

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of June 30, 2005 and 2004

	<u>2005 Consolidated</u>	<u>2004 Consolidated</u>
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 892,959,522.65	\$ 876,659,084.37
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)	447,368,516.91	473,092,296.50
4. Other Assets (Note 6)	16,850,605.45	0.00
5. Total Intragovernmental Assets	<u>\$ 1,357,178,645.01</u>	<u>\$ 1,349,751,380.87</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 0.00	\$ 0.00
C. Accounts Receivable (Note 5)	227,263,608.49	128,250,336.74
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	21,476,972,519.61	27,874,537,316.41
F. General Property, Plant and Equipment (Note 10)	1,173,832,477.16	1,177,509,234.11
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	332,793,273.05	403,984,036.47
2. TOTAL ASSETS	<u><u>\$ 24,568,040,523.32</u></u>	<u><u>\$ 30,934,032,304.60</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 266,667,442.38	\$ 160,656,067.43
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & Note 16)	140,476,799.72	272,225,931.65
4. Total Intragovernmental Liabilities	<u>\$ 407,144,242.10</u>	<u>\$ 432,881,999.08</u>
B. Accounts Payable (Note 12)	\$ 342,914,647.05	\$ 345,796,122.18
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	238,729,115.79	275,131,634.86
D. Environmental Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	1,401,199,013.99	1,791,885,418.90
4. TOTAL LIABILITIES	<u>\$ 2,389,987,018.93</u>	<u>\$ 2,845,695,175.02</u>
5. NET POSITION		
A. Unexpended Appropriations	\$ 0.00	\$ 0.00
B. Cumulative Results of Operations	22,178,053,504.39	28,088,337,129.58
6. TOTAL NET POSITION	<u>\$ 22,178,053,504.39</u>	<u>\$ 28,088,337,129.58</u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 24,568,040,523.32</u></u>	<u><u>\$ 30,934,032,304.60</u></u>

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
1. Program Costs		
A. Intragovernmental Gross Costs	\$ 3,844,116,025.97	\$ 3,883,251,527.67
B. (Less: Intragovernmental Earned Revenue)	(7,971,602,443.03)	(8,939,099,846.53)
C. Intragovernmental Net Costs	\$ (4,127,486,417.06)	\$ (5,055,848,318.86)
D. Gross Costs With the Public	4,032,922,599.13	132,151,592.58
E. (Less: Earned Revenue From the Public)	(454,061,158.32)	(487,515,007.82)
F. Net Costs With the Public	\$ 3,578,861,440.81	\$ (355,363,415.24)
G. Total Net Cost	\$ (548,624,976.25)	\$ (5,411,211,734.10)
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	\$ (548,624,976.25)	\$ (5,411,211,734.10)

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 21,890,389,890.99	\$ 11,537,087,565.00
2. Prior period adjustments (+/-)		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	10,905,146,882.63
2.B. Beginning Balance, Restated	21,890,389,890.99	22,442,234,447.63
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	699,393,372.99
3. Beginning Balances, as adjusted	21,890,389,890.99	23,141,627,820.62
4. Budgetary Financing Sources:		
4.A. Appropriations received	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used	0.00	0.00
4.E. Nonexchange revenue	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	(386,111,000.00)	(580,900,000.00)
4.H. 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	(1,200,380.24)
5.C. Imputed financing from costs absorbed by others	125,149,637.15	117,597,955.10
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	(260,961,362.85)	(464,502,425.14)
7. Net Cost of Operations (+/-)	(548,624,976.25)	(5,411,211,734.10)
8. Ending Balances	\$ 22,178,053,504.39	\$ 28,088,337,129.58

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	\$ 0.00	\$ 0.00
1b. Borrowing authority	0.00	0.00
1c. Contract authority	5,582,274,892.78	2,283,213,321.87
1d. Net transfers (+/-)	0.00	0.00
1e. Other	0.00	0.00
2. Unobligated balance:		
2a. Beginning of period	134,439,106.78	607,131,194.90
2b. Net transfers, actual (+/-)	(386,111,000.00)	(580,900,000.00)
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	12,338,557,343.00	13,187,966,904.95
2. Receivable from Federal sources	(7,378,518.73)	(254,900,646.95)
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	(109,860,997.60)	(151,792,456.95)
2. Without advance from Federal sources	532,779,774.49	161,192,754.29
3c. Anticipated for the rest of year, without advances	1,205,001,637.95	1,395,862,031.28
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	<u>13,959,099,239.11</u>	<u>14,338,328,586.62</u>
4. Recoveries of prior year obligations	0.00	7,132,284.60
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	(286,616.75)
7. Total Budgetary Resources	<u>\$ 19,289,702,238.67</u>	<u>\$ 16,654,618,771.24</u>

Department of Defense
 Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
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NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	\$ 0.00	\$ 0.00
1b. Borrowing authority	0.00	0.00
1c. Contract authority	0.00	0.00
1d. Net transfers (+/-)	0.00	0.00
1e. Other	0.00	0.00
2. Unobligated balance:		
2a. Beginning of period	0.00	0.00
2b. Net transfers, actual (+/-)	0.00	0.00
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	0.00	0.00
2. Receivable from Federal sources	0.00	0.00
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	0.00	0.00
2. Without advance from Federal sources	0.00	0.00
3c. Anticipated for the rest of year, without advances	0.00	0.00
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	<hr/> 0.00	<hr/> 0.00
4. Recoveries of prior year obligations	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	<hr/> <hr/> \$ 0.00	<hr/> <hr/> \$ 0.00

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF FINANCING
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 11,319,448,935.44	\$ 12,352,659,431.45
2. Less: Spending authority from offsetting collections and recoveries (-)	(12,754,097,601.16)	(12,949,598,839.94)
3. Obligations net of offsetting collections and recoveries	(1,434,648,665.72)	(596,939,408.49)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	(1,434,648,665.72)	(596,939,408.49)
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	0.00	(1,200,380.24)
8. Imputed financing from costs absorbed by others	125,149,637.15	117,597,955.10
9. Other (+/-)	0.00	0.00
10. Net other resources used to finance activities	125,149,637.15	116,397,574.86
11. Total resources used to finance activities	(1,309,499,028.57)	(480,541,833.63)
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 (-)	442,565,712.02	(325,718,735.70)
12b. Unfilled Customer Orders	422,918,776.89	9,400,297.34
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	(3,871,065,957.12)	(17,155,057,954.55)
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	0.00	0.00
16b. Other (+/-)	0.00	1,200,380.24
17. Total resources used to finance items not part of the net cost of operations	(3,005,581,468.21)	(17,470,176,012.67)
18. Total resources used to finance the net cost of operations	(4,315,080,496.78)	(17,950,717,846.30)

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF FINANCING
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
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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	0.00
23. Other (+/-)	33,794,210.97	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 33,794,210.97	<hr/> 0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	142,083,116.39	115,413,296.14
26. Revaluation of assets or liabilities (+/-)	894,767,745.37	2,937,790,625.95
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	3,634,732,261.88	9,203,305,623.61
27c. Operating Material & Supplies Used	263,906,747.74	0.00
27d. Other	(1,202,828,561.82)	282,996,566.50
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 3,732,661,309.56	<hr/> 12,539,506,112.20
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> 3,766,455,520.53	<hr/> 12,539,506,112.20
30. Net Cost of Operations	<hr/> <hr/> (548,624,976.25)	<hr/> <hr/> (5,411,211,734.10)

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

These financial statements have been prepared to report the financial position and results of operations of the 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 the AFWCF in accordance with “Department of Defense Financial Management Regulation (DoDFMR),” the Office of Management and Budget (OMB) Bulletin No. 01-09, “Form and Content of Agency Financial Statements” and, to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which the AFWCF is responsible, except that information relative to classified assets, programs, and operations. This information has been excluded from the statements or otherwise aggregated and reported in such a manner that is no longer considered classified. The AFWCF’s financial statements are in addition to the 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 implement all elements of Federal GAAP and the OMB Bulletin No. 01-09, due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the AFWCF’s major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations, rather than preparing financial statements in accordance with Federal GAAP. The AFWCF continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable footnote.

