

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2007 and 2006

	<u>2007 Consolidated</u>	<u>2006 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 1,241,713,658.99	\$ 1,222,397,352.02
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)	324,087,645.13	486,599,329.60
4. Other Assets (Note 6)	1,072,842.71	2,261,292.62
5. Total Intragovernmental Assets	<u>\$ 1,566,874,146.83</u>	<u>\$ 1,711,257,974.24</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable, Net (Note 5)	215,908,329.31	228,072,244.07
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	35,370,288,173.84	33,908,115,451.66
F. General Property, Plant and Equipment, Net (Note 10)	1,099,293,213.85	1,183,888,485.98
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	601,347,583.23	538,558,675.14
2. TOTAL ASSETS	<u><u>\$ 38,853,711,447.06</u></u>	<u><u>\$ 37,569,892,831.09</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 63,699,157.79	\$ 130,729,046.78
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	102,038,168.01	163,626,276.53
4. Total Intragovernmental Liabilities	<u>\$ 165,737,325.80</u>	<u>\$ 294,355,323.31</u>
B. Accounts Payable (Note 12)	\$ 550,269,177.54	\$ 398,752,582.79
C. Military Retirement and Other Federal Employment Benefits (Note 17)	227,034,639.39	233,713,461.91
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)	1,034,447,093.72	1,170,917,932.98
4. TOTAL LIABILITIES	<u><u>\$ 1,977,488,236.45</u></u>	<u><u>\$ 2,097,739,300.99</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	9,440,759.66	16,522,777.87
C. Cumulative Results of Operations - Earmarked Funds	0.00	0.00
D. Cumulative Results of Operations - Other Funds	36,866,782,450.95	35,455,630,752.23
6. TOTAL NET POSITION	<u><u>\$ 36,876,223,210.61</u></u>	<u><u>\$ 35,472,153,530.10</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 38,853,711,447.06</u></u>	<u><u>\$ 37,569,892,831.09</u></u>

Department of Defense
 Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
 For the periods ended June 30, 2007 and 2006

	2007 Consolidated	2006 Consolidated
1. Program Costs		
A. Gross Costs	\$ 6,794,379,507.59	\$ 6,595,415,742.39
B. (Less: Earned Revenue)	(7,761,708,628.31)	(8,137,787,672.19)
C. Net Program Costs	<u>\$ (967,329,120.72)</u>	<u>\$ (1,542,371,929.80)</u>
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	<u><u>\$ (967,329,120.72)</u></u>	<u><u>\$ (1,542,371,929.80)</u></u>

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2007 and 2006

	2007 Earmarked Funds	2007 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 35,992,114,318.85
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	35,992,114,318.85
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	34,441,240.34
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	(250,000,000.00)
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	122,897,771.04
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	(92,660,988.62)
7. Net Cost of Operations (+/-)	0.00	(967,329,120.72)
8. Net Change	0.00	874,668,132.10
9. Cumulative Results of Operations	0.00	36,866,782,450.95
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	44,054,000.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	(172,000.00)
13.D. Appropriations used	0.00	(34,441,240.34)
14. Total Budgetary Financing Sources	0.00	9,440,759.66
15. Unexpended Appropriations	0.00	9,440,759.66
16. Net Position	0.00	36,876,223,210.61

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2007 and 2006

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 35,992,114,318.85
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	35,992,114,318.85
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	34,441,240.34
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	(250,000,000.00)
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	122,897,771.04
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	(92,660,988.62)
7. Net Cost of Operations (+/-)	0.00	(967,329,120.72)
8. Net Change	0.00	874,668,132.10
9. Cumulative Results of Operations	0.00	36,866,782,450.95
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	44,054,000.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	(172,000.00)
13.D. Appropriations used	0.00	(34,441,240.34)
14. Total Budgetary Financing Sources	0.00	9,440,759.66
15. Unexpended Appropriations	0.00	9,440,759.66
16. Net Position	0.00	36,876,223,210.61

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2007 and 2006

	2006 Earmarked Funds	2006 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 33,774,838,090.74
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	33,774,838,090.74
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	27,766,222.13
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(10,606,169.45)
5.C. Imputed financing from costs absorbed by others	0.00	121,260,679.01
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	138,420,731.69
7. Net Cost of Operations (+/-)	0.00	(1,542,371,929.80)
8. Net Change	0.00	1,680,792,661.49
9. Cumulative Results of Operations	0.00	35,455,630,752.23
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	44,476,500.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	(187,500.00)
13.D. Appropriations used	0.00	(27,766,222.13)
14. Total Budgetary Financing Sources	0.00	16,522,777.87
15. Unexpended Appropriations	0.00	16,522,777.87
16. Net Position	0.00	35,472,153,530.10

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2007 and 2006

	2006 Eliminations	2006 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 33,774,838,090.74
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	33,774,838,090.74
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	27,766,222.13
4.C. Nonexchange revenue	0.00	0.00
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(10,606,169.45)
5.C. Imputed financing from costs absorbed by others	0.00	121,260,679.01
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	0.00	138,420,731.69
7. Net Cost of Operations (+/-)	0.00	(1,542,371,929.80)
8. Net Change	0.00	1,680,792,661.49
9. Cumulative Results of Operations	0.00	35,455,630,752.23
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 0.00
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	0.00
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	44,476,500.00
13.B. Appropriations transferred-in/out	0.00	0.00
13.C. Other adjustments (rescissions, etc)	0.00	(187,500.00)
13.D. Appropriations used	0.00	(27,766,222.13)
14. Total Budgetary Financing Sources	0.00	16,522,777.87
15. Unexpended Appropriations	0.00	16,522,777.87
16. Net Position	0.00	35,472,153,530.10

