

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

	2006 Consolidated	2005 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 126,755,674,952.97	\$ 116,208,310,084.02
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	126,680,610.25	136,034,520.60
2. Investments (Note 4)	716,916.71	710,061.34
3. Accounts Receivable (Note 5)	375,674,850.44	628,575,094.40
4. Other Assets (Note 6)	457,941,880.51	366,014,579.90
5. Total Intragovernmental Assets	<u>\$ 127,716,689,210.88</u>	<u>\$ 117,339,644,340.26</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 125,794,314.51	\$ 147,468,121.99
C. Accounts Receivable (Note 5)	1,055,404,420.14	969,919,225.46
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	49,184,739,684.00	48,643,476,455.88
F. General Property, Plant and Equipment (Note 10)	126,444,738,552.72	119,949,046,605.98
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	10,573,304,245.60	11,535,139,870.02
2. TOTAL ASSETS	<u><u>\$ 315,100,670,427.85</u></u>	<u><u>\$ 298,584,694,619.59</u></u>
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 1,700,551,212.99	\$ 1,692,869,764.70
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	2,180,393,352.01	1,732,526,825.79
4. Total Intragovernmental Liabilities	<u>\$ 3,880,944,565.00</u>	<u>\$ 3,425,396,590.49</u>
B. Accounts Payable (Note 12)	\$ 6,317,298,070.20	\$ 6,703,865,262.24
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,147,437,480.00	1,163,442,240.00
D. Environmental and Disposal Liabilities (Note 14)	6,861,809,227.27	7,099,189,747.85
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	4,464,453,727.58	3,642,387,544.25
4. TOTAL LIABILITIES	<u><u>\$ 22,671,943,070.05</u></u>	<u><u>\$ 22,034,281,384.83</u></u>
5. NET POSITION		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	125,816,572,455.80	107,410,309,551.75
C. Cumulative Results of Operations - Earmarked Funds	9,027,400.74	0.00
D. Cumulative Results of Operations - Other Funds	166,603,127,501.26	169,140,103,683.01
6. TOTAL NET POSITION	<u><u>\$ 292,428,727,357.80</u></u>	<u><u>\$ 276,550,413,234.76</u></u>
7. TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 315,100,670,427.85</u></u>	<u><u>\$ 298,584,694,619.59</u></u>

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CONSOLIDATED STATEMENT OF NET COST

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
1. Program Costs		
A. Gross Costs	\$ 68,308,117,681.50	\$ 65,129,265,882.46
B. (Less: Earned Revenue)	(2,307,138,171.26)	(3,715,723,520.07)
C. Net Program Costs	<u>\$ 66,000,979,510.24</u>	<u>\$ 61,413,542,362.39</u>
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	<u><u>\$ 66,000,979,510.24</u></u>	<u><u>\$ 61,413,542,362.39</u></u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 161,344,101,372.29	\$ 168,982,134,685.46
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	161,344,101,372.29	168,982,134,685.46
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc.) (+/-)	0.00	0.00
4.D. Appropriations used		
4.D.1 Earmarked Funds	(1,251,498.55)	0.00
4.D.2 All other Funds	68,233,320,232.73	61,240,201,644.34
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	424,869.58	0.00
4.E.2 All other funds	0.00	(2,317,125.02)
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	986,759.50	0.00
4.F.2 All other funds	0.00	1,132,886.55
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	296,016,650.35	(31,923,880.00)
5.C. Imputed financing from costs absorbed by others	358,485,660.87	364,417,834.07
5.D. Other (+/-)	2,381,050,365.47	0.00
6. Total Financing Sources		
6.A. Earmarked funds	160,130.53	0.00
6.B. All other funds	71,268,872,909.42	61,571,511,359.94
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	(3,416,104.47)	0.00
7.B. All other funds	66,004,395,614.71	61,413,542,362.39
8. Net Change		
8.A. Earmarked funds	3,576,235.00	0.00
8.B. All other funds	5,264,477,294.71	157,968,997.55
9. Ending Balances		
9.A. Earmarked funds	9,027,400.74	0.00
9.B. All other funds	166,603,127,501.26	169,140,103,683.01

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>166,612,154,902.00</u>	\$ <u>169,140,103,683.01</u>

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	\$ 63,716,637,180.98	\$ 49,660,670,196.09
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	63,716,637,180.98	49,660,670,196.09
4. Budgetary Financing Sources:		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	130,182,005,000.00	118,485,621,000.00
4.B. Appropriations transferred-in/out (+/-)	2,146,946,000.00	1,214,409,000.00
4.C. Other adjustments (rescissions, etc) (+/-)	(1,996,946,991.00)	(710,189,000.00)
4.D. Appropriations used		
4.D.1 Earmarked Funds	1,251,498.55	0.00
4.D.2 All other Funds	(68,233,320,232.73)	(61,240,201,644.34)
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	0.00	0.00
4.E.2 All other funds	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	0.00	0.00
4.F.2 All other funds	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property		
5.A.1 Earmarked funds	0.00	0.00
5.A.2 All other funds	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources		
6.A. Earmarked funds	1,251,498.55	0.00
6.B. All other funds	62,098,683,776.27	57,749,639,355.66
7. Net Cost of Operations (+/-)		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
8. Net Change		
8.A. Earmarked funds	1,251,498.55	0.00
8.B. All other funds	62,098,683,776.27	57,749,639,355.66
9. Ending Balances		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	125,816,572,455.80	107,410,309,551.75

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
10. Total all funds	\$ <u>125,816,572,455.80</u>	\$ <u>107,410,309,551.75</u>

Department of Defense
Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended March 31, 2006 and 2005

	2006 Combined	2005 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 13,006,208,304.77	\$ 9,048,570,951.49
2. Recoveries of prior year unpaid obligations	588,366,309.36	519,358,235.05
3. Budget authority		
3.A. Appropriation	130,183,950,963.25	118,487,465,745.93
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	4,283,175,618.36	4,078,968,908.87
3.D.1.b. Change in receivables from Federal sources	(636,643,540.48)	(13,042,526.83)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	82,144,923.42	377,466,159.26
3.D.2.b. Without advance from Federal sources	1,405,250,603.04	2,091,377,272.82
3.D.3. Anticipated for rest of year, without advances	2,914,014,348.86	1,698,586,890.77
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>138,231,892,916.45</u>	<u>126,720,822,450.82</u>
4. Nonexpenditure transfers, net, anticipated and actual	2,146,946,000.00	1,214,409,000.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(1,996,946,991.00)	(710,189,000.00)
7. Total Budgetary Resources	<u><u>\$ 151,976,466,539.58</u></u>	<u><u>\$ 136,792,971,637.36</u></u>