The AFWCF continues to enter material amounts of unsupported accounting entries. Financial and nonfinancial feeder systems continue to lack sufficient customer identification necessary to accurately process eliminations. The issue has been addressed as part of the Air Force plan for obtaining a favorable opinion by FY 2007. This was also disclosed in the DoD Agency-wide Note 1.

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 DoD and made the Air Force a department within the DoD. The overall mission of the 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 defend the United States through control and exploitation of air and space.

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

1.C. Appropriations and Funds

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

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

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

Supply Management

The Air Force Stock Funds were established within the DoD under 10 U.S.C. 2208, as described in DoD Financial Management Regulation 7000.14-R, to finance inventories of supplies. Most inventories of supplies are financed by use of a 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 acquiring inventories with funds received from prior sales to customers.

There are four active business activities in the Supply Management Activity Group (SMAG). They are Materiel Support Division (MSD), General Support Division (GSD), Medical-Dental Division, and Academy Division. In FY 2001, the Fuels Division was taken over by the Defense Energy Support Center; therefore, all activity within the Fuels Division is residual. Troop Support is also a residual activity.

Depot Maintenance

The Air Force Depot Maintenance Activity Group (DMAG) performs manufacturing, development, and test work as well as aviation maintenance. Primarily supporting Air Force organizations, DMAG also supports other DoD components, government agencies, and foreign governments. The DMAG environment is rapidly changing. Weapons systems embodying new material and technologies require new maintenance processes, while improvements in reliability reduce the frequency of maintenance for many items. The net result requires flexibility in addressing both wartime and peacetime workload changes. The DMAG achieves this flexibility by employing the unique strengths of organic (in-house) and contractor repair resources.

Transportation

The unique transportation responsibilities of the Air Mobility Command (AMC) include the executive travel mission and operation of other operational support aircraft, the air weather service, AMC training, AMC base operations, tanker operations, and other miscellaneous AMC functions. The Air Force Transportation Defense Business Operations Fund (DBOF) was established during FY 1993 and discontinued in FY 1995 in accordance with the DWCF improvement plan. Only residual accounting remains.

Air Force Working Capital Fund Component

The purpose of the Air Force Component Activity is to provide an activity within the 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.

Additional DFAS-Arlington memorandums provided specific and detailed instructions and procedures to maintain accountability for fund balances with Treasury.

Operations of the activities within the AFWCF are based on policies and procedures that include:

(1) Funding Authority:

Prior to FY 1992, industrial fund activities were not issued funding documents. Activities now receive obligation authority for customer orders from the Air Force Deputy Assistant Secretary, Budget (SAF/FMB). The total costs that can be incurred are a function of the cost goals applied to the actual customer funded workload.

(2) Minor Construction Funding:

Minor construction projects that cost \$100,000 or more, but less than \$300,000, are funded through a separate section of the capital budget, and depreciated over a 20-year period.

(3) Software Development Costs:

Policy and procedures have been changed to move the development costs of new software that meets capitalization requirements to the capital budget. Software is to be amortized after release.

(4) Capital Budgeting:

Activity group budgets are segregated into operating and capital budgets. Any investment in equipment, software, minor construction and other management improvements that meet capitalization requirements are funded through the capital budget and the cost is depreciated or amortized over the relevant life cycle.

(5) Asset Capitalization and Depreciation:

The assets of the industrial and stock funds were transferred to the DBOF and subsequently to the AFWCF. Capital assets, excluding land, which exceed a unit cost of \$100,000 or more are subject to depreciation. In addition, capital assets previously capitalized using the established thresholds for prior years will continue to be depreciated if depreciation was being recorded prior to the increase to the \$100,000 threshold.

(6) Rates and Prices:

All Air Force activity groups within the WCF are expected to set their rates and prices based upon full cost recovery, ensuring that cost reductions made by an activity will be passed on to the customers. Rates and prices normally will not change during the year of execution, but occasionally change based on certain world situations. If there is a need for a price change in Depot Maintenance, the authority is requested from HQ Air Force Material Command.

The FY 2005, AFWCF operations encompassed three activity groups: Supply Management, Depot Maintenance, and Information Services. These activity groups use their resources to finance the initial cost of products or services for activities of the United States Government, primarily those of the DoD. Work is generated by the acceptance of customer orders from ordering activities.

1.D. Basis of Accounting

The AFWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. However, some of the Air Force's financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis. The AFWCF has undertaken efforts to determine the

actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time that all of the processes are updated to collect and report financial information as required by Federal GAAP, some of the AFWCF's financial data will be based on budgetary transactions (obligations, disbursements, and collections) and nonfinancial feeder systems. For example, most of the information presented on the Statement of Net Cost is based on accrued costs; however, some of this information is based on obligations and disbursements.

Under the accrual method revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds; however, the cash basis of accounting may be followed if the reported activity and amounts are not materially significant. In addition to the accrual basis of accounting, Depot Maintenance also uses the full absorption accounting principal. During FY 1996, DFAS-DE, SAF/FMB, and OSD/FM jointly agreed on the use of this principal by Depot Maintenance. This principal requires that overhead costs, such as depreciation and bad debt expenses, are included in the cost of services sold. The effect of known intrafund transactions is eliminated.

The Air Force uses several service unique general ledger structures plus data converted from the Defense Business Management System (DBMS). The financial statements depicted are derived from supply, maintenance, and accounting records, utilizing the Air Force service and DBMS unique general ledger structures. The activity groups' general ledger accounts are "cross-walked" to the USSGL chart of accounts to produce the financial statements.

In addition, the Air Force identifies programs based upon the major appropriation groups provided by Congress. The Air Force 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 SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements readable.

The asset accounts used to prepare the statements are categorized as either entity or nonentity. Entity assets consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets that are held by an entity that are not available for use in the operations of the entity.

Material disclosures are provided at Note 10.

1.E. Revenues and Other Financing Sources

The Under Secretary of Defense (Comptroller) directed, per memorandum dated January 1992, all of the services to use the percentage of completion accounting method to recognize revenue and expenses. The DoD 7000.14-R, Financial Management Regulation, Chapter 11B, January 1995, also prescribes this method of accounting.