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2007 and 2006

	<u>2007 Combined</u>	<u>2006 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 925,137,650.57	\$ 292,678,750.15
2. Recoveries of prior year unpaid obligations	14,091,786.61	2,384,122.69
3. Budget authority		
3.A. Appropriation	44,054,000.00	44,476,500.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	10,199,282,000.00	10,289,931,840.16
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	10,475,891,239.67	11,837,451,577.22
3.D.1.b. Change in receivables from Federal sources	(262,926,161.12)	(111,370.93)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(108,836,577.08)	16,246,920.26
3.D.2.b. Without advance from Federal sources	119,593,320.92	277,411,347.01
3.D.3. Anticipated for rest of year, without advances	1,286,870,194.14	1,100,597,015.85
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>21,753,928,016.53</u>	<u>23,566,003,829.57</u>
4. Nonexpenditure transfers, net, anticipated and actual	(250,000,000.00)	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(5,774,080,980.78)	(6,737,190,540.46)
7. Total Budgetary Resources	<u><u>\$ 16,669,076,472.93</u></u>	<u><u>\$ 17,123,876,161.95</u></u>

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2007 and 2006

	<u>2007 Combined</u>	<u>2006 Combined</u>
NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	0.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>0.00</u>	<u>0.00</u>
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2007 and 2006

	<u>2007 Combined</u>	<u>2006 Combined</u>
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 0.00	\$ 0.00
8.B. Reimbursable	0.00	0.00
8.C. Subtotal	<u>0.00</u>	<u>0.00</u>
9. Unobligated balance:		
9.A. Apportioned	0.00	0.00
9.B. Exempt from apportionment	0.00	0.00
9.C. Subtotal	<u>0.00</u>	<u>0.00</u>
10. Unobligated balance not available	0.00	0.00
11. Total Status of Budgetary Resources	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	0.00	0.00
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ 0.00</u>	<u>\$ 0.00</u>
12.C. Total unpaid obligated balance	0.00	0.00
13. Obligations incurred net (+/-)	<u>\$ 0.00</u>	<u>\$ 0.00</u>
14. Less: Gross outlays	0.00	0.00
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	0.00	0.00
17. Change in uncollected customer payments from Federal sources (+/-)	0.00	0.00
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	0.00	0.00
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>0.00</u>	<u>0.00</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>0.00</u>	<u>0.00</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	0.00	0.00
19.B. Less: Offsetting collections	0.00	0.00
19.C. Less: Distributed Offsetting receipts	<u>0.00</u>	<u>0.00</u>
19.D. Net Outlays	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2007 and 2006

	2007 Consolidated	2006 Consolidated
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Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 9,637,393,589.85	\$ 10,913,012,095.10
2. Less: Spending authority from offsetting collections and recoveries (-)	(10,237,813,609.00)	(12,133,382,596.25)
3. Obligations net of offsetting collections and recoveries	(600,420,019.15)	(1,220,370,501.15)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	<hr/> (600,420,019.15)	<hr/> (1,220,370,501.15)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	(10,606,169.45)
8. Imputed financing from costs absorbed by others	122,897,771.04	121,260,679.01
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	<hr/> 122,897,771.04	<hr/> 110,654,509.56
11. Total resources used to finance activities	<hr/> \$ (477,522,248.11)	<hr/> \$ (1,109,715,991.59)
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 (-)	528,658,398.64	509,788,215.27
12b. Unfilled Customer Orders	10,756,743.84	293,658,267.27
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	(3,832,489,929.42)	(3,962,429,545.09)
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 (+/-)	0.00	10,606,169.45
17. Total resources used to finance items not part of the net cost of operations	<hr/> \$ (3,293,074,786.94)	<hr/> \$ (3,148,376,893.10)
18. Total resources used to finance the net cost of operations	<hr/> \$ (3,770,597,035.05)	<hr/> \$ (4,258,092,884.69)

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2007 and 2006

	2007 Consolidated	2006 Consolidated
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Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	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 (-)	0.00	6,499.91
23. Other (+/-)	28,376,432.33	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 28,376,432.33	<hr/> 6,499.91
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	107,812,008.85	123,814,298.36
26. Revaluation of assets or liabilities (+/-)	243,355,427.79	437,774,235.32
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	3,917,209,316.26	3,744,444,153.12
27c. Operating Material & Supplies Used	0.00	37,619,298.92
27d. Other	(1,493,485,270.90)	(1,627,937,530.74)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 2,774,891,482.00	<hr/> 2,715,714,454.98
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ 2,803,267,914.33	<hr/> \$ 2,715,720,954.89
30. Net Cost of Operations	<hr/> <hr/> \$ (967,329,120.72)	<hr/> <hr/> \$ (1,542,371,929.80)

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),” Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). Effective 4th quarter FY 2006, Department of Defense (DoD) no longer published consolidating/combined financial statements. The accompanying financial statements account for all resources for which AFWCF is responsible, unless otherwise noted. 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 AFWCF cannot accurately identify all intragovernmental 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 U.S. 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 Terror; 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 United States Code 10 USC 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.

Since 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 Activity Group (ISAG). The ISAG was removed from the Air Force Working Capital Fund at the end of FY 2005. The remaining ISAG unfilled customer orders and Balance Sheet accounts are being liquidated in preparation for account closure in FY 2007.

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) Material Support Division (MSD); 2) General Support Division (GSD); 3) Medical-Dental Division and 4) Air Force Academy Division. The Fuels Division was discontinued in FY 2001 and their accounting records are scheduled to close by end of FY 2007.