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

	2006 Combined	2005 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 72,567,975,060.89	\$ 64,654,987,487.18
8.B. Reimbursable	3,836,908,559.44	8,188,851,070.95
8.C. Subtotal	<u>76,404,883,620.33</u>	<u>72,843,838,558.13</u>
9. Unobligated balance:		
9.A. Apportioned	72,412,852,737.44	61,412,126,608.57
9.B. Exempt from apportionment	3,514,964.54	3,243,707.16
9.C. Subtotal	<u>72,416,367,701.98</u>	<u>61,415,370,315.73</u>
10. Unobligated balance not available	3,155,215,217.27	2,533,762,763.50
11. Total status of budgetary resources	<u><u>\$ 151,976,466,539.58</u></u>	<u><u>\$ 136,792,971,637.36</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	51,840,780,579.14	53,808,138,556.79
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ (2,835,496,221.40)</u>	<u>\$ (2,304,005,646.31)</u>
12.C. Total unpaid obligated balance	49,005,284,357.74	51,504,132,910.48
13. Obligations incurred net (+/-)	<u>\$ 76,404,883,620.33</u>	<u>\$ 72,843,838,558.13</u>
14. Less: Gross outlays	(70,498,590,476.05)	(67,791,954,532.49)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(588,366,309.36)</u>	<u>(519,358,235.05)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(768,607,062.56)	(2,078,334,745.99)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	57,158,707,414.06	58,340,664,347.38
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(3,604,103,283.96)</u>	<u>(4,382,340,392.30)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>53,554,604,130.10</u>	<u>53,958,323,955.08</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	70,498,590,476.05	67,791,954,532.49
19.B. Less: Offsetting collections	(4,365,320,541.78)	(4,456,435,068.13)
19.C. Less: Distributed Offsetting receipts	<u>(51,143,018.86)</u>	<u>(54,298,673.62)</u>
19.D. Net Outlays	<u><u>\$ 66,082,126,915.41</u></u>	<u><u>\$ 63,281,220,790.74</u></u>

Department of Defense
 Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended March 31, 2006 and 2005

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

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

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

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

	2006 Consolidated	2005 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 76,404,883,620.33	\$ 72,843,838,558.13
2. Less: Spending authority from offsetting collections and recoveries (-)	(5,722,293,913.70)	(7,054,128,049.17)
3. Obligations net of offsetting collections and recoveries	70,682,589,706.63	65,789,710,508.96
4. Less: Offsetting receipts (-)	(51,143,018.86)	(54,298,673.62)
5. Net obligations	<u>70,631,446,687.77</u>	<u>65,735,411,835.34</u>
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	296,016,650.35	(31,923,880.00)
8. Imputed financing from costs absorbed by others	358,485,660.87	364,417,834.07
9. Other (+/-)	2,381,050,365.47	0.00
10. Net other resources used to finance activities	<u>3,035,552,676.69</u>	<u>332,493,954.07</u>
11. Total resources used to finance activities	<u>\$ 73,666,999,364.46</u>	<u>\$ 66,067,905,789.41</u>
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(4,055,855,835.14)	(7,018,847,522.58)
12b. Unfilled Customer Orders	1,487,395,526.46	2,468,843,432.08
13. Resources that fund expenses recognized in prior periods	(541,568,802.81)	(939,711,396.16)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	51,143,018.86	54,298,673.62
15. Resources that finance the acquisition of assets	(9,560,554,119.63)	(7,270,974,986.66)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	(2,677,067,015.82)	31,923,880.00
17. Total resources used to finance items not part of the net cost of operations	<u>\$ (15,296,507,228.08)</u>	<u>\$ (12,674,467,919.70)</u>
18. Total resources used to finance the net cost of operations	<u>\$ 58,370,492,136.38</u>	<u>\$ 53,393,437,869.71</u>

Department of Defense

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CONSOLIDATED STATEMENT OF FINANCING

For the periods ended March 31, 2006 and 2005

	2006 Consolidated	2005 Consolidated
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Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	117,477,925.01	111,715,365.28
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 (+/-)	103,922.15	10,273,341.61
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 117,581,847.16	<hr/> 121,988,706.89
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	6,931,330,079.24	4,398,698,092.67
26. Revaluation of assets or liabilities (+/-)	104,709,195.06	(978,170,113.59)
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	3,201,782,611.23	676,888,133.45
27d. Other	(2,724,916,358.83)	3,800,699,673.26
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 7,512,905,526.70	<hr/> 7,898,115,785.79
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ 7,630,487,373.86	<hr/> \$ 8,020,104,492.68
30. Net Cost of Operations	<hr/> <hr/> \$ 66,000,979,510.24	<hr/> <hr/> \$ 61,413,542,362.39

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 Air Force, as required by the “Chief Financial Officers Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force in accordance with the “DoD Financial Management Regulation,” the Office of Management and Budget Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Air Force is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is no longer classified.

The Air Force is unable to fully implement all elements of GAAP and the Office of Management and Budget Circular A-136, due to process and system limitations for both financial and nonfinancial management, which feeds into the financial statements. The Air Force derives its reported values and information for major asset and liability categories, largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for the maintenance of asset accountability and the status reports of Federal appropriations rather than preparing financial statements in accordance with GAAP. The Air Force currently has two auditor-identified financial statement material weaknesses: (1) financial and nonfinancial feeder systems do not contain an adequate audit trail for the proprietary and budgetary accounts, and (2) intragovernmental transactions cannot be accurately identified by the customer, which is required for eliminations when preparing consolidated financial statements.

The Air Force continues to implement process and system improvements to address these limitations many of which are detailed below.

1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the DoD and made the Air Force a department within the DoD. The overall mission of the Air Force is to defend the United States through control and exploitation of air and space.

The Air Force incorporates internal controls, reconciliations, management by exception reports, and other management control information into its accounting systems. When possible, the financial statements are presented on the accrual basis of accounting, as required by federal accounting standards.

The accounts used to prepare the financial statements 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 or 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 that are not available for use in the operations of the entity. The following is a list of Air Force account numbers and titles (all accounts are entity accounts unless otherwise noted)

<u>Air Force Account Number</u>	<u>Title</u>
57 * 0704	Military Family Housing (O&M and Construction), Air Force
57 * 0740	Military Family Housing (Construction), Air Force
57 * 0745	Military Family Housing (O&M), Air Force
57 * 0810	Environmental Restoration, Air Force
57 * 1007	Medicare Eligible Retiree Health fund Contributions, Air Force
57 * 1008	Medicare Eligible Retiree Health fund Contributions, Air Force Reserve
57 * 1009	Medicare Eligible Retiree Health fund Contributions, Air National Guard
57 * 1999	Unclassified Receipts and Expenditures, Air Force
57 * 3010	Aircraft Procurement, Air Force
57 * 3011	Procurement of Ammunition, Air Force
57 * 3020	Missile Procurement, Air Force
57 * 3080	Other Procurement, Air Force
57 * 3300	Military Construction, Air Force
57 * 3400	Operation and Maintenance (O&M), Air Force
57 * 3500	Military Personnel, Air Force
57 * 3600	Research, Development, Testing, and Evaluation (RDT&E), AF
57 * 3700	Personnel, Air Force Reserve
57 * 3730	Military Construction, Air Force Reserve
57 * 3740	Operation and Maintenance (O&M), Air Force Reserve
57 * 3830	Military Construction, Air National Guard
57 * 3840	Operation and Maintenance (O&M), Air National Guard
57 * 3850	Personnel, Air National Guard
57 X 5095	Wildlife Conservation, etc., Military Reservations, Air Force
57 X 8418	Air Force Cadet Fund
57 X 8928	Air Force General Gift Fund
57 * 3XXX (Incl Nonentity)	Budget Clearing Accounts
57 * 6XXX (Nonentity)	Deposit Fund Accounts
57 **** (Nonentity)	Receipt Accounts

1.C. Appropriations and Funds

The Air Force's appropriations and funds are used to finance and to report how resources have been used in the course of executing the Air Force's missions. The Air Force's appropriations and funds are divided into the following categories:

- General funds are used for financial transactions arising under congressional appropriations and include personnel, operation and maintenance, research and development, procurement, and military construction accounts.
- Working capital fund (revolving fund) activities are reported in a separate set of audited financial statements and related footnotes.
- Trust funds contain the receipt and expenditure of funds held in trust by the Air Force for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.
- Special funds account for Air Force receipts reserved for specific purposes.
- Deposit funds are generally used to (1) account for unidentified remittances or (2) hold assets for which the Air Force is acting as an agent or a custodian or whose distribution is awaiting legal determination.
- Earmarked funds are financed by specifically identified revenues that are required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use, and retention of revenues and other financing sources that distinguish it from general revenues.