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

Supply Management

Air Force Supply Management revenue is recognized at the time of sale under constructive delivery terms (normally when an item is released from inventory or delivered to the customer). Foreign Military Sales transactions also require proof of shipment before revenue is recognized. Generally, Supply Management's revenue consists of sales at standard prices less sales returns. Sales of Materiel Support Division items are at exchange price. The Medical-Dental division and the Air Force Academy Store add surcharges to their billings rather than include a surcharge in the standard price. Intradivision Supply Management sales have been eliminated. Cash discounts and interfund retail stock loss allowances are reported as additional revenue.

Depot Maintenance

Revenue recognition for Organic DMAG is the percentage of completion method now that the Depot Maintenance Accounting and Production System (DMAPS) is fully operational at all three Air Logistic Centers (ALCs).

Revenue recognition for Contract DMAG is based on the number of units produced times the Unit Sales Price (USP) and does not recognize IRR at this time.

Information Services

The Information Services Activity Group (ISAG), as a service type organization, recognizes revenue in one of two ways based on the service level agreement between the customer and the provider. ISAG uses either the completed contract method or the percentage of completion method.

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, and environmental liabilities. Expenditures for

capital and other long-term assets are not recognized as expenses in the AFWCF's operations until depreciated in the case of property, plant, and equipment (PP&E) or consumed in the case of operating materials and supplies (OM&S). Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made. Operating expenses were adjusted as a result of the elimination of balances between the DoD Components. Net increases or decreases in unexpended appropriations are recognized as a change in net position. See Note 18, Intragovernmental Expenses and Revenue, for disclosure of adjustment amounts.

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 reflect the results of all financial decisions applicable to the Air Force as though the agency was a stand-alone entity.

The Air Force's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to the federal agencies. The Air Force'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 the DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

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, employees and personnel covered by FERS and MRS also have 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 the OPM in the Statement of Net Cost, and recognizes corresponding imputed revenue in the Statement of Changes in Net Position.

To prepare reliable financial statements, transactions occurring between components or activities within the DoD or between two or more federal agencies must be eliminated. However, the Air Force, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between the components or activities of the AFWCF. For FY 1999 and beyond, seller entities within the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases,

the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the FMS issued the “Federal Intra-governmental Transactions Accounting Policies and Procedures Guide.” The DoD was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for nonfiduciary transactions. The Air Force was able to implement the policies and procedures contained in the “Intra-governmental Fiduciary Transactions Accounting Guide,” as updated by the “Federal Intra-governmental Transactions Accounting Policies and Procedures Guide,” for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees’ Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the “Arms Export Control Act of 1976.” Under the provisions of the Act, the AFWCF has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

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

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

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

Fund Balances with Treasury are maintained at the AFWCF corporate business area today. In 1992, when the Defense Business Operating Fund was established, the FBWT was moved from the Air Force level to the DoD level. In 1996, the DWCF was established and the FBWT was moved back to the Air Force level. However, allocations of FBWT were at a lower level than the level transferred out. The cash balance had been

maintained at 10 days worth of cash, but what was allocated back was 3 days worth of cash. The days are based on the average of cash needed to pay vendors. The fund has been "under funded" since that time.

Material disclosures are provided at Note 3. Differences are caused by in-transit disbursements and unmatched disbursements, which are not recorded in the accounting offices' detail-level records.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

As presented on the Balance Sheet, accounts receivable includes accounts receivables, claims receivables, and refunds receivable from other Federal entities or from nonfederal entities. Allowances for loss on accounts receivable due from nonfederal entities are based upon analysis of collection experience by fund type. The AFWCF does not recognize an allowance for loss on accounts receivable amounts from another Federal agency. Claims against another federal agency are to be resolved between the agencies. If the claim cannot be resolved by the agencies involved, it should be referred to the Government Accountability Office. Only Supply Management allows for allowance for loss on accounts receivable based upon analysis of historical data from prior year accounts receivable balances, write-offs, and collection policy.

Material disclosures are provided at Note 5.

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

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

Under the LAC method of inventory valuation, gains and losses resulting from valuation changes for inventory items were recognized and reported in the Statement of Net Cost and included in the calculation of Cost of Goods Sold. To calculate the allowances for gain or loss on inventories, DFAS Denver prepared an inventory worksheet monthly for

each fund code within the SMAG. SFFAS No. 3, "Accounting for Inventory and Related Property," directs that using a historical cost valuation method does not require an allowance for holding gains and losses account. Additionally, SFFAS No. 3 provides for either the direct or allowance method to be used in valuing inventory held for repair. Therefore the change to a historical costing method also included the elimination of the allowance for holding gains and losses, revaluation of all inventories to a historical basis and the creation of an allowance for repairs. The implementation of Moving Average Cost for SMAG inventories in fiscal year 2004 and 2005 eliminated the need for the gains and losses allowance account for that portion of the inventory and has been credited against a prior period. Inventory held for repair is now valued at MAC with an allowance for repair equal to the latest repair cost.

Related property includes operating materials and supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The department uses the consumption method of accounting for OM&S for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, the AFWCF uses the purchase method, expensed when purchased.

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

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

Not applicable.

1.O. General Property, Plant and Equipment

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements, when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E are required to be capitalized. All General PP&E, other than land, is depreciated using the straight-line method. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of \$15,000, \$25,000, and \$50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of 2 or more years was capitalized. These assets remain capitalized and are reported on WCF financial statements. General PP&E previously capitalized at amounts below \$100,000 were written off General Fund financial statements in FY 1998.

When it is in the best interest of the government, the Air Force provides government property necessary to complete contract work to contractors. Such property is either owned or leased by the Air Force, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, the items should be included in the value of General PP&E reported on the Air Force's Balance Sheet. The AFWCF recently completed a study that indicates that the value of General PP&E that meets the capitalization requirement and is in the possession of contractors is not material to the

Department's financial statements. Regardless, the AFWCF is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Air Force currently reports only the government property in the possession of contractors that is maintained in the Air Force's property systems.

For entities operating as business type activities (WCFs), all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. National Defense PP&E, Heritage Assets and Stewardship Land owned or maintained on a WCF installation are reported in the Supplemental Stewardship Report of the applicable military department. Material disclosures are provided at Note 10.

1.P. Advances and Prepayments

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

1.Q. Leases

Not applicable.

1.R. Other Assets

The AFWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that these long-term contracts can cause, the AFWCF provides financing payments. One type of financing payment that the AFWCF makes is for real property, and is based upon a percentage of completion. In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulations, the AFWCF makes financing payments under fixed price contracts. The AFWCF reports these financing payments in the "Other Assets" line item. Because the 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, the AFWCF is not obligated to reimburse the contractor for its costs, and the contractor is liable to repay the 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," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the AFWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable,

and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility that a loss or an additional loss will be incurred. Examples of loss contingencies include the collectability of receivables, pending or threatened litigation, possible claims and assessments. The AFWCF's loss contingencies arising are events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contractual disputes.

1.T. Accrued Leave

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

1.U. Net Position

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

Cumulative results of operations for the AFWCF represent the excess of revenues over expenses, less refunds to customers, and returns to the U.S. Treasury since fund inception.

1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings and other facilities that are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets located overseas are purchased with appropriated funds; however, the host country retains the title to the land and any improvements. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or the AFWCF does not reach agreements that allow for the continued use. Therefore, in the event treaties or other agreements are terminated and the use of foreign bases is not allowed, the losses will be recorded for the value of any nonretrievable capital assets. Negotiations between the United States and the host country determine the amount to be paid the United States for such capital investments.

