

Other Information Related to the Statement of Financing

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. This causes a difference in net cost between the Statement of Net Cost (SoNC) and the Statement of Financing. Line 15 on the Statement of Financing, "Resources that finance the acquisition of assets," is adjusted in order to align the amount of net cost on the Statement of Financing with the amount reported on the (SoNC). Line 15 was adjusted by an absolute value of $52.5 million to balance the report.

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

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

Other resources used to finance items not part of the net cost of operations (Line 16b) consist of transfers of assets out of the Air Force Working Capital Fund (AFWCF). In FY 2006, the Information Services Activity Group transferred general equipment to the Air Force General Funds. Other resources that do not affect net cost (Line 27d) consists of applied overhead and adjustments to inventory held for repair valuation accounts.

Amounts reported as requiring resources in future periods represent a change in public receivables, which does not have a relationship to liabilities not covered by budgetary resources.

Note 22.	Disclosures Related to the Statement of Custodial Activity

Not Applicable.

Note 23. Earmarked Funds

BALANCE SHEET As of June 30	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
ASSETS				
Fund balance with Treasury	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Investments	0.00	0.00	0.00	0.00
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	$ 0.00	$ 0.00
LIABILITIES and NET POSITION				
Military Retirement Benefits and Other Employment Related Actuarial Liabilities	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Other Liabilities	0.00	0.00	0.00	0.00
Unexpended Appropriations	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	0.00	0.00
Total Liabilities and Net Position	$ 0.00	$ 0.00	$ 0.00	$ 0.00
STATEMENT OF NET COST As of June 30				
Program Costs	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Less Earned Revenue	0.00	0.00	0.00	0.00
Net Program Costs	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00
Net Cost of Operations	$ 0.00	$ 0.00	$ 0.00	$ 0.00
STATEMENT OF CHANGES IN NET POSITION As of June 30				
Net Position Beginning of the Period	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net Cost of Operations	0.00	0.00	0.00	0.00
Other Nonexchange Revenue	0.00	0.00	0.00	0.00
Change in Net Position	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net Position End of Period	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Not Applicable

Note 24. Other Disclosures

As of June 30	2006 Asset Category			
	Land and Buildings	Equipment	Other	Total
1. ENTITY AS LESSEE-Operating Leases				
Future Payments Due				
Fiscal Year				
2006	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2007	0.00	0.00	0.00	0.00
2008	0.00	0.00	0.00	0.00
2009	0.00	0.00	0.00	0.00
2010	0.00	0.00	0.00	0.00
2011	0.00	0.00	0.00	0.00
After 5 Years	0.00	0.00	0.00	0.00
Total Future Lease Payments Due	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Not applicable.