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

- MSD manages over 130 thousand depot-level reparable and consumable items, for which the Air Force is the Inventory Control Point, which are used to maintain weapon systems.
- GSD manages over 1.5 million consumable supply items, which support field and depot maintenance of aircraft, ground and airborne communication and electronic systems.
- Medical-Dental manages over 7 thousand different items, which are used to support medical and dental supply and equipment requirements.
- Air Force Academy finances the purchase of uniforms and uniform accessories for the sale to cadets.

Depot Maintenance

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 repairables, 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.

Air Force Working Capital Fund Component

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.

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's prices to recoup the loss or return the gain to their customers.

1.C. Appropriations and Funds

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

AFWCF received an additional appropriation warrant of \$43.9 million for War Readiness Material.

Working Capital Funds (WCF) received 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.

Operations of the activities within AFWCF are financed by 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 \$250 thousand and have a useful life of more than two years. The minor construction threshold is \$100 thousand. These items are currently depreciated over the expected life of the asset and retain no salvage value.

AFWCF receives no transfer appropriations related to parent-child relationship disclosure.

Air Force systems are not transaction driven for budgetary accounts. In certain cases, proprietary and statistical accounts are used to develop the Report on Budget Execution (SF133) and the Statement of Budgetary Resources for reporting budgetary data. The Statement of Budgetary Authority is also impacted due to eliminations. Therefore, amounts between the two will not necessarily align. This is an auditor-identified material weakness that Air Force is working to correct.

1.D. Basis of Accounting

For FY 2007, AFWCF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of AFWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies.

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, AFWCF's financial data will be based on a combination of financial and nonfinancial feeder systems.

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. Revenues and Other Financing Sources

Each working capital activity group recognizes revenue in the following manner.

Supply Management activities recognize revenue from the sale of inventory items and receipt of direct reimbursement for the purchase of initial and readiness spares by

customers. Revenue from the sale of inventory is recognized at the time of sale. Revenue from the receipt of direct reimbursements is recognized upon receipt from the General Fund.

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 the contract activity in FY 2010, 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. Recognition of Expenses

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 nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities and unbilled revenue. The 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.

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 principle. 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 Under Secretary of Defense (Comptroller) jointly agreed on the use of this principle by Depot Maintenance. This moves the fund towards full costing principles by requiring overhead costs, depreciation and bad debt expenses to be included in the cost of services sold.

1.G. Accounting for Intragovernmental Activities

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 necessarily reflect the results of all financial decisions that impact the Air Force. For example, the Air Force's share of public debt at the U.S. Treasury is not included in these statements.

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 match buyer and sell transactions by customer because the Air Force's systems do not track the information at that level of detail. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, where the amounts do not match, buyer-side records are adjusted to agree with DoD seller-side balances. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements that will ensure intragovernmental information is accurate and will include sufficient process checks and controls to eliminate the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service (FMS) is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government” and the 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 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 U.S. Treasury does not allocate such interest costs to the benefiting agencies.

1.H. Transactions with Foreign Governments and International Organizations

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. Funds with the U.S. Treasury

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 U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable fund balance with treasury (FBWT) account. Differences between AFWCF’s recorded balance in the FBWT accounts and Treasury’s FBWT accounts sometimes result and are subsequently reconciled.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

As presented on the Balance Sheet, accounts receivable includes three categories: 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 in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in Treasury Financial Management at <http://www.fms.treas.gov/tfm/voll/07-03.pdf>.

The AFWCF maintains an aging schedule of receivables. Aging allows for improved management of collection actions. 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 USC 3717.

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. SMAG inventory that is held for resale is reported based on Moving Average Cost (MAC) method of valuation. Therefore, SMAG is in full compliance with SFFAS No.3, Accounting for Inventory and Related Property. Programming changes for the SMAG accounting system are completed and the USSGL for supply accounting is being utilized.

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 and not normal consumables. Items commonly used that are readily available from the commercial sector are not managed in AFWCF. The AFWCF manages materiel based on military need and support for contingencies. 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). 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 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. This is a DoD-wide material weakness and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

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

Past audits identified uncertainties about completeness and existence of reported values of inventory. Inventory available and purchased for resale includes consumable spare and repairable 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 available for sale. Often, it is more economical to repair these inventory items rather than to procure these items. Because AFWCF often relies on weapon systems and machinery that are no longer in production, support is provided for a process that encourages the repair and rebuilding of specific 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 materiel, direct labor, applied overhead, and other direct costs. Work in process also includes the value of finished products or completed services that are yet to be placed in service and transferred to an asset account. 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 materiel ordered but not delivered.

1.N. Investments

Not applicable.

1.O. General Property, Plant and Equipment

The DoD is moving away from a standard capitalization threshold for all categories (e.g. real property, military equipment, etc.) of General Property, Plant and Equipment (PP&E) to one that is specific for each individual category. 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 DoD’s capitalization threshold from \$100 thousand to \$20 thousand in order to meet the DoD’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. Until the AFWCF is able to implement the \$20 thousand threshold, 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 capitalization threshold of \$100 thousand. DoD also requires capitalization of improvements over DoD capitalization threshold of \$100 thousand for PP&E. The DoD depreciates all PP&E, other than land, on a straight-line basis. Minor construction projects that cost \$100 thousand or more, but less than \$750 thousand, 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 thousand, \$25 thousand, and \$50 thousand for FY 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. For AFWCF activities, all General PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of other General PP&E categories.

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 is reported on the Air Force’s Balance Sheet.

The DoD is developing new policies and a contractor reporting process for Government Furnished Equipment that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the 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.