1.W. Comparative Data

The AFWCF presents the current and previous year's financial data for comparative purposes. This data is presented in the financial statements, as well as in the notes to the principal statements.

1.X. Unexpended Obligations

The AFWCF presents the current and previous year's financial data for comparative purposes. This data is presented in the financial statements, as well as in the notes to the principal statements.

1.Y. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports.

Note 2.	Nonentity Assets
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As of June 30	2005	2004
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	0.00
D. Other Assets	0.00	0.00
E. 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. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	0.00	0.00
H. Total Nonfederal Assets	\$ 0.00	\$ 0.00
3. Total Nonentity Assets	\$ 0.00	\$ 0.00
4. Total Entity Assets	\$ 24,568,040,523.32	\$ 30,934,032,304.60
5. Total Assets	\$ 24,568,040,523.32	\$ 30,934,032,304.60

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

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

Note 3.	Fund Balance with Treasury
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As of June 30	2005	2004
1. Fund Balances		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	892,959,522.65	876,659,084.37
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	<u>\$ 892,959,522.65</u>	<u>\$ 876,659,084.37</u>
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 1,276,382,823.51	\$ 1,410,390,606.62
B. Fund Balance per	<u>892,959,522.65</u>	<u>876,659,084.37</u>
3. Reconciling Amount	<u>\$ 383,423,300.86</u>	<u>\$ 533,731,522.25</u>

The reconciling amount on line 3 above represents \$383.4 million for the United States Transportation Command (USTC), which is reported at the Department of the Treasury as part of the Air Force Working Capital Fund (AFWCF). However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations (ODO) reporting, which is separate from the AFWCF. Therefore, USTC cash is not included on the AFWCF AFS statements.

Note Reference

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

Status of Fund Balance with Treasury		
As of June 30	2005	2004
1. Unobligated Balance		
A. Available	\$ 6,765,251,665.28	\$ 2,906,097,308.51
B. Unavailable	0.00	0.00
2. Obligated Balance not yet Disbursed	\$ (5,872,292,142.65)	\$ (2,029,438,974.13)
3. Total	\$ 892,959,522.63	\$ 876,658,334.38

The FY 2004 amount does not agree with the Fund Balance with Treasury due to an error in the budgetary accounts that was corrected in 4th quarter of FY2004. The amount of \$.8 thousand was incorrectly posted to Contract Authority Withdrawn. The correct entry should have been to Current Year Contract Authority Realized. This error overstated Line 2 of the schedule.

The negative balance on Line 2 represents resources available in excess of obligations occurred. This is due to contract authority available on the Annual Operating Budget (AOB) that has not been fully obligated. Amounts that are not obligated at year end will be withdrawn.

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
<u>Account</u>				
F3875	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3880	0.00	0.00	0.00	0.00
F3882	0.00	0.00	0.00	0.00
F3885	0.00	0.00	0.00	0.00
F3886	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	0.00

Not applicable.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDS)	\$ 7,143,790.40	\$ 3,596,723.68	\$ 71,070,872.13	67,474,148.45
B. Negative Unliquidated Obligations (NULO)	7,112,344.09	8,379,875.10	5,746,315.08	(2,633,560.02)
2. Total In-transit Disbursements, Net	\$ 143,618,002.88	\$ 475,181,350.06	\$ 215,559,777.06	(259,621,573.00)

Problem disbursements represent disbursements of AFWCF funds reported by a disbursing station to the Department of Treasury that have not yet been precisely matched against the specific source obligation. The problem disbursements arise when the various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the transaction in all the applicable accounting systems.

Due to the accelerated reporting requirements the 2005 column represents May 2005 amounts. The June amounts are not available at this time.

The AFWCF has a \$64.8 million increase in problem disbursements and a \$259.6 million decrease in In-transit disbursements. The amount over 180 days old for UMDS is \$395.2 thousand, for NULO is \$0, and for In-transit Disbursements is \$8.7 million. The amount over 120 days old for UMDS is \$492.7 thousand, for NULO is \$0.00, and for In-transit Disbursements is \$14.9 million. The current absolute value of In-transit disbursements is \$369.2 million.

The increase in UMDS can be attributed to database mergers (San Bernardino to Dayton in July 2004, San Antonio to Limestone in October 2004, and Omaha to Dayton in May 2005) and difficulties encountered with the merger of the Contract Procurement Accounting System (CPAS) and the General Accounting and Finance System (GAFS). Also, a substantial amount of problems were encountered when we implemented new business processes for handling disbursements. All corrections are expected to be accomplished by September 2005. The decrease in In-Transit Disbursements is due an increase effort to post the outstanding In-transit Disbursements prior to working the UMDS.

Note 4.	Investments and Related Interest
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As of June 30	2005				2004	
	Par Value/Cost	Amorti- zation Method	Unamortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
1. Intragovernmental Securities						
A. Non-Marketable, Market-Based	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Accrued Interest	0.00			0.00	0.00	0.00
C. Total Intragovernmental Securities	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
2. Other Investments	<u>\$ 0.00</u>		<u>0.00</u>	<u>\$ 0.00</u>	N/A	<u>\$ 0.00</u>
Not Applicable.						

Note 5.	Accounts Receivable
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As of June 30	2005			2004
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 447,368,516.91	N/A	\$ 447,368,516.91	\$ 473,092,296.50
2. Nonfederal Receivables (From the Public)	\$ 227,341,058.49	\$ (77,450.00)	\$ 227,263,608.49	\$ 128,250,336.74
3. Total Accounts Receivable	\$ 674,709,575.40	\$ (77,450.00)	\$ 674,632,125.40	\$ 601,342,633.24

Fluctuations

Non-federal receivables increased \$99.0 million. The amount consists primarily of an increase in the Supply Management Activity Group (SMAG) which is offset by a decrease in the Depot Maintenance Activity Group (DMAG). SMAG had an increase of \$154.9 million of which \$121.6 million is attributed to a change in classification of receivables from Foreign Military Sales that were previously recorded as other assets. This change occurred in the 3rd Quarter, FY 2005 reports. DMAG had a decrease of \$61.4 million which is due to an error reclassifying receivables as public in the FY 2004 reports. Trading partner data was not provided for all governmental receivables, therefore this amount was reclassified as public. The correction was processed in the FY 2004 year end reports.

Information Related to Accounts ReceivablesAllowance Method

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

Allocation of Undistributed Collections

The Department of Defense (DoD) policy is to allocate supported undistributed collections between federal and non-federal categories based on the percentage of federal and non-federal accounts receivable. Unsupported undistributed collections are recorded in USSGL account 2400, Liability For Deposit Funds, Clearing Accounts, and Undeposited Collections. The Air Force Working Capital Fund (AFWCF) followed this allocation procedure, applying \$512.0 thousand in undistributed collections to accounts receivable and recording \$51.2 million of unsupported undistributed to USSGL account 2400.

Elimination Adjustments

Accounts receivable within the AFWCF have been eliminated for statement presentation purposes. The total value of the receivables that were eliminated on these financial statements is \$326.5 million.