1.D. Basis of Accounting

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

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

In addition, the Air Force identifies program costs based upon the major appropriation groups provided by Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the “Government and Performance and Results Act (GPRA)”. 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 Statement of Federal Financial Accounting Standards (SFFAS) No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government,” with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

The Air Force receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Air Force recognizes revenue as a result of costs incurred or services provided to other Federal agencies and the public. Full cost pricing is the Air Force’s standard policy for services provided as required by OMB Circular A-25. The Air Force recognizes revenue when earned within the constraints of current system capabilities. In other instances, revenue is recognized when bills are issued.

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within the DoD or between two or more federal agencies. However, the Air Force cannot accurately identify most of its intragovernmental

transactions by customer because the Air Force's systems do not track buyer and seller data needed to match related transactions. Seller entities within the DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intra-DoD intragovernmental balances are then eliminated. The Air Force properly eliminates the revenue results from intra-DoD sales of capitalized assets. The DoD is developing long-term system 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 effectively with existing or foreseeable resources.

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Foreign Currency

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

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

The Air Force conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Air Force does not separately identify currency fluctuations.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated

uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies (per Code of Federal Regulations 4 CFR 101).

The allowance for Air Force entity receivables is computed each quarter based on the average percent of write offs to outstanding public accounts receivable for the last five years. For closed years receivables and deferred debts in litigation, an allowance rate of 50 percent is used. Interest allowance is calculated using an average percent of write offs to outstanding public accounts receivable over a five year period starting with FY 2001 data.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The related property portion of the amount reported on the Inventory and Related Property line includes Operating Materials and Supplies (OM&S). The OM&S are reported at approximate historical cost using Standard Price (SP). The Air Force uses the SP method because its OM&S systems were designed for material management rather than for accounting. The systems provide accountability and visibility over inventory items, but do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the U.S. Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). The DoD is transitioning to the Moving Average Cost (MAC) methodology of valuing inventory in order to comply with SFFAS No. 3. Approximately 32 percent of the Air Force OM&S value is now being reported from systems that have transitioned to Moving Average Cost functionality.

SFFAS No. 3 distinguishes between "inventory held for use" and "inventory held in reserve for future use." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in DoD material-management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DoD holds material based on military need and support for contingencies. As a result, the Air Force does not attempt to separately account for items held for current or future use.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for use, are valued at SP. Ammunition and munitions are treated as OM&S. The Air Force uses the consumption method of accounting for OM&S. Under the consumption method, Air Force expenses material when it is issued to the end user. The DoD uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunitions and engines,

are recorded using the consumption method and are reported on the Balance Sheet as OM&S. The Air Force currently does not report any centrally managed and stored items using the purchase method.

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

In FY 2002, the DoD implemented a new policy to account for condemned material (only) as Excess, Obsolete, and Unserviceable. The net value of condemned material is zero because the costs of disposal are greater than the potential scrap value. Material that can be potentially redistributed (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.

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

The Air Force reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Air Force's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities. Related earnings are allocated to appropriate Air Force activities to be used in accordance with the directions of the donor.

The Air Force invests in both marketable and nonmarketable securities. Marketable securities are investments trading on a public market. The two types of nonmarketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues nonmarketable, par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

1.O. General Property, Plant and Equipment

The SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," established generally accepted accounting principles for valuing and reporting military equipment (e.g. ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. The DoD uses data from the Bureau of Economic Analysis to calculate the value for military equipment.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and when the

acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000.00. Also, improvement costs over the DoD capitalization threshold of \$100,000.00 for General PP&E are required to be capitalized. All General PP&E assets, other than land, are depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of \$15,000, \$25,000, and \$50,000 for fiscal years 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below \$100,000 were written off General Fund financial statements in FY 1998.

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

The DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Air Force only reports government property in the possession of contractors that is maintained in the Air Force's property systems. The DoD has issued new property accountability and reporting requirements that require Air Force Components to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with Federal accounting standards.

1.P. Advances and Prepayments

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

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is equivalent to an installment purchase of property (a capital lease), the Air Force records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The Air Force records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the governmental's incremental borrowing rate at the inception of the lease. The Air Force, as the lessee of real estate or equipment, will receive the use and possession of leased property from a lessor in exchange for a payment

of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by the Air Force in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one year leases. The Air Force expects to continue to reduce the level of owned assets while increasing the number of leased assets. The Air Force will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

The Air Force conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Air Force provides financing payments. One type of financing payment that the Air Force makes for real property is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction-in-process and are reported on the General PP&E line on the Balance Sheet and in the related note.

The Federal Acquisition Regulation allows the Air Force to make financing payments under fixed price contracts. The Air Force reports these financing payments as "Other Assets" because the Air Force 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 Air Force is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Air Force for the full amount of the advance.

1.S. Contingencies and Other Liabilities

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

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but where there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility

of receivables, pending or threatened litigation, and possible claims and assessments. The Air Force's loss contingencies arising as a result of pending or threatened litigation or claims and assessments that occur due to events such as aircraft and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Air Force's assets and are classified as either environmental or nonenvironmental. The recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon the Air Force's policies and consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. Such amounts are developed in conjunction with, and not easily identifiable separately from, environmental disposal costs.

1.T. Accrued Leave

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

1.U. Net Position

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

Unexpended appropriations represent (1) amounts of authority that are not obligated and that have not been rescinded or withdrawn and (2) amounts that are obligated but for which legal liabilities for payments have not been incurred.

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Comparative Data

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

1.X. Unexpended Obligations

The Air Force obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods or services not yet delivered.

1.Y. Undistributed Disbursements and Collections

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

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The Air Force follows this procedure.

Note 2.	Nonentity Assets
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As of March 31	2006	2005
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 126,680,610.25	\$ 136,034,520.60
B. Accounts Receivable	3,128,970.68	2,266,222.93
C. Total Intragovernmental Assets	\$ 129,809,580.93	\$ 138,300,743.53
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 125,794,314.51	\$ 147,468,121.99
B. Accounts Receivable	268,042,996.64	542,463,078.34
C. Other Assets	204,873,433.81	156,981,725.35
D. Total Nonfederal Assets	\$ 598,710,744.96	\$ 846,912,925.68
3. Total Nonentity Assets	\$ 728,520,325.89	\$ 985,213,669.21
4. Total Entity Assets	\$ 314,372,150,101.96	\$ 297,599,480,950.38
5. Total Assets	\$ 315,100,670,427.85	\$ 298,584,694,619.59

Fluctuations

The \$862.7 thousand, or 38 percent, increase in Intragovernmental Accounts Receivable is the result of a decrease in intra-Air Force closed Accounts Receivable. For 2nd Quarter, FY 2005 nonentity intra-governmental accounts receivable were \$8.4 million compared to \$8.8 million at 2nd Quarter, FY 2006. However, intra-Air Force amounts eliminated were \$6.2 million at 2nd Quarter, FY 2005 compared to \$5.7 million at 2nd Quarter, FY 2006. This change is attributable to the decrease in invalid sales codes temporarily assigned to the Air Force until corrections are made.