1.P. Advances and Prepayments

It is DoD Policy to report payments in advance of the receipt of goods and services as advances or prepayments, report the advances as an asset on the Balance Sheet, and recognize the expense and/or proper asset classification when it receives the related goods and services.

1.Q. Leases

Not applicable.

1.R. Other Assets

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments, that are not reported elsewhere on AFWCF's Balance Sheet.

Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisitions Regulations Supplement (DFARS) authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments for real property and ships are reported as Construction in Progress. It is DOD policy to record certain contract financing payments as Other Assets.

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. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The 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.

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

Not applicable.

1.W. Comparative Data

Not applicable.

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 Collection

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

have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed 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
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As of June 30	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 38,853,711,447.06	\$ 37,569,892,831.09
5. Total Assets	\$ 38,853,711,447.06	\$ 37,569,892,831.09

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 AFWCF is authorized to decide how to use resources in entity accounts. The AFWCF 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 AFWCF has no Nonentity Assets.

Note 3.	Fund Balance with Treasury
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As of June 30	2007	2006
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	1,241,713,658.99	1,222,397,352.02
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	\$ 1,241,713,658.99	\$ 1,222,397,352.02
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 1,299,251,641.41	\$ 920,828,073.21
B. Fund Balance per AFWCF	1,241,713,658.99	1,222,397,352.02
3. Reconciling Amount	\$ 57,537,982.42	\$ (301,569,278.81)

The reconciling amount represents \$57.5 million for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations reporting which is separate from the AFWCF. Therefore, USTC cash is not included on the AFWCF AFS statements.

Status of Fund Balance with Treasury

As of June 30	2007	2006
1. Unobligated Balance		
A. Available	\$ 5,744,812,688.94	\$ 5,110,267,051.00
B. Unavailable	0.00	0.00
2. Obligated Balance not yet Disbursed	\$ 7,949,946,688.90	\$ 7,692,142,602.36
3. Nonbudgetary FBWT	\$ 0.00	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (12,453,045,718.85)	\$ (11,580,012,301.34)
5. Total	<u>\$ 1,241,713,658.99</u>	<u>\$ 1,222,397,352.02</u>

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

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with appropriations expiring at fiscal year end that remain available only for obligation adjustments until the account is closed. There are no restrictions on the Unobligated Balance.

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

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

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

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2005	2006	2007	(Decrease)/ Increase from FY 2006 - 2007
Account				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	0.00	0.00	0.00	0.00
F3880 – Lost or Cancelled Treasury Checks	0.00	0.00	0.00	0.00
F3882 – Uniformed Services Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
F3885 – Interfund/IPAC Suspense	0.00	0.00	0.00	0.00
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

The AFWCF has no Disclosures Related to Suspense/Budget Clearing Accounts.

Disclosures Related to Problem Disbursements

As of June 30	2005	2006	2007	(Decrease)/ Increase from FY 2006 to 2007
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 71,070,872.13	\$ 16,832,133.10	\$ 9,376,046.31	(7,456,086.79)
B. Negative Unliquidated Obligations (NULO)	5,746,315.08	1,784,952.45	476,076.37	(1,308,876.08)
C. In-Transit Disbursements	421,537,788.34	324,178,185.99	157,332,574.20	(166,845,611.79)
Total	\$ 498,354,975.55	\$ 342,795,271.54	\$ 167,184,696.88	(175,610,574.66)

Information Related to Problem Disbursements.

An Unmatched Disbursement 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 Negative Unliquidated Obligation 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 absolute 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.

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

Note 4.	Investments and Related Interest
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As of June 30	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	0.00		0.00	0.00	0.00
5. Total Nonmarketable, Market-Based	0.00		0.00	0.00	0.00
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

The AFWCF has no Investments and Related Interest.

Note 5.	Accounts Receivable
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As of June 30	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 324,087,645.13	N/A	\$ 324,087,645.13	\$ 486,599,329.60
2. Nonfederal Receivables (From the Public)	\$ 215,908,329.31	\$ 0.00	\$ 215,908,329.31	\$ 228,072,244.07
3. Total Accounts Receivable	\$ 539,995,974.44	\$ 0.00	\$ 539,995,974.44	\$ 714,671,573.67

Aged Accounts Receivable

As of June 30	2007		4th Quarter 2006	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	\$ 502,944,089.84	\$ 211,280,299.04	\$ 727,178,971.00	\$ 220,311,919.00
Noncurrent	0.00	0.00	0.00	0.00
Delinquent				
1 to 30 days	\$ 4,012,613.99	\$ (10,100.68)	\$ 623,857.00	\$ 436,177.00
31 to 60 days	27,266.09	62,281.19	2,352,986.00	264,009.00
61 to 90 days	71,961.05	108,094.21	2,323,109.00	936,377.00
91 to 180 days	991,071.65	256,379.77	(520,537.00)	717,569.00
181 days to 1 year	1,467,425.67	2,618,684.68	128,782.00	3,656,202.00
Greater than 1 year and less than or equal to 2 years	71,324.18	1,485,835.03	1,023,057.00	5,274,487.00
Greater than 2 years and less than or equal to 6 years	0.00	30,846.00	13,073.00	651,160.00
Greater than 6 years and less than or equal to 10 years	0.00	0.00	0.00	124,532.00
Greater than 10 years	62.00	62.00	0.00	2,793.00
Subtotal	\$ 509,585,814.47	\$ 215,832,381.24	\$ 733,123,298.00	\$ 232,375,225.00
Less Supported Undistributed Collections	81,068.96	0.00	(467,268.00)	0.00
Less Eliminations	(185,503,590.04)	0.00	(312,643,239.14)	0.00
Less Other	(75,648.26)	75,948.07	61,670.57	(61,671.90)
Total	\$ 324,087,645.13	\$ 215,908,329.31	\$ 420,074,461.43	\$ 232,313,553.10