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

Receivables over 180 Days

The Air Force has \$8.7 million intragovernment receivables and \$19.9 million non-federal receivables over 180 days. Processes have been implemented to closely monitor the delinquent receivables and to refer them to the appropriate entity for resolution.

Note Reference

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

Note 6.	Other Assets
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As of June 30	2005	2004
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 16,850,605.45	\$ 0.00
B. Total Intragovernmental Other Assets	\$ 16,850,605.45	\$ 0.00
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 0.00	\$ 0.00
B. Other Assets (With the Public)	332,793,273.05	403,984,036.47
C. Total Nonfederal Other Assets	\$ 332,793,273.05	\$ 403,984,036.47
3. Total Other Assets	\$ 349,643,878.50	\$ 403,984,036.47

Fluctuations and AbnormalitiesIntragovernmental other assets (Line 1)

The \$16.9 million increase to intragovernmental other assets is due to a increase in unearned revenue reported by seller side entities outside of the Air Force Working Capital Fund (AFWCF), primarily the Defense Information Systems Agency (DISA). For prior reporting periods, the DISA was not able to properly identify advances, therefore none were reported.

Non-federal other assets (Line 2)

SMAG is the primary driver for the \$71.2 million decrease in non-federal other assets which consists of a \$260.6 million increase in advances offset by a \$325.4 million decrease in the other asset section of non-federal other assets.

The \$260.6 million increase in advances is largely due to erroneous journal vouchers prepared in FY 2004 that caused the account balance to be reduced to zero. These vouchers were not corrected until the 4th quarter of FY 2004, thus, continue to be the primary driver for the variance when comparing 3rd quarter FY 2005 to 3rd quarter FY 2004. The account has remained a normal balance throughout FY 2005.

The \$325.4 million decrease in non-federal other assets is due to two events. The first is due to a \$121.6 million decrease in DoD foreign military sales. This account is now being reported as a component of accounts receivable, as was discussed in Note 5. The second event is a decrease of \$203.9 million in returns to vendors pending credit. In the Materiel

Support Division, a program was developed to identify and systematically prepare journal vouchers to write off unsupported balances greater than 210 day old, which were based on audit recommendations. The journal vouchers were processed in October 2004 and May 2005.

Non-Federal Other Assets (in Thousands)

Types of Asset	2005	2004
Advances -		
SMAG - Advances and Prepayments to Contractors	\$260,595	\$0
SMAG – Inventory in Transit from Vendors	0	0
DMAG - Advances and Prepayments to Contractors	939	0
Total Advances	261,534	0
Other Assets -		
SMAG - Air Force assets – other DoD foreign military sales (depot)	0	121,565
SMAG - Other assets returns to vendors pending credit	69,246	273,109
DMAG – Unallocated labor and materials	2,013	9,310
Total Other Assets	71,259	403,984
Total Non-Federal Other Assets	\$332,793	\$403,984

Note Reference

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

Note 7.	Cash and Other Monetary Assets
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As of June 30	2005	2004
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency (non-purchased)	0.00	0.00
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

Definitions

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

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

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

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

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Not applicable.

Direct Loans Obligated After FY 1991

As of June 30

	2005		2004	
Loan Programs				
Military Housing Privatization Initiative				
A. Loans Receivable Gross	\$	0.00	\$	0.00
B. Interest Receivable		0.00		0.00
C. Foreclosed Property		0.00		0.00
D. Allowance for Subsidy Cost (Present Value)		0.00		0.00
E. Value of Assets Related to Direct Loans	\$	0.00	\$	0.00
Total Loans Receivable	\$	0.00	\$	0.00

Not Applicable.

Total Amount of Direct Loans Disbursed		
As of June 30	2005	2004
Direct Loan Programs		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00

Not applicable.

Subsidy Expense for Post-1991 Direct Loans

As of June 30

2005	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
2004	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
2005	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
2004	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
		2005	2004		
5. Total Direct Loan Subsidy Expense: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			

Not applicable.

Subsidy Rate for Direct Loans

As of June 30	Interest Differential	Defaults	Fees	Other	Total
Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Not applicable.

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

As of June 30

	2005	2004
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
G. Total of the above Adjustment Components	\$ 0.00	\$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/default Re-estimate	0.00	0.00
C. Total of the above Re-estimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	\$ 0.00	\$ 0.00

Not applicable.

Defaulted Guaranteed Loans from Post-1991 Guarantees

As of June 30

	2005	2004
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$ 0.00	\$ 0.00

Not applicable.

Guaranteed Loans Outstanding		
As of June 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2004		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00

Not applicable.

Liability for Post-1991 Loan Guarantees, Present Value

As of June 30

	2005	2004
Loan Guarantee Program		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

Not applicable.

Subsidy Expense for Post-1991 Loan Guarantees

As of June 30

2005	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
2004	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
2005	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
2004	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
5. Total Loan Guarantee:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

Not applicable.

Subsidy Rate for Loan Guarantees

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

Not applicable.

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

As of June 30

As of June 30	2005	2004
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 Re-estimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	0.00	0.00
B. Technical/default Re-estimate	0.00	0.00
C. Total of the above Re-estimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00

Not applicable.

Administrative Expense

As of June 30

	2005	2004
1. Direct Loans		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00
2. Loan Guarantees		
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	\$ 0.00	\$ 0.00

Not applicable.

Note 9.	Inventory and Related Property
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As of June 30	2005	2004
1. Inventory, Net	\$ 21,002,845,398.54	\$ 27,271,895,739.76
2. Operating Materials & Supplies, Net	474,127,121.07	602,641,576.65
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 21,476,972,519.61	\$ 27,874,537,316.41

Inventory, Net

As of June 30

	2005			2004	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
1. Inventory Categories					
A. Available and Purchased for Resale	\$ 22,597,819,475.74	\$ (11,324,382,427.11)	11,273,437,048.63	\$ 16,733,645,355.57	LAC,MAC
B. Held for Repair	13,595,171,519.94	(4,149,541,903.11)	9,445,629,616.83	10,047,506,269.90	LAC,MAC
C. Excess, Obsolete, and Unserviceable	754,705,645.51	(754,705,645.51)	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	283,778,733.08	0.00	283,778,733.08	490,744,114.29	AC
F. Total	\$ 37,231,475,374.27	\$ (16,228,629,975.73)	21,002,845,398.54	\$ 27,271,895,739.76	

Legend for Valuation Methods:

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

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

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

- 1) Distributions without reimbursement are made when authorized by Department of Defense (DoD) directives.
- 2) War Reserve Material includes fuels and subsistence items that are considered restricted.
- 3) Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

Definitions

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

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

Excess, obsolete, and unserviceable inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. Potentially reusable material, presented in

previous years as excess, obsolete, and unserviceable, is included in the held for use or held for repair categories, according to its condition.

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

Fluctuations

Inventory decreased \$6.3 billion due to the following factors.

Inventory values for the Supply Management Activity Group (SMAG) had a decrease of \$5.5 billion. Two events caused the decrease for SMAG. A decrease of \$4.2 billion occurred as a result of price corrections made in the Financial Inventory Accounting and Billing System in August of 2004 for the General Support Division and Material Support Division in-transit inventory. The second event was a decrease in the General Support Division of \$194.0 Million in on hand peace operating stock. Inventory levels have been decreased as the result of trend analysis performed on program requirements which indicated a return to pre-contingency levels. Budget estimates have been updated to reflect this trend.