Total Cash and Other Monetary Assets decreased \$21.7 million, or 15 percent, due to decreases in both the Cash and Foreign Currency asset classes. A \$15.0 million decrease in the Cash asset class was the result of the implementation of a new procedure using the International Treasury Service (ITS.gov) to send U.S. dollars overseas. The International Treasury Service is also used to pay foreign vendors and drove a \$6.7 million decrease in the Foreign Currency asset class.

The Centralized Disbursing Directorate at DFAS-DE now sends U.S. dollars directly to the Bank of America in Germany for conversion to foreign currencies and for direct disbursement of U.S. currency. ITS.gov, therefore, bypasses the Air Force disbursing officers whose need for both U.S. dollars and foreign currency is thereby reduced.

The decrease of Nonfederal Accounts Receivable of \$274.4 million, or 51 percent, can be attributed to the fact that off line public accounts receivable reported in suspense accounts were mistakenly coded as “nonentity” last fiscal year. Effective with 2nd Quarter, FY 2006, they are recorded correctly as “entity.”

The reduction can also be attributed to the OSD initiative emphasizing the validation of aged accounts receivable, specifically in closed years.

The \$204.9 million in Other Assets is composed of \$65.0 thousand in travel advances, \$85.0 thousand in other advances to contractors, and \$204.7 million in advances to contractors as reported on the SF 1219, Statement of Accountability. The increase of \$47.9 million, or 31 percent, can be attributed to a \$45.0 million increase in Advances to Contractors as part of the advance payment pool with the Massachusetts Institute of Technology and other nonprofit institutions. These agreements are used for the financing of cost-type contracts with nonprofit educational or research institutions for experimental or research and development work when several contracts or a series of contracts require financing by advance payments.

Relevant Information for Comprehension

Nonentity assets are assets that are held by an entity but that are not available for use in the operations of the entity. Nonfederal Other Assets classes are advances to contractors and outstanding travel advances. The Nonentity Fund Balance with Treasury asset class represents amounts in Air Force's deposit fund and two suspense fund accounts that are not available for Air Force use. Nonentity Accounts Receivable, when collected, goes to the Department of the Treasury as miscellaneous receipts. The Nonentity Nonfederal Accounts Receivable amount also includes interest receivables on aged debt. Nonentity Cash and Other Monetary Assets represent disbursing officers' cash and undeposited collections as reported on the Statement of Accountability. These assets are held by the Air Force disbursing officers as agents of the Treasury.

Note 3.	Fund Balance with Treasury
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As of March 31

	2006	2005
1. Fund Balances		
A. Appropriated Funds	\$ 126,781,840,952.11	\$ 116,227,882,516.72
B. Revolving Funds	0.00	0.00
C. Trust Funds	4,156,827.26	4,789,445.68
D. Special Funds	862,074.82	654,953.99
E. Other Fund Types	95,495,709.03	111,017,688.23
F. Total Fund Balances	\$ 126,882,355,563.22	\$ 116,344,344,604.62
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 126,896,213,226.77	\$ 116,360,591,498.93
B. Fund Balance per Air Force	126,882,355,563.22	116,344,344,604.62
3. Reconciling Amount	\$ 13,857,663.55	\$ 16,246,894.31

Fluctuations

The majority of the increase in Appropriated Funds for FY 2006 was because the Air Force received more appropriated funds for 2006 compared to FY 2005. In FY 2006, appropriations increased \$11.7 billion, or 10 percent over FY 2005. The major increase in appropriations was driven by an increase in fund of the Active Air Force Operations and Maintenance funds of \$6.2 billion, or 5 percent. In addition, Active Air Force Military Personnel funds increased \$1.7 billion, or 1 percent, and RDT&E increased \$1.1 billion, or 1 percent. These increases were offset by a congressional 1 percent reduction to all appropriations, which reduced the appropriated amount by \$2.0 billion, or 2 percent.

The Trust Funds decreased \$632.6 thousand, or 13 percent, primarily due to a decrease in the Cadet Fund. The Cadet Fund decreased \$932.1 thousand because of timing differences in the collection of funds and processing of disbursements to liquidate outstanding balances. The decrease in the Trust Fund was offset by a gain in the Gift Fund of \$299.5 thousand. The Gift Fund increased because of reduced expenditures following the completion of the Air Force Museum.

Special Funds increased \$207.1 thousand, or 32 percent, due to an increase in Appropriation 5095, Fish and Wildlife. The fund increased by \$101.1 thousand, or 12 percent, due to an increase in fund receipts. The fund also increased by \$145.9 thousand, or 17 percent, due to an increase in anticipated appropriations – indefinite.

Other Fund Types decreased \$15.5 million, or 14 percent. Other Funds decreased because two deposit funds, withheld state and local taxes, and gains and deficiencies on exchange transactions, decreased by \$11.1 million, or 10 percent, and \$3.4 million or 3 percent respectively.

Reconciling Amount

Parent Child Allocations that are not included in Air Force balances total \$22.9 million, increasing the reconciling amount. Included in these are allocations from Foreign Military Sales, Military Assistance Program and the Department of Agriculture. Included in the Air Force balance and not in the Treasury balance is \$9.0 million for funds allocated to the Department of Transportation, decreasing the reconciling amount. This balance is reported on the Treasury Trial Balance 6654 for Treasury Index 69. In a parent/child relationship, the child reports the FBWT amount if the amount is material to the child.

Status of Fund Balance with Treasury

As of March 31	2006	2005
1. Unobligated Balance		
A. Available	\$ 69,501,819,334.61	\$ 59,717,245,943.86
B. Unavailable	3,155,215,217.27	2,533,762,763.50
2. Obligated Balance not yet Disbursed	\$ 57,158,707,414.06	\$ 53,957,613,893.74
3. Nonbudgetary FBWT	\$ 671,423,759.44	\$ 0.00
4. NonFBWT Budgetary Accounts	\$ (3,604,810,162.16)	\$ 0.00
5. Total	\$ 126,882,355,563.22	\$ 116,208,622,601.10

Fluctuations

Unobligated Balance – Available increased \$9.8 billion, or 16 percent. Most of the fluctuation is due to procurement and construction appropriations receiving their funding later in the year as compared to FY 2005. Programmatic growth in Air Force operation and maintenance funds that have not executed as fast as expected has also contributed to the increased unobligated balance.

The Unobligated Balance – Unavailable increased \$621.5 million, or 25 percent, primarily because nonexpenditure transfer authorizations into, operations and maintenance, Air Force, of \$620.1 million were not apportioned, and therefore this amount was unavailable. The nonexpenditure transfers should have been apportioned and reported as available.

Nonbudgetary FBWT and NonFBWT Budgetary Accounts were not reported in the footnote for 2005.