Information Related to Aged Accounts Receivable

Delinquent Nonfederal receivables over 60 days old are referred to Debt Management Office (DMO) at Columbus and those exceeding 180 days are referred to the Department of Treasury (DOT) or the Department of Justice (DOJ) by Columbus for collection action, as appropriate. Collection actions involving amounts of \$600 or more will appropriately be transferred to DMO after a 60 day delinquency. Debt returned uncollectible from DOT of \$500 thousand or more is referred to DOJ. Debt returned less than \$100 thousand, may be written off by DMO upon notification to AFWCF management. AFWCF management only approves debt write offs when there is a bankruptcy court decree. Defense Finance and Accounting Service Denver and AFWCF management follow up on a monthly basis to confirm the status of the delinquent account receivables referred to the above agencies.

Delinquent Federal receivables not paid within 30 days are disputed in accordance with the procedures outlined in the Intragovernmental Business Rules published in the Treasury Financial Management guidance.

The \$10.1 thousand abnormal balance in the 1 to 30 days category for 3rd Quarter, FY 2007 is a result of a reconciliation of the Information Services Activity Group (ISAG) receivables. The abnormal balance will be corrected in 4th Quarter, FY 2007 to support the closure of ISAG.

The \$520.5 thousand abnormal balance in the 91 to 180 days category for 4th Quarter, FY 2006 is a posting error which was corrected in 1st Quarter, FY 2007.

The “Other” line for 4th Quarter, FY 2007 represents the correction of posting errors resulting in a reclassification of Intragovernmental to Nonfederal receivables.

The “Other” line for 4th Quarter, FY 2006 represents the correction of posting errors resulting in a reclassification of Nonfederal to Intragovernmental receivables.

Note 6.	Other Assets
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As of June 30	2007	2006
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 1,072,842.71	\$ 2,261,292.62
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 1,072,842.71	\$ 2,261,292.62
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 152,229,657.51	\$ 155,261,199.35
B. Other Assets (With the Public)	449,117,925.72	383,297,475.79
C. Total Nonfederal Other Assets	\$ 601,347,583.23	\$ 538,558,675.14
3. Total Other Assets	\$ 602,420,425.94	\$ 540,819,967.76

Nonfederal other assets

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

The contract financing payment balance of \$152.2 million is comprised of \$129.9 million in contract financing payments and an additional \$22.3 million in estimated future funded payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product.

Information Related Nonfederal Other Assets

Types of Asset (In Millions)	2007
Advances -	
SMAG - Advances and Prepayments For In-transit Inventory Items	299.7
Total Advances	299.7
Other Assets -	
SMAG - Other assets returns to vendors pending credit	143.9
DMAG - Unallocated labor and materials	5.5
Total Other Assets	149.4
Total Non-Federal Other Assets	449.1

Note 7.	Cash and Other Monetary Assets
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As of June 30	2007	2006
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency	0.00	0.00
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 0.00</u>	<u>\$ 0.00</u>

The AFWCF has no Cash or Other Monetary Assets.

Note 8.	Direct Loan and/or Loan Guarantee Programs
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As of June 30

Direct Loan and/or Loan Guarantee Programs

The AFWCF has no Direct Loan and/or Loan Guarantee Programs.

Summary of Direct Loans and Loan Guarantees
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As of June 30	2007	2006
Loans Receivable		
<u>Direct Loans</u>		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
<u>Defaulted Loan Guarantees</u>		
5. A. Foreign Military Financing Account	0.00	0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
6. Total Loans Receivable	\$ 0.00	\$ 0.00

As of June 30	2007	2006
Loan Guarantee Liability		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
4. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

The AFWCF has no Summary of Direct Loans and Loan Guarantees.

Direct Loans Obligated

As of June 30	2007	2006
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):		
1. Foreign Military Loan Liquidating Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
 Direct Loans Obligated After FY 1991 (Present Value Method):		
2. Military Housing Privatization Initiative		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
3. Foreign Military Financing Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
4. Military Debt Reduction Financing Account		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
5. Total Direct Loans Receivable	\$ 0.00	\$ 0.00

The AFWCF has no Direct Loans Obligated.

Total Amount of Direct Loans Disbursed

As of June 30	2007	2006
Direct Loan Programs		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
3. Military Debt Reduction Financing Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

The AFWCF has no Direct Loans Disbursed.

Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

2007	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2007	2006		
5. Total Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00		0.00		
Military Debt Reduction Financing Account	0.00		0.00		
Total	\$ 0.00	\$ 0.00			

The AFWCF has no Subsidy Expense for Post FY 1991 Direct Loan.

Subsidy Rate for Direct Loans by Program

As of June 30	Interest Differential	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Direct Loans:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%
3. Military Debt Reduction Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

The AFWCF has no Subsidy Rate for Direct Loans by Programs.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY1991 Direct Loans

As of June 30	2007	2006
Beginning Balances, Changes and Ending Balance:		
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
G. Total of the above Adjustment Components	\$ 0.00	\$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00

The AFWCF has no Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY 1991 Direct Loans.

Defaulted Guaranteed Loans

As of June 30	2007		2006
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):			
1. Foreign Military Liquidating Account			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00		\$ 0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Loan Losses	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00		\$ 0.00
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):			
2. Military Housing Privatization Initiative			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00		\$ 0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Subsidy Cost (Present Value)	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00		\$ 0.00
3. Armament Retooling & Manufacturing Support Initiative			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 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
4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable			
	\$ 0.00		\$ 0.00

The AFWCF has no Defaulted Guaranteed Loans.