Work in process (WIP) had a decrease of \$207.0 million which is due to the continuing phase out of Contract Depot Maintenance Activity Group (DMAG) operations.

General Composition of Inventory

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

The category inventory held for repair consists of damaged material that requires repair to make it usable. Excess inventory is condemned material that must be retained for management purposes. The category held for sale includes all issuable material. The category held for repair includes all economically repairable material. Work in process includes depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The U.S. Standard General Ledger does not include a separate work in process account unrelated to sales. Inventory is assigned to categories based on guidance in the DoD Financial Management Regulation, Volume 11B.

Note Reference

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

Operating Materials and Supplies, Net

As of June 30

	2005			2004		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
1. OM&S Categories						
A. Held for Use	\$ 474,127,121.07	\$ 0.00	\$ 474,127,121.07	\$ 602,641,576.65		SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00		SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00		NRV
D. Total	\$ 474,127,121.07	\$ 0.00	\$ 474,127,121.07	\$ 602,641,576.65		

Legend for Valuation Methods:

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

NRV = Net Realizable Value
O = Other

Fluctuations

The \$128.5 million decrease in the OM&S category held for use (Line 1A) can be attributed to two events. A \$70.7 million decrease resulted from the continuing phase out of Contract DMAG operations. In addition, a \$42.4 million decrease occurred in Organic DMAG operations which is attributed to the clean-up effort of the inventory stores, coupled with a credit return of shop materials returned to the supplier by the Warner Robins Air Logistic Center.

General Composition of Operating Materials and Supplies

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

For the most part, DMAG uses the consumption method of accounting for OM&S, since OM&S is defined in the SFFAS No. 3 as material which has not yet been issued to the end user. Once issued, the material is expensed. As stated above, current financial and logistics systems cannot fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, (3) identifying feeder systems that are used to manage OM&S items, and (4) developing plans to revise those systems to support the consumption method. The department reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

Note Reference

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

Stockpile Materials, Net

As of June 30

	2005			2004		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		AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00		AC, LCM
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		

Legend for Valuation Methods:

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

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

Not applicable.

Note 10. General PP&E, Net

As of June 30	2005					2004
	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	829,298,137.07	\$(570,652,326.54)	258,645,810.53	235,408,143.06
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	1,016,866,744.46	\$(664,128,054.93)	352,738,689.53	320,936,715.66
E. General Equipment	S/L	5 or 10	2,066,858,364.09	\$(1,539,721,761.88)	527,136,602.21	586,752,815.78
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	35,311,374.89	N/A	35,311,374.89	34,411,559.61
I. Other			0.00	0.00	0.00	0.00
2. Total General PP&E			\$ 3,948,334,620.51	\$(2,774,502,143.35)	\$ 1,173,832,477.16	\$ 1,177,509,234.11

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Information Related to General PP&E, Net

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

Any Working Capital Fund Special Tools and Special Test equipment in the possession and control of the Air Force are reported in the Air Force General Funds financial statements.

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

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

Note Reference

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

Assets Under Capital Lease				
As of June 30	2005		2004	
1. Entity as Lessee, Assets Under Capital Lease				
A. Land and Buildings	\$	0.00	\$	0.00
B. Equipment		0.00		0.00
C. Other		0.00		0.00
D. Accumulated Amortization		0.00		0.00
E. Total Capital Leases	\$	0.00	\$	0.00

Not Applicable.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2005	2004
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
D. Total Intragovernmental Liabilities	\$ 0.00	\$ 0.00
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	238,729,115.79	275,131,634.86
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	0.00	0.00
F. Total Nonfederal Liabilities	\$ 238,729,115.79	\$ 275,131,634.86
3. Total Liabilities Not Covered by Budgetary Resources	\$ 238,729,115.79	\$ 275,131,634.86
4. Total Liabilities Covered by Budgetary Resources	\$ 2,151,257,903.14	\$ 2,570,563,540.16
5. Total Liabilities	\$ 2,389,987,018.93	\$ 2,845,695,175.02

Fluctuations and Abnormalities

The amounts recorded on line 2B represent the Federal Employees Compensation Act (FECA) actuarial liabilities provided by the Department of Labor. The \$36.4 million decrease is due to a decrease in the number of employees. Contract Depot Maintenance operations are being phased out, therefore the number of employees had decreased in FY 2005.

Definitions

Liabilities Not Covered and Covered by Budgetary Resources – These are liabilities that are not considered covered by realized budgetary resources as of the balance sheet date. Budgetary resources include the following:

- New budget authority
- Spending authority from offsetting collections (credited to an appropriation or fund account)
- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations

- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year
- Borrowing authority or permanent indefinite appropriations that have been enacted and signed into law as of the balance sheet date, provided that the Office of Management and Budget (OMB) can apportion the resources without first meeting a contingency or without additional action by the Congress.

Liabilities Covered by Budgetary Resources – These are resources the reporting entity incurred that are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include the following:

- New budget authority
- Spending authority from offsetting collections (credited to an appropriation or fund account)
- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year
- Borrowing authority or permanent indefinite appropriations that have been enacted and signed into law as of the balance sheet date, provided that the OMB can apportion the resources without first meeting a contingency or without additional action by the Congress.

Note Reference

For additional line item discussion, see:

Note 8, Direct Loans and/or Loan Guarantee Programs

Note 12, Accounts Payable

Note 13, Liabilities Not Covered and Covered by Budgetary Resources

Note 14, Environmental Restoration Liabilities and Environmental Disposal Liabilities

Note 15, Other Liabilities

Note 16, Commitments and Contingencies

Note 17, Military Retirement Benefits and Other Employment Related

Note 12.	Accounts Payable
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As of June 30	2005			2004
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 266,667,442.38	\$ N/A	\$ 266,667,442.38	\$ 160,656,067.43
2. Non-Federal Payables (to the Public)	342,914,647.05	0.00	342,914,647.05	345,796,122.18
3. Total	\$ 609,582,089.43	\$ 0.00	\$ 609,582,089.43	\$ 506,452,189.61

Definition

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

Fluctuations and Abnormalities

Intragovernmental payables increased by \$106.0 million. The primary cause of the increase is a decrease in the Depot Maintenance Activity Group (DMAG) undistributed disbursements. Undistributed disbursements are an offset to payables, therefore when they decrease payables increase. The decrease totaled \$96.7 million and can be attributed to the decrease in in-transit disbursements as discussed in Note 3.

Undistributed Disbursements

Undistributed disbursements consist of the difference between (1) disbursements/collections recorded at the transaction level to a specific obligation, payable, or receivable in the activity field records, and (2) those disbursements/collections reported by the U.S. Treasury via the reconciled DD1329 and DD1400. The total undistributed disbursement amounts displayed in this note should agree with the undistributed amounts reported on accounting reports (SF 133/(M) 1002/(M) 1307). In-transit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to each entity's outstanding accounts payable balance at year-end. Accounts payable were adjusted downward in the amount of \$318.8 million for these payments.