Relevant Information for Comprehension

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

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

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

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

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

Disclosures Related to Suspense/Budget Clearing Accounts

As of March 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
Account				
F3875 – Disbursing Officer Suspense	\$ 342,533,903.38	\$ 299,053,538.26	\$ 609,249,016.33	310,195,478.07
F3880 – Lost or Cancelled Treasury Checks	1,313,563.90	887,583.39	506,935.00	(380,648.39)
F3882 – Uniformed Services Thrift Savings Plan Suspense	18,976,482.81	25,016,832.37	31,184,901.22	6,168,068.85
F3885 – Interfund/IPAC Suspense	(497,750,090.96)	(294,532,843.25)	(65,012,802.14)	229,520,041.11
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ (134,926,140.87)	\$ 30,425,110.77	\$ 575,928,050.41	\$ 545,502,939.64

The F3875 suspense clearing accounts represent the primary source of the overall \$575.9 million balance. Account F3875 reported a positive balance of \$609.2 million that represents the Disbursing Officer's suspense. The increase is due to many variables. They are all placed in various suspense accounts such as Agricultural/Grazing Leases and Withheld FICA/FITW Medicare Taxes for Military that are collected in and released at various time. Also, this increase can be attributed to the International Acquisition Cross Servicing Agreement (ACSA) which has now been moved from "non-exempt (60 day rule)" to "exempt" status.

The F3880 suspense account reported a positive balance of \$506.9 thousand. This amount represents the balance of Treasury checks that (1) have either been lost by the payee and need to be reissued, (2) have never been cashed by the payee, or (3) have been cancelled by the Treasury and need to be transferred to the original appropriation.

The F3882 suspense account reported a positive balance of \$31.2 million. This account was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the Thrift Savings Plan deductions by the National Finance Center and the posting of these amounts in the military accounting systems in the following month.

The F3885, which includes the Interfund/IPAC suspense, reported a negative balance of \$65.0 million. The decrease (in absolute value) is due to IPAC transactions received during the last business day of the month. The funds are placed in a suspense account until they can be researched and assigned a valid appropriation, which will fluctuate from one reporting period to another depending upon the amount processed to the Treasury at that time. Historically, this account has carried a credit balance at month-end.

Disclosures Related to Problem Disbursements and In-Transit Disbursements
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As of March 31	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 130,838,906.28	\$ 1,368,166,356.48	\$ 86,075,577.62	\$ (1,282,090,778.86)
B. Negative Unliquidated Obligations (NULO)	13,589,932.18	23,261,916.11	9,947,624.22	(13,314,291.89)
2. Total In-transit Disbursements, Net				
	\$ 1,162,774,105.29	\$ 622,396,365.44	\$ 1,131,434,904.51	\$ 509,038,539.07

The Air Force had a \$1.3 billion decrease in problem disbursements and a \$509.0 million increase in In-transit Disbursements. The Defense Finance and Accounting Service has efforts underway to improve the systems, to resolve all previous problem disbursements, and to process all In-transit Disbursements in a timely manner. The amount of Unmatched Disbursements (UMDs) over 180 days is \$0, Negative Unliquidated Disbursements (NULOs) is \$0, and In-transits is \$6.9 million. The amount of UMDs over 120 days old is \$0, NULOs is \$0, and In-transits is \$10.9 million. The current absolute value of In-transit disbursements is \$1.7 billion.

The increase in In-transits of \$509.0 million is, for the most part, a timing issue in the receipt of By-Other transaction on the last day of the month which totaled \$582.3 million (an increase of \$575.9 million over last year). The majority of these transactions were from MOCAS.

Relevant Information for Comprehension

Problem disbursements represent disbursements of Air Force funds reported by a disbursing station to the Department of the Treasury which have not yet been precisely matched against the specific source obligation. The problem disbursement arises 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.

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

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

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

Note 4.	Investments and Related Interest
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As of March 31	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 710,000.00		\$ 317.99	\$ 710,317.99	\$ 702,796.25
B. Accrued Interest	6,598.72			6,598.72	12,888.09
C. Total Intragovernmental Securities	<u>\$ 716,598.72</u>		<u>\$ 317.99</u>	<u>\$ 716,916.71</u>	<u>\$ 715,684.34</u>
2. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	N/A

As of March 31	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based	\$ 710,000.00		\$ 61.34	\$ 710,061.34	\$ 707,671.25
B. Accrued Interest	0.00			0.00	0.00
C. Total Intragovernmental Securities	<u>\$ 710,000.00</u>		<u>\$ 61.34</u>	<u>\$ 710,061.34</u>	<u>\$ 707,671.25</u>
4. Other Investments					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	N/A

Fluctuations

Air Force inadvertently did not report accrued interest in 2nd Quarter, FY 2005. The correct amount for accrued interest should have been \$6.5 thousand. The correction does not result in a significant fluctuation.

Relevant Information for Comprehension

Air Force Gift Fund cash donations that are not going to be used in the immediate future to fund donor-designated projects are invested in marketable securities with the Department of the Treasury. The Air Force Gift Fund was established to control and account for the disbursement and use of monies donated to the Air Force along with the interest received from the investment of such donations. These funds are invested in Non-Marketable Market Based U.S. Treasury Securities.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Air Force as evidence of its receipts. Treasury securities are an asset to the Air Force and a liability to the U.S. Treasury. Because the Air Force and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements. U.S. Treasury securities provide the Air Force with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Air Force requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 5.	Accounts Receivable
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As of March 31	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 375,674,850.44	N/A	\$ 375,674,850.44	\$ 628,575,094.40
2. Nonfederal Receivables (From the Public)	\$ 1,228,845,382.14	\$ (173,440,962.00)	\$ 1,055,404,420.14	\$ 969,919,225.46
3. Total Accounts Receivable	\$ 1,604,520,232.58	\$ (173,440,962.00)	\$ 1,431,079,270.58	\$ 1,598,494,319.86

Fluctuations

Intragovernmental Receivables decreased by \$ 252.9 million, or 40 percent due to a management initiative in identifying invalid accounts receivable and subsequently taking the appropriate corrective action. Air Force was also successful in collecting a substantial amount of delinquent debts.

Relevant Information for Comprehension

As presented on the Consolidated Balance Sheet, accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts (amounts owed by former service members), contractor debt, and unused travel tickets. It also includes net interest receivables per Department of Defense (DoD) Financial Management Regulation (FMR) Vol. 6B guidance. Canceled accounts receivable are reported as nonentity receivables because these amounts are deposited into a Treasury Department miscellaneous receipt account when collected. Reconciliation between Report on Receivables Due from the Public and the balance sheet was accomplished. The differences between the Balance Sheet (line 1C) and Treasury Report on Receivables (TROR) Due from the Public (line 7) include the allowance for estimated uncollectible of \$173.4 million thousand, unsupported collections in transit in the amount of \$244.3 thousand, and undistributed collections of \$(606.7) thousand. Undistributed collections are prorated between public and intragovernmental receivables on the Balance Sheet based on the percentages of distributed receivables. This reconciliation is performed to ensure that the financial statements are in agreement with the public receivables reported to the Department of the Treasury.

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 reconciliation.