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. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00
2007		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

The AFWCF has no Guaranteed Loans Outstanding.

Liabilities for Post FY 1991 Loan Guarantees, Present Value
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As of June 30	2007	2006
Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Total Loan Guarantee Liability (Pre-FY 1992)	\$ 0.00	\$ 0.00
Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
5. Total Loan Guarantee Liability (Post-FY 1991)	\$ 0.00	\$ 0.00
6. Total Loan Guarantee Liability	\$ 0.00	\$ 0.00

The AFWCF has no Liabilities for Post FY 1991 Loan Guarantees, Present Value.

Subsidy Expense for Loan Guarantees by Program

As of June 30

2007	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2007	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
	2007	2006			
5. Total Loan Guarantee:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

The AFWCF has no Subsidy Expense for Loan Guarantees by Program.

Subsidy Rates for Loan Guarantees by Program

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

The AFWCF has no Subsidy Rates for Loan Guarantees by Program.

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

As of June 30	2007		2006	
Beginning Balance, Changes, and Ending Balance:				
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

The AFWCF has no Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees.

Administrative Expenses

The AFWCF has no Direct Loan Administrative Expenses.

Note 9. Inventory and Related Property

As of June 30	2007	2006
1. Inventory, Net	\$ 35,090,243,586.34	\$ 33,493,369,878.63
2. Operating Materials & Supplies, Net	280,044,587.50	414,745,573.03
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 35,370,288,173.84	\$ 33,908,115,451.66

Inventory, Net

As of June 30	2007			2006	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
1. Inventory Categories					
A. Available and Purchased for Resale	\$ 24,725,125,993.89	\$ (1,580,813.10)	24,723,545,180.79	\$ 23,167,583,679.51	LAC,MAC
B. Held for Repair	14,477,248,712.67	(4,291,199,253.82)	10,186,049,458.85	10,109,448,549.89	LAC,MAC
C. Excess, Obsolete, and Unserviceable	817,691,453.97	(817,691,453.97)	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	180,648,946.70	0.00	180,648,946.70	216,337,649.23	AC
F. Total	\$ 40,200,715,107.23	\$ (5,110,471,520.89)	35,090,243,586.34	\$ 33,493,369,878.63	

Legend for Valuation Methods:

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

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

General Composition of Inventory

Inventory includes weapon system consumables and reparable parts, base supply items and Medical/Dental supplies. 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.

Restrictions

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Material.

Definitions

Inventory available and purchased for resale includes consumable and reparable parts owned and managed by AFWCF. 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 AFWCF often relies on weapon systems and machinery no longer in production, AFWCF 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.

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.

Operating Materials and Supplies, Net

As of June 30	2007			2006	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
1. OM&S Categories					
A. Held for Use	\$ 280,044,587.50	\$ 0.00	\$ 280,044,587.50	\$ 414,745,573.03	SP, LAC, MAC
B. Held for Repair	0.00	0.00	0.00	0.00	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	NRV
D. Total	\$ 280,044,587.50	\$ 0.00	\$ 280,044,587.50	\$ 414,745,573.03	

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

General Composition of Operating Materials and Supplies

Operating Material and Supplies (OM&S) includes consumable 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 AFWCF 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.

The Depot Maintenance Activity Group (DMAG) uses the consumption method of accounting for OM&S, resulting in material being expensed upon issue to a production shop. 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.

Stockpile Materials, Net

As of June 30	2007			2006		Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net		
1. Stockpile Materials Categories						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	0.00	AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00	

Legend for Valuation Methods:

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

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

The AFWCF has no Stockpile Materials.

Note 10. General PP&E, Net

As of June 30	2007					2006
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	901,631,361.07	\$(643,671,510.80)	257,959,850.27	313,423,177.57
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	1,053,466,190.13	\$(767,245,445.80)	286,220,744.33	316,538,552.91
E. General Equipment	S/L	5 or 10	2,041,353,327.32	\$(1,535,687,867.59)	505,665,459.73	511,989,973.11
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	49,447,159.52	N/A	49,447,159.52	41,936,782.39
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			\$ 4,045,898,038.04	\$(2,946,604,824.19)	\$ 1,099,293,213.85	\$ 1,183,888,485.98

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 equipment reported by the Air Force Equipment Management System and Information Processing Management System have not been validated and reconciled. Past audit results have identified uncertainties as to whether all General PP&E assets in the possession or control (existence) of the AFWCF are properly and accurately recorded in the system (completeness). The Air Logistic Centers (ALC) and Aerospace Maintenance and Regeneration Center (AMARC) use ACES to capture the costs of real property based on preponderance of use for each building. The ALC's and AMARC 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 AFWCF 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. The Office of Management and Budget, the Government Accountability Office, the DoD Inspector General, and the Air Force are developing new policies and a contractor-reporting process to capture General PP&E information for future reporting purposes in compliance with generally accepted accounting principles.

The AFWCF has no General PP&E located Outside of the Continental/Contiguous United States.