Allocation of Undistributed Disbursements

The Department of Defense (DoD) policy is to allocate supported undistributed disbursements between intragovernmental and non-federal categories based on the percentage of intragovernmental and non-federal accounts payable. Unsupported undistributed disbursements should be recorded in U.S. Standard General Ledger account (USSGLA) 2120, Disbursements in Transit. The AFWCF followed this allocation policy reporting \$184.6 million in USSGLA 2120.

Intragovernmental Eliminations

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

The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished with the existing or foreseeable resources.

Note Reference

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

Note 13.	Debt
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As of June 30	2005			2004	
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance	
1. Agency Debt					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00		0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$	0.00

Not applicable.

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations-- Environmental Restoration (ER) \$	0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Active Installations--ER for Closed Ranges	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites (FUDS) -- ER	0.00	0.00	0.00	0.00
4. FUDS--ER for Transferred Ranges	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Active Installations-- Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Active Installations-- Environ.Response at Active 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. BRAC Installations-- Environmental Restoration (ER)	0.00	0.00	0.00	0.00
2. BRAC Installations--ER for Transferring Ranges	0.00	0.00	0.00	0.00
3. BRAC Installations-- Environmental Corrective Action	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities:	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 15.	Other Liabilities
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As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 126,032,837.18	\$ 0.00	\$ 126,032,837.18	\$ 259,889,305.17
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	14,443,962.54	0.00	14,443,962.54	12,336,626.48
G. Total Intragovernmental Other Liabilities	\$ 140,476,799.72	\$ 0.00	\$ 140,476,799.72	\$ 272,225,931.65
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 144,853,711.96	\$ 0.00	\$ 144,853,711.96	\$ 162,862,784.61
B. Advances from Others	11,884,348.61	0.00	11,884,348.61	10,681,038.62
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	15,596,034.68	35,579,926.13	51,175,960.81	19,223,612.64
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) National Defense PP&E (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
(4) Other	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00	0.00
I. Other Liabilities	1,193,284,992.61	0.00	1,193,284,992.61	1,599,117,983.03
J. Total Nonfederal Other Liabilities	\$ 1,365,619,087.86	\$ 35,579,926.13	\$ 1,401,199,013.99	\$ 1,791,885,418.90
3. Total Other Liabilities	\$ 1,506,095,887.58	\$ 35,579,926.13	\$ 1,541,675,813.71	\$ 2,064,111,350.55

Capital Lease Liability

As of June 30

	2005				2004	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
1. Future Payments Due						
A. 2005	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
B. 2006	0.00	0.00	0.00	0.00	0.00	0.00
C. 2007	0.00	0.00	0.00	0.00	0.00	0.00
D. 2008	0.00	0.00	0.00	0.00	0.00	0.00
E. 2009	0.00	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00	0.00
I. 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

Fluctuations and Abnormalities

Line 1.A – The Intragovernmental advances from others decrease is due largely to the decrease in the Depot Maintenance Activity Group (DMAG) Contract progress billings. Contract DMAG is phasing out of the Working Capital Fund (WCF).

Line 1.F – The Intragovernmental other liabilities increase represents employee benefits that are payable to the Office of Personnel Management (OPM). Liabilities fluctuate based on staffing levels and participation in benefit programs by employees. Health insurance premiums and contribution limits for employees to the Thrift Savings Plan both increased, which is reflected in the overall increase in employee benefit liabilities.

Line 2.A – The decrease in accrued funded payroll and benefits is due to the decrease in number of employees in the WCF. At the end of FY 2004, the AFWCF had a decrease of 907 employees, which the majority of the decrease in the DMAG activity group, which can be attributed to the phaseout of contract DMAG.

Line 2.B – The increase of advances from others was primarily in the DMAG business area. This increase is largely due to a problem with the billing of public workload. The Defense Industrial Fund Financial Management System (DIFMS) was not designed to bill private party billings at a fixed price. While a release was installed to correct the report during the first quarter of FY 2005, and current private party bills can now be processed, the release did not provide functionality to process the older contracts, therefore a backlog remains that must be processed manually. The backlog and value of advances continues to decrease in FY 2005, however some backlog is expected to remain until the applicable contracts expire.

Line 2.D – The fluctuation represents a decrease in unsupported undistributed collections, for which guidance was issued to reclassify to deposit funds and suspense accounts. The decrease was largely due to a reclassification of component undistributed from supported to unsupported.

Information Related to Other Liabilities (Line 2.I)

(In thousands)	FY2005	FY 2004
Misc Liabilities	1,275	-13
DMAG – WIP Accrued Expenses	1,147,032	1,444,987
SMAG – Future Purchase - Foreign Military Sales	29,359	61,307
SMAG – Other Accrued Liabilities	15,619	57,325
Component – Reclass of Abnormal Non-Federal Accounts Receivable	0	35,512
Total	1,193,285	1,599,118

DMAG work in process accrued expenses has decreased as a result of the removing Contract DMAG from the Working Capital Funds, which has resulted in a decline in material, labor, and overhead cost accruals.

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

SMAG other accrued liabilities decreased as a result of erroneous journal vouchers that were processed in June FY04, which resulted in an overstatement of the account in FY04. These were corrected in August FY04 and the account is back in line with its historical balance.

The Component other liability is related to an abnormal non-federal accounts receivable amount. The amount was abnormal because of Unsupported Undistributed Collections that were moved to Component as part of the undistributed stabilization effort. In FY2005, the amount was reported on Line 2.D with total unsupported collections.

Note Reference

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

Note 16.	Commitments and Contingencies
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Not applicable.

Note 17.	Military Retirement Benefits and Other Employment Related Actuarial Liabilities
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As of June 30	2005				2004
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other					
A. FECA	\$ 238,729,115.79		\$ 0.00	\$ 238,729,115.79	\$ 275,131,634.86
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. <u>[Enter Program Name]</u>	0.00		0.00	0.00	0.00
E. Total Other	\$ 238,729,115.79		\$ 0.00	\$ 238,729,115.79	\$ 275,131,634.86
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 238,729,115.79		\$ 0.00	\$ 238,729,115.79	\$ 275,131,634.86

Actuarial Cost Method Used:

Assumptions:

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

Fluctuations and Abnormalities

The decrease of FECA is due to the decrease in total employees in FY 2004, primarily in the Contract Depot Maintenance activities due to the phaseout of operations.

Actuarial data and percentages are only updated at the end of the fiscal year; therefore, amounts referenced in this note are the balances at September 30, 2004 and September 30 2003.

Federal Employee's Compensation Act (FECA)

The Air Force Working Capital Fund's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Air Force at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to predict the ultimate payments. The projected annual benefit

payments are then discounted to the present value using the Office of Management and Budget’s economic assumptions for 10-year Treasury notes and bonds. Cost-of-Living Adjustments (COLAs) and medical inflation factors are also applied to the calculation of projected future benefits.

Interest rate assumptions utilized for discounting are as follows:

<u>2002</u>	<u>2003</u>	<u>2004</u>
5.20% in year 1	3.84% in year 1	4.883% in year 1
5.20% in year 2	4.35% in year 2	5.235% in year 2
and thereafter	and thereafter	And thereafter

To provide more specifically for the effects of inflation on the liability for workers’ compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology’s historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge-back years (CBYs) are as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2005	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009+	2.40%	4.02%

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

Note Reference

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

Note 18.