Aged Accounts Receivables

ENTITY	CATEGORY	Intragovernmental	Nonfederal
Air Force GF	Nondelinquent Current	\$ 741,793,987.43	\$ 244,847,557.72
Air Force GF	Nondelinquent Noncurrent	\$ 5,053,505.69	\$ -
Air Force GF	Delinquent 1 to 30 days	\$ 5,194,898.44	\$ 8,006,498.58
Air Force GF	Delinquent 31 to 60 days	\$6,233,172.82	\$ 4,875,551.06
Air Force GF	Delinquent 61 to 90 days	\$ 8,090,295.60	\$ 18,341,076.11
Air Force GF	Delinquent 91 to 180 days	\$ 35,830,443.39	\$ 37,357,358.69
Air Force GF	Delinquent 181 days to 1 year	\$4,020,240.52	\$ 9,495,795.65
Air Force GF	Delinquent Greater than 1 year and less than or equal to 2 years	\$ 3,313,879.72	\$ 17,530,616.14
Air Force GF	Delinquent Greater than 2 years and less than or equal to 6 years	\$ 4,878,272.92	\$ 686,609,915.16
Air Force GF	Delinquent Greater than 6 years and less than 10 years	\$7,423.58	\$ 184,661,362.79
Air Force GF	Delinquent Greater than 10 years	\$ -	\$ 17,491,990.71
	Total	\$ 814,416,120.11	\$ 1,229,217,722.61
	Undistributed Disbursement	\$ 23,213.79	\$ (616,609.65)
	Eliminations	\$ (438,764,483.46)	
	Disbursement in Transit		\$ 244,269.18
	Total	\$ 375,674,850.44	\$ 1,228,845,382.14

For nondelinquent, noncurrent accounts receivable, the Air Force currently has 29 claims in the amount of \$5.1 million, which are expected to be paid within a contract year. Throughout the contract year, contact is made on these cases to ensure collection.

The delinquencies for the Air Force consist primarily of debts that have been turned over to the Contract Debt System (CDS) and the Defense Debt Management System (DDMS) for resolution.

Note 6.	Other Assets
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As of March 31	2006	2005
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 457,941,880.51	\$ 366,014,579.90
B. Total Intragovernmental Other Assets	\$ 457,941,880.51	\$ 366,014,579.90
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 10,289,658,398.92	\$ 11,269,645,012.46
B. Other Assets (With the Public)	283,645,846.68	265,494,857.56
C. Total Nonfederal Other Assets	\$ 10,573,304,245.60	\$ 11,535,139,870.02
3. Total Other Assets	<u>\$ 11,031,246,126.11</u>	<u>\$ 11,901,154,449.92</u>

Fluctuations

Advances and Prepayments, line 1.A., increased \$91.9 million, or 25 percent, primarily as a result of accruing more government advances in FY 2006 to agree with seller side unearned revenue as provided by Air Force trading partners. The total amount of this increase was \$60.8 million. The increase was reported by Air Force Working Capital Fund Depot Maintenance, Defense Information System Agency, and Office of Personnel Management (OPM) and combined other agencies in the amounts of \$38.5 million, \$19.3 million, \$35.8 million, and \$(32.8) million respectively. In addition, intra-Air Force transactions decreased in FY 2006 by \$31.1 million resulting in decreased eliminations. The primary decrease was related to the Air Force classified program in the Research, Development, Test, & Evaluation (RDT&E) appropriation.

The comparison of 2nd Quarter, FY 2006 to 2nd Quarter, FY 2005 for Advances and Prepayments (shown in thousands for comparative purposes only):

	<u>FY 2006</u>	<u>FY 2005</u>
Government advances before accrual	\$35.0	\$34.0
Accruals to match seller data	<u>\$1,011,832.0</u>	<u>\$951,013.0</u>
	\$1,011,867.0	\$951,047.0
Less: Intra-Air Force eliminations	<u>\$553,925.0</u>	<u>\$585,032.0</u>
Reported advances and prepayments	\$457,942.0	\$366,015.0

Information Related to Other Assets

Other Assets (With the Public) on line 2.B., in the amount of \$283.6 million, is composed of \$77.5 million in travel advances, \$1.4 million in other advances to contractors, and \$204.7 million in advances to contractors as reported on the SF 1219, Statement of Accountability.

Advances to contractors on the SF 1219 are payments as part of an advance-payment pool agreement with Massachusetts Institute of Technology and other nonprofit institutions. Advance-payment pool agreements are used for the financing of cost-type contracts with nonprofit educational or research institutions for experimental

or research and development work when several contracts or a series of contracts require financing by advance payments.

Note 7.	Cash and Other Monetary Assets
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As of March 31	2006	2005
1. Cash	\$ 124,046,879.87	\$ 139,008,075.91
2. Foreign Currency	1,747,434.64	8,460,046.08
3. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 125,794,314.51	\$ 147,468,121.99

Fluctuations

Total Cash, Foreign Currency, & Other Monetary Assets decreased \$21.7 million, or 15 percent, caused by decreases in both the Cash and Foreign Currency asset classes.

The \$15.0 million, or 11 percent, decrease in the Cash asset class can be attributed to the implementation of a new procedure in the 2nd Quarter, FY 2005, using the International Treasury Service (ITS.gov) to send U.S. dollars overseas. The reduction in cash and foreign currency from the implementation of ITS.gov was not realized until the 3rd Quarter, FY 2005 statements.

The implementation of the International Treasury Service (ITS.gov) to pay foreign vendors also drove the \$6.7 million, or 79 percent, decrease in the Foreign Currency asset class.

The Centralized Disbursing Directorate at DFAS-DE now sends U.S. dollars directly to the Bank of America in Germany for conversion to foreign currencies. The bank disburses the equivalent foreign currencies directly to foreign vendors. ITS.gov, therefore, bypasses the Air Force disbursing officers, whose need for both U.S. dollars and foreign currency is thereby reduced.

Relevant Information for Comprehension

The amounts reported for the Cash and Foreign Currency asset classes consist primarily of cash held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange mission. The primary source of the amounts reported is the SF 1219, Statement of Accountability, reported by the Department of Defense (DoD) disbursing officers.

The amount reported for the Foreign Currency asset class is valued using the Department of Treasury Prevailing Rate of Exchange, the most favorable rate available to the U.S. Government when acquiring foreign currency to make official disbursements and to provide currency for exchange of U.S. dollars for troops.

Cash and Other Monetary Assets represent disbursing officer's cash and undeposited collections as represented on the Statement of Accountability. All Cash and Foreign Currency are nonentity assets and, as such, are considered restricted. Restricted assets are those assets that are held by the Air Force but are not

available for the Air Force to use in its operations. The total balance of \$125.8 million is restricted. These assets are held by the Air Force's disbursing Officer as agents of the Treasury.