Assets Under Capital Lease

As of June 30	2007	2006
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0.00	\$ 0.00
B. Equipment	0.00	0.00
C. Accumulated Amortization	0.00	0.00
D. Total Capital Leases	\$ 0.00	\$ 0.00

The AFWC has no Assets Under Capital Lease.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2007	2006
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 and Other Federal Employment Benefits	227,034,639.39	233,713,461.91
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	28,376,432.33	0.00
E. Total Nonfederal Liabilities	\$ 255,411,071.72	\$ 233,713,461.91
3. Total Liabilities Not Covered by Budgetary Resources	\$ 255,411,071.72	\$ 233,713,461.91
4. Total Liabilities Covered by Budgetary Resources	\$ 1,722,077,164.73	\$ 1,864,025,839.08
5. Total Liabilities	\$ 1,977,488,236.45	\$ 2,097,739,300.99

Nonfederal Other Liabilities includes \$28.4 million in foreign government deposits. This is the result of an accounting policy change directed by U.S. Treasury. The policy change resulted in foreign government deposits of \$28.4 million to be reported on the Nonfederal Liabilities, Other Liabilities line. The policy change was implemented 2nd Quarter, FY 2007.

Information Related to Liabilities Not Covered by Budgetary Resources

Military Retirement and Other Federal Employment Benefits represent the Actuarial Federal Employee Compensation future liabilities as provided by the Department of Labor.

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

Note 12.	Accounts Payable
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As of June 30	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 63,699,157.79	\$ N/A	\$ 63,699,157.79	\$ 130,729,046.78
2. Nonfederal Payables (to the Public)	550,269,177.54	0.00	550,269,177.54	398,752,582.79
3. Total	\$ 613,968,335.33	\$ 0.00	\$ 613,968,335.33	\$ 529,481,629.57

Note 13.	Debt
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As of June 30	2007			2006	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

The AFWCF has no Debt.

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of June 30	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities-- Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations—Military Munitions Response Program (MMRP)	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	0.00	0.00	0.00	0.00
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

The AFWCF has no Environmental Liabilities and Disposal Liabilities.

Environmental Disclosures

As of June 30	2007	2006
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

AFWCF has no Environmental or Disposable Liabilities.

Note 15.	Other Liabilities
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As of June 30	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 96,663,727.22	\$ 0.00	\$ 96,663,727.22	\$ 158,422,776.22
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	5,374,440.79	0.00	5,374,440.79	5,203,500.31
G. Total Intragovernmental Other Liabilities	\$ 102,038,168.01	\$ 0.00	\$ 102,038,168.01	\$ 163,626,276.53
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 108,552,272.30	\$ 0.00	\$ 108,552,272.30	\$ 97,508,858.80
B. Advances from Others	10,711,794.46	0.00	10,711,794.46	12,057,391.70
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00	54,432,731.97
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	892,844,755.70	22,338,271.26	915,183,026.96	1,006,918,950.51
J. Total Nonfederal Other Liabilities	\$ 1,012,108,822.46	\$ 22,338,271.26	\$ 1,034,447,093.72	\$ 1,170,917,932.98
3. Total Other Liabilities	\$ 1,114,146,990.47	\$ 22,338,271.26	\$ 1,136,485,261.73	\$ 1,334,544,209.51

Information Related to Intragovernmental Other Liabilities

(In thousands)	FY2007
DMAG Health Benefits	2,390
DMAG Life Insurance	46
DMAG Retirement	2,382
SMAG Health Benefits	249
SMAG Life Insurance	6
SMAG Retirement	301
Total	5,374

Information Related to Nonfederal Other Liabilities

(In thousands)	FY2007
DMAG – WIP Accrued Expenses	846,058
SMAG – Future Purchase - Foreign Military Sales	28,376
SMAG – Other Accrued Liabilities	18,172
Contingent Liabilities-Contract Financing Payments	22,338
Misc Liabilities	239
Total	915,183

The Supply Management Activity Group (SMAG) future purchase – foreign military sales consist of money that various countries have deposited with SMAG for future purchases they plan to make under the foreign military sales program. These advanced funds held for future purchases are a liability and are returned if the countries do not make future purchases. Revenue is not recognized on these transactions until the purchase takes place.

Contingent Liabilities balance includes \$22.3 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payments is made, thereby protecting taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The AFWCF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance of a satisfactory product. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to AFWCF and the amount of potential future payment are estimable; AFWCF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance of a satisfactory product.

Capital Lease Liability

As of June 30	2007				2006	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2007	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. 2008	0.00	0.00	0.00	0.00	0.00	0.00
C. 2009	0.00	0.00	0.00	0.00	0.00	0.00
D. 2010	0.00	0.00	0.00	0.00	0.00	0.00
E. 2011	0.00	0.00	0.00	0.00	0.00	0.00
F. 2012	0.00	0.00	0.00	0.00	0.00	0.00
G. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
H. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
I. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
J. Net Capital Lease Liability	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 0.00	\$ 0.00	\$ 0.00

The AFWCF has no Capital Lease Liability.

Note 16.	Commitments and Contingencies
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The AFWCF recognized a \$22.3 million future contract contingent liability in Note 15. The AFWCF has no other Commitments and Contingencies.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2007				2006
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Actuarial Benefits					
A. FECA	\$ 227,034,639.39		\$ 0.00	\$ 227,034,639.39	\$ 233,713,461.91
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other Actuarial Benefits	\$ 227,034,639.39		\$ 0.00	\$ 227,034,639.39	\$ 233,713,461.91
3. Other Federal Employment Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 227,034,639.39		\$ 0.00	\$ 227,034,639.39	\$ 233,713,461.91

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

Military Retirements Pensions

The AFWCF has no Military Retirement Pensions.