Disclosures Related to the Statement of Net Cost

General Disclosures related to Statement of Net Cost

Fluctuations and Abnormalities

Intragovernmental Earned Revenue

Intragovernmental earned revenue had a decrease of \$967.5 million. The majority of the decrease was in the Supply Management Activity Group (SMAG), which had a decrease of \$771.8 million. Two events caused the decrease. The Material Support Division had a decrease of \$411.0 million which was caused by backorders of engine spares. In FY 2004 there was a significant quantity of backordered engine spares and the Air Force focused on filling these backorders, which resulted in a reduction of most of the backlog by the end of FY04. This reduction in backlog resulted in a one time spike in net sales. With only a minimal level of backorders existing, FY 2005 net sales for engine spares have returned to normal recurring demands. For the General Support Division a decrease of \$194.0 million is attributed to a trend in program requirements to pre-contingency levels. Budget estimates have been updated to reflect this trend, as discussed in Note 9.

Gross Costs with the Public

Gross cost with the public had an increase of \$4.0 billion over the prior year. In FY 2004, total costs decreased by \$3.6 billion due to a variety of factors. There was a decrease in the net cost through a gain of \$3.3 billion from the following two United States Standard General Ledger (USSGL) accounts:

USSGL 7290 – Other Losses had a \$5.2 billion decrease due to material returns without credit given and standard price changes.

USSGL 7190 – Other Gains had a \$1.9 billion decrease which offsets USSGL 7290 due to transfers to the Defense Reutilization and Management Office.

Prior to the implementation of the Moving Average Cost inventory valuation method (MAC) both of these accounts were included as part of the Allowance for Unrealized Holding Gains and Losses which offsets inventory. However, in FY 2004 they are reported as costs.

Information Related to the Statement of Net Cost (SoNC)

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

Working Capital Funds

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

Intragovernmental Operating Expenses

The AFWCF's operating expenses were adjusted based on a comparison between the AFWCF's accounts payable and the DoD summary-level seller accounts receivables. An adjustment was posted to accounts payable and operating expenses to reflect unrecognized accounts payable and operating expenses. The operating expenses of the AFWCF were adjusted upward in the amount of \$59.2 million

Gross Cost and Earned Revenue by Budget Functional Classification

As of June 30

	2005			2004
	Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost
Budget Functional Classification				
1. Department of Defense Military (051)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	0.00
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	0.00
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	0.00	0.00	0.00	0.00
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	0.00
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	0.00
7. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Gross Cost to Generate Intragovernmental Revenue and Earned Revenue (Transactions with Other Federal—Non-DoD—Entities) by Budget Functional Classification

As of June 30

	2005			2004
	Gross Cost to Generate Intragovernmental Revenue	(Less: Earned Revenue)	Net Cost	Net Cost
1. Department of Defense Military (051)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	0.00
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	0.00
4. Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund (602)	0.00	0.00	0.00	0.00
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	0.00
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	0.00
7. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Not applicable.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of June 30	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	11,604,540,255.62	0.00
C. Other Prior Period Adjustments	0.00	0.00	0.00	0.00
D. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 11,604,540,255.62	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 45,735,240.64	\$ 0.00	\$ 46,527,025.48	\$ 0.00
B. Civilian Health	79,218,452.85	0.00	70,885,798.50	0.00
C. Civilian Life Insurance	195,943.66	0.00	185,131.12	0.00
D. Judgment Fund	0.00	0.00	0.00	0.00
E. Intra-Entity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 125,149,637.15	\$ 0.00	\$ 117,597,955.10	\$ 0.00

Information Related to the Statement of Changes in Net Position

Prior Period Adjustments

The Materiel Support Division inventory valued at LAC was converted to Moving Average Cost historical cost basis valuation on October 1, 2003. This change in inventory valuation method was required by an Office of the Under Secretary of Defense (OUSD) policy. Historical cost does not require an allowance for gains and losses. The change in accounting policy created a prior period adjustment in FY 2004 of \$11,604,540.3 thousand for the elimination of the allowance for gains and losses, the establishment of an allowance for repairs and the revaluation of inventory.

Imputed Financing

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

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	2005	2004
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 6,675,276,257.40	\$ 6,492,444,763.78
2. Available Borrowing and Contract Authority at the End of the Period	9,421,584,600.45	5,474,527,975.06

Information Related to the Statement of Budgetary Resources

Intra-entity Transactions

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

Apportionment Categories

Office of Management and Budget Bulletin No. 01-09, section 9.27, 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 lines 8A and 8B in the SBR. There are no Category A direct or reimbursable obligations. Category B reimbursable obligations total \$11.3 million. There are no category B direct or exempt obligations.

Undelivered Orders

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

Spending Authority from Offsetting Collections

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

Note 21.	Disclosures Related to the Statement of Financing
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The objective of the Statement of Financing is to reconcile the difference between budgetary obligations and the net cost of operations reported. It is presented as combined or combining statements rather than consolidated statements due to intragovernmental transactions not being eliminated. Due to limitations in the Department of the Air Force's financial system, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data constitutes a previously identified deficiency.

Note 1A and Note 1F provide additional detail.

Other Information Related to the Statement of Financing

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. This causes a difference in Net Cost between the Statement of Net Cost (SoNC) and the Statement of Financing. Line 15 on the Statement of Financing, "Resources that finance the acquisition of assets," is adjusted in order to align the amount of net cost on the Statement of Financing with the amount reported on the (SoNC). Line 15 was adjusted by an absolute value of \$649.8 million to balance the report. The adjustment will be researched to determine the cause of the increase over prior reporting periods.

Note 22.	Disclosures Related to the Statement of Custodial Activity
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Not applicable.

Note 23.	Other Disclosures
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As of June 30

2005

1. ENTITY AS LESSEE-

Operating Leases

Future Payments Due Fiscal Year	<u>Land and Buildings</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
2005	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	0.00	0.00	0.00	0.00
2007	0.00	0.00	0.00	0.00
2008	0.00	0.00	0.00	0.00
2009	0.00	0.00	0.00	0.00
After 5 Years	0.00	0.00	0.00	0.00
Total Future Lease Payments Due	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Fluctuations and Abnormalities

The Air Force Working Capital Fund (AFWCF) does not have operating leases.

Definitions

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

Land and Buildings Leases consist of:

Description of Leases:

Description – _____
 Lease Period -- _____
 Lease Terms – _____

Other Information – Office space is the largest component. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Interservice Support Agreements. Future-year projections used the Consumer Price Index (CPI), rather than the Department of Defense inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.

Equipment Leases consist of:

Description of Leases:

Description – _____

Lease Period -- _____

Lease Terms – _____

Other Information – The majority of these leases are for equipment with a variety of lease terms. Leases are not expected to be renewed upon expiration.

Other Leases consist of:

Description of Leases:

Description – _____

Lease Period -- _____

Lease Terms – _____

Other Information – This category includes any other operating leases. Leases are generally 1-year leases. The Department expects to continue to reduce the level of owned assets while increasing the number of operational leases. The Department will strive to displace commercial leases in favor of GSA leases because GSA leases are typically more economical.