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

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

Direct Loans Obligated After FY 1991

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

Total Amount of Direct Loans Disbursed

As of March 31	2006	2005
Direct Loan Programs		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Total	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Subsidy Expense for Post FY 1991 Direct Loan

As of March 31

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
		2006	2005		
5. Total Direct Loan Subsidy Expense: Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00		

Subsidy Rate for Direct Loans

As of March 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
Direct Loan Programs					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

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

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

Defaulted Guaranteed Loans from Post FY 1991 Guarantees

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

Guaranteed Loans Outstanding

As of March 31	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
3. Total	\$ 0.00	\$ 0.00

Liabilities for Post FY 1991 Loan Guarantees, Present Value

As of March 31	2006	2005
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	\$ 0.00	\$ 0.00

Subsidy Expense for Post FY 1991 Loan Guarantees

As of March 31

2006	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0	\$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0	0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2006	2005				
5. Total Loan Guarantee:					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Armament Retooling & Manufacturing Support Initiative	0.00	0.00			
Total	\$ 0.00	\$ 0.00			

Subsidy Rates for Loan Guarantees

As of March 31	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantee Programs:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees
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As of March 31	2006	2005
1. Beginning Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	\$ 0.00	\$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00

Air Force General Fund

Administrative Expenses

Note 9.	Inventory and Related Property
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As of March 31	2006	2005
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	49,184,739,684.00	48,643,476,455.88
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 49,184,739,684.00	\$ 48,643,476,455.88

Inventory, Net

As of March 31	2006			2005		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	LAC,MAC
B. Held for Repair	0.00	0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	0.00	0.00	0.00	0.00	0.00	AC
F. Total	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

MAC = Moving Average Cost

Operating Materials and Supplies, Net

As of March 31	2006			2005	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
1. OM&S Categories					
A. Held for Use	\$ 38,463,092,923.35	\$ 0.00	\$ 38,463,092,923.35	\$ 37,629,913,436.64	SP, LAC
B. Held for Repair	10,721,646,760.65	0.00	10,721,646,760.65	11,013,563,019.24	SP, LAC
C. Excess, Obsolete, and Unserviceable	888,492,770.36	(888,492,770.36)	0.00	0.00	NRV
D. Total	\$ 50,073,232,454.36	\$ (888,492,770.36)	\$ 49,184,739,684.00	\$ 48,643,476,455.88	

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

Information related to OM&S:

General Composition of OM&S

OM&S include weapon systems, spare and repair parts, ammunition, tactical missiles, centrally managed spare aircraft engines, and uninstalled cruise and ICBM missile motors.

Balances

In addition to the account balances shown in Note 9, the federal accounting standard requires disclosure of the amount of OM&S held for future use. Except for an immaterial amount of munitions, the Air Force is not holding any items for future use.

Decision Criteria for Identifying the Category to Which OM&S Items Are Assigned

The category Held for Use includes all issuable materials. OM&S classified as such is marked within each supply or inventory system with condition codes A-D.

The category "Held as Excess, Obsolete, and Unserviceable" includes all material that managers determine to be more costly to repair than to replace. Items retained for management purposes, which are beyond economic repair are coded "condemned." The net value of these items is zero and they are shown as Excess, Obsolete, and Unserviceable and assigned condition codes H, P, S, or V.

The Category Held for Repair relates to impaired assets and includes all other condition codes as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DoD 4000.25-2-M).

Changes in the Criteria for Identifying the Category to Which OM&S Items Are Assigned

As stated above, the category Held for Use includes all issuable material, and the category Held for Repair includes all economically repairable material. Before FY 2002, the Department of Defense (DoD) categorized potentially redistributable material, regardless of condition, as Excess, Obsolete, and Unserviceable.

To date, the Air Force has partially implemented a Moving Average Cost (MAC) valuation process within three systems in an effort to report the value of OM&S at historical cost, which is the DoD-approved costing methodology. (Only one of these systems had its beginning balance validated). Most OM&S assets are in systems not yet converted to MAC and therefore are still valued at standard price with an allowance for Excess, Obsolete, and Unserviceable.

Under current DoD policy, no allowance is made for serviceable ready-to-issue items (category Held for Use). An allowance equal to 100 percent of standard price, however, is made for the category Excess, Obsolete, and Unserviceable. This allowance results in a net book value of zero, which is considered appropriate in the case of items coded as condemned that have no intrinsic value to the Air Force. The category Held for Repair represents suspended, unserviceable (but repairable) items which have a value to the Air Force but whose value is less than that of the Held for Use items and greater than that of the Excess, Obsolete and Unserviceable items. To date, the Office of the Secretary of Defense is currently developing guidance for computing an allowance for the Held for Repair category. As a result, Air Force continues to report Held for Repair at full standard price.

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

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

Operating Materials and Supplies (OM&S) Value

The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. Some of these systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property."

Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Further, unlike the commercial sector, the DoD operational cycles are based on national need and thereby are irregular. In addition, the military risks associated with stock-out positions (e.g., weapon systems that are not mission capable due to lack of supplies) are totally different from a commercial activity's risk of losing sales. Therefore, the Department does not attempt to account separately for items held for current or future use.

In general, the Air Force is using the consumption method of accounting for OM&S, since OM&S is defined in the SFFAS No. 3 as material that has not yet been issued to the end user. Once issued, the material is expensed. 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).

Other Air Force Disclosures

In the past, the Air Force provided only minimal OM&S accounting data that could be used to prepare the financial statements but has made considerable strides in improving the systems to provide actual transactions for completing the financial statements. However, in some cases, the data provided still consists of only beginning and ending balances for each of the asset accounts Held for Use; Excess, Obsolete, Unserviceable; and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the Defense Finance and Accounting Service (DFAS) could only report the net change between prior-period ending balances and the values reported as current-period ending balances.

Although the Air Force OM&S systems, in most cases, capture some trading partner data at the transaction level, no electronic interfaces exist between the Air Force OM&S feeder systems, the DFAS accounting systems, other DoD services, and other federal agencies for reporting the data for all items transferred in and out. Consequently, intragovernmental transactions (trading partner data) could not always be reconciled. The Air Force and DFAS are currently developing processes, methodologies and standard electronic interfaces that will allow intragovernmental transactions to be reported monthly to the General Accounting and Finance System – Rehost.

Stockpile Materials, Net

As of March 31	2006			2005	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
1. Stockpile Materials Categories					
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	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

Note 10. General PP&E, Net

As of March 31	2006					2005	
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value	
1. Major Asset Classes							
A. Land	N/A	N/A	\$ 434,552,742.21	N/A	\$ 434,552,742.21	\$ 431,702,002.17	
B. Buildings, Structures, and Facilities	S/L	20 Or 40	45,703,997,608.11	\$ (26,330,801,914.78)	19,373,195,693.33	17,523,184,007.80	
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00	
D. Software	S/L	2-5 Or 10	794,601,000.00	(307,615,799.60)	486,985,200.40	23,782,113.00	
E. General Equipment	S/L	5 or 10	37,265,871,256.27	(29,350,988,801.47)	7,914,882,454.80	7,847,063,140.21	
F. Military Equipment	S/L	Various	320,440,000,000.00	(226,620,000,000.00)	93,820,000,000.00	90,240,000,000.00	
G. Assets Under Capital Lease	S/L	lease term	453,481,227.52	(317,827,963.39)	135,653,264.13	163,760,747.58	
H. Construction-in- Progress	N/A	N/A	4,279,469,197.85	N/A	4,279,469,197.85	3,719,301,008.22	
I. Other			0.00	0.00	0.00	253,587.00	
J. Total General PP&E			<u>\$ 409,371,973,031.96</u>	<u>\$ (282,927,234,479.24)</u>	<u>\$ 126,444,738,552.72</u>	<u>\$ 119,949,046,605.98</u>	

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Fluctuations

The increase of \$1.9 billion, or 11 percent, for Buildings, Structures, and Facilities on line 1.B. is the result of acquisitions/transfers-in with a net book value of \$2.2 billion and transfers-out/disposals with a net book value of \$400.0 million. The remaining change can be attributed to some of the transferred-in assets being reported on the preponderant user's books. The transfers-in had an acquisition value of \$4.1 billion with accumulated depreciation of \$1.9 billion. The transfers-out had an acquisition value of \$1.4 billion with accumulated depreciation of \$1.0 billion.