Military Retirements Health Benefits

The AFWCF has no Military Retirement Health Benefits

Federal Employees Compensation Act (FECA)

The AFWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to AFWCF at the end of each fiscal year. The liability includes the estimated 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. The projected annual benefit payments are discounted to present value using the Office of Management and Budget's (OMB's) economic

assumptions for 10-year Treasury notes and bonds. Cost of living adjustments (COLAs) and consumer price index medical (CPIM) factors are 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 benefits 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:

2006

5.170% in Year 1

5.313% in Year 2

And thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2006 are 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:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2006	3.50%	4.00%
2007	3.13%	4.01%
2008	2.40%	4.01%
2009	2.40%	4.013%
2010+	2.43%	4.09%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2006 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2006 projection to the average pattern for the projections of the most recent three years.

Note 18.**General Disclosures Related to the Statement of Net Cost****Intragovernmental Costs and Exchange Revenue**

As of June 30	2007	2006
1. Intragovernmental Costs	\$ 2,729,117,490.51	\$ 3,398,520,970.22
2. Public Costs	4,065,262,017.08	3,196,894,772.17
3. Total Costs	\$ 6,794,379,507.59	\$ 6,595,415,742.39
4. Intragovernmental Earned Revenue	\$ (7,215,322,003.89)	\$ (7,532,300,603.58)
5. Public Earned Revenue	(546,386,624.42)	(605,487,068.61)
6. Total Earned Revenue	\$ (7,761,708,628.31)	\$ (8,137,787,672.19)
7. Net Cost of Operations	\$ (967,329,120.72)	\$ (1,542,371,929.80)

Information Related to the Statement of Net Cost (SoNC)

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

The AFWCF records transactions on an accrual basis. The AFWCF may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information, historical data and current data not yet input are made as required by generally accepted accounting principles. These estimates are reversed in order to allow actual cost and revenue data to populate the general ledger in subsequent months.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of June 30	2007		2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 35,618,802.65	\$ 0.00	\$ 40,580,344.28	\$ 0.00
B. Civilian Health	87,088,911.00	0.00	80,489,376.00	0.00
C. Civilian Life Insurance	190,057.39	0.00	190,958.73	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	\$ 122,897,771.04	\$ 0.00	\$ 121,260,679.01	\$ 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. OPM provides the cost factors to the Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. DFAS provides the costs to the Office of the Under Secretary of Defense (Personnel and Readiness) 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
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As of June 30	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 6,623,105,706.29	\$ 6,427,761,339.62
2. Available Borrowing and Contract Authority at the End of the Period	8,608,468,500.48	6,335,321,060.81

Information Related to the Statement of Budgetary Resources

Intraentity Transactions

The Statement of Budgetary Resources (SBR) does not eliminate intraentity 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 \$9.6 billion. There are no category B direct or exempt obligations.

Note 21.	Disclosures Related to the Statement of Financing
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Other Information 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. 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 are a previously identified deficiency. This causes a difference in net cost between the Statement of Net Cost and 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. This adjustment was \$356 million, absolute value.

The following Statement of Financing lines are presented as combined instead of consolidated due to intraagency 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

The value for "Other" reported under "Components Requiring or Generating Resources in Future Period" is for foreign government deposits. An accounting policy change directed by U.S. Treasury resulted in these deposits being reported on this line. The policy change was implemented 2nd Quarter, FY 2007.

The value for "Other" reported under "Components Not Requiring or Generating Resources in Future Period" is for applied overhead, bad debt expense and expenses not requiring budgetary resources.

The Balance Sheet line, "The Military Retirement and Other Federal Employee Benefits," reflects \$227 million for the actuarial Federal Employees Compensation Act (FECA) liabilities. The Statement of Financing line, "Components Requiring or Generating Resources in Future Periods," reflects \$0 for the actuarial FECA liabilities. However, the "Components Requiring or Generating Resources in Future Periods" line has a balance of \$28.4 million for foreign government deposits. The FECA difference is due to the way the amounts are displayed on the two statements. The statement of financing reflects the net change for the year and the balance sheet displays the ending balance for the FECA amount. FECA numbers are not available until the last quarter of the year.

Note 22.	Disclosures Related to the Statement of Custodial Activity
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The AFWCF has no Disclosures Related to the Statement of Custodial Activity.

Note 23.**Earmarked Funds****BALANCE SHEET**

As of June 30, 2007

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with					
Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Investments	0.00	0.00	0.00	0.00	0.00
Accounts and Interest Receivable	0.00	0.00	0.00	0.00	0.00
Other Assets	0.00	0.00	0.00	0.00	0.00
Total Assets	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Liabilities	0.00	0.00	0.00	0.00	0.00
Total Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	0.00	0.00	0.00
Total Liabilities and Net Position	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
STATEMENT OF NET COST					
For the period ended June 30, 2007					
Program Costs	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Less Earned Revenue	0.00	0.00	0.00	0.00	0.00
Net Program Costs	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Air Force Working Capital Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30, 2007	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net Cost of Operations	0.00	0.00	0.00	0.00	0.00
Budgetary Financing Sources	0.00	0.00	0.00	0.00	0.00
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net Position End of Period	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

The AFWCF has no Earmarked Funds.

Note 24.	Other Disclosures
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As of June 30	2007			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due

Fiscal Year

2007	\$	0.00	\$	0.00	\$	0.00	\$	0.00
2008		0.00		0.00		0.00		0.00
2009		0.00		0.00		0.00		0.00
2010		0.00		0.00		0.00		0.00
2011		0.00		0.00		0.00		0.00
2012		0.00		0.00		0.00		0.00
After 5 Years		0.00		0.00		0.00		0.00

**Total Future Lease
Payments Due**

	\$	0.00	\$	0.00	\$	0.00	\$	0.00
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The AFWCF has no Other Disclosures.

Note 25.	Restatements
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The AFWCF has no restatements of prior period adjustments for material errors.