The increase of \$463.2 million or 1,948 percent for Software is due to Air Force recognizing a "best" estimate for Internal Use Software derived from prior years budget data (FY 2003, FY 2004, and FY 2005) and the DoD study "Industry Software Cost, Quality and Productivity Benchmarks." The DoD study indicated that 60 percent of the total software effort was development, 20 percent was preliminary design, and 20 percent was post deployment.

The increase in Military Equipment of \$3.6 billion, or 4 percent, was due to an overall increase in Military Equipment as provided by the Bureau of Economic Analysis (BEA). This consisted of \$14.6 billion increase in Military Equipment less \$11.0 billion of accumulated depreciation.

Assets under Capital Lease on line 1.G. decreased \$28.1 million, or 17 percent, due to the privatization of a \$9.3 million lease at Hanscom AFB along with a complete recalculation of all Capital Leases throughout the Air Force network.

The Construction-in-Progress (CIP) on line 1.H. increased \$560.2 million, or 15 percent, because the Treasury Index 97 funds were incorporated into the Air Force Construction-in-Progress total projects during 3rd Quarter, FY 2005. The reporting of CIP has long been a problem, not only with Air Force but with all services. TI 97 funds allocated to the Air Force and used on Air Force real property projects that benefit the AF must be reported on the Air Force financial statements (see DoD FMR Volume 4, Chapter 6, page 6-20).

When a Construction Agent, such as United States Army Corps of Engineers (USACE) or Naval Facilities Engineering Command (NAVFAC), constructs a building, they use funds from several different Appropriations; some of which are TI97 funds. In the past, the USACE and NAVFAC did not provide all of the necessary data that would identify which service should be reporting these CIP values. The DoD Component that is to receive the constructed property shall report CIP amounts on their financial statements, regardless of what type of funds were used to fund the construction. Without knowing if this was an Air Force construction project, or if the Air Force was going to be the end user, these TI97 funds were left with the DoD agencies funding the project. DFAS and the services have been working this issue and have been able to identify most, if not all, projects under construction, and are able to identify whom should report CIP. The TI97 funds have now been added to the Air Force CIP as required. The remaining issues related to CIP have been discussed with the OSD Accounting Policy office.

The Other Asset class on line 1.I. decreased by \$ 254.0 thousand, or 100 percent. The Other category represents the timing factor inherent in timber harvesting. The timber markets, driven by supply and demand, are volatile and fluctuate. Timber sale contracts are awarded at irregular intervals, with some contracts held back until the market improves. Similarly, when buyers pay for just the timber they cut, they may hold off when markets are bad and cut more when markets are good. Weather conditions also influence the flow of timber and revenue. Air Force sold all of it's timber that was reflected in PP&E during FY 2005.

Relevant Information for Comprehension

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 23, "Eliminating the Category National Defense Property, Plant and Equipment," in May 2003. This standard, which became effective for accounting periods after September 30, 2002, establishes Generally Accepted Accounting Principles (GAAP) for valuing and reporting military equipment (e.g., aircraft, satellites, and intercontinental ballistic missiles) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. The Department of Defense has determined that it is not practical at this time to accumulate sufficient information from internal records to value military equipment in accordance with GAAP. The Department is currently working to revise its accounting processes and systems to support the informational needs of management and compliance with GAAP. In the interim, the Department will base the value of military equipment for financial statement presentation purposes on data provided by the Bureau of Economic Analysis (BEA) at the Department of Commerce.

The value of the Bureau of Economic Analysis (BEA) data provided by the DoD to the Air Force for inclusion in the financial statements for 2nd Quarter, FY 2006 amounted to approximately \$320.4 billion, less accumulated depreciation of \$226.6 billion, for a net realized book value of \$93.8 billion.

The data provided by the BEA consists of investment and net book value data for 84 groups of equipment such as aircraft, ships, and combat vehicles. The Department adjusts BEA data to eliminate equipment items (such as spares, munitions, and inventory items) that are not accounted for as military equipment. Such items are accounted for and reported as Inventory and Related Property.

Personal property in the Air Force consists of General Equipment, Automated Data Processing (ADP) hardware and software, Medical Equipment, Special Tools and Test Equipment (ST/STE), and Military Equipment.

Heritage Assets

Heritage Assets and Stewardship Land are resources that protect, restore, enhance, modernize, preserve and sustain mission capability within the AF through effective planning and management of natural and cultural resources to guarantee access to air, land and waters. These assets are resources that are managed to provide multiple use activities for the public benefit. This includes actions to comply with requirements such as Federal Laws, Executive Orders, DoD policies, final governing standards and other binding agreements.

Heritage Assets, within the Air Force, consists of buildings and structures, museums, major collections, monuments and memorials, archeological sites and cemeteries, while Stewardship Land consist mainly of mission essential (donated, public domain, executive order) land. The Air Force, with minor exceptions, uses most of the buildings and structures as part of their every day activities and includes them on the balance sheet as multi-use heritage assets (capitalized and depreciated). The mission essential stewardship land is used for many different activities including general base operations, training sites, bombing ranges, recreation, and timber production.

Buildings and Structures – The Air Force considers 6,153 buildings and structures on Air Force bases and sites as heritage assets. To order to be considered a heritage asset, the building and /or facility must be listed, eligible, or potentially eligible for the National Register. These buildings and structures are maintained by each base civil engineering group as part of their overall responsibility.

Museums – The Air Force Museum System consist of 19 museums with the major museum located at Wright-Patterson Air Force Base, Ohio. It houses the main collection of historical artifacts. Seventeen museums are considered Air Force Field Museums or Heritage Centers, which also contain items of historical interest, some of which are specific to the general locality. The 19th museum belongs to the Air National Guard.

Major Collections – The Air Force has four significant collections consisting of the Air Force art collection and three collections located at the Air Force Academy. Included in these collections are historical items and memorabilia as well as distinctive works of art.

Cemeteries - The Air Force has administrative and curatorial responsibilities for 39 cemeteries on it active duty bases.

Archeological Sites – The Air Force has 1,685 archeological sites listed on or eligible for the National Register. In addition, 9,292 sites are recorded but not evaluated to be included as archeological sites.

Other Air Force Disclosures

During the 2005 hurricane season, there were a record number of historic storms causing extensive damage to real property assets at numerous Department of the Air Force installations. Hurricanes Dennis, Katrina and Rita were particularly damaging. Multi-disciplinary Air Force Civil Engineer teams consisting of structural and mechanical engineers, architects, roofing specialists and construction contract specialists were quickly dispatched to the Gulf Coast region of the United States to aid mission recovery and assist in assessing the damage caused by these storms.

AF engineers continue to provide support to local base civil engineer teams at damaged installations. Among the installations recovering from significant damage are Keesler AFB, Columbus AFB, and Gulfport Combined Readiness Training Center at Tyndall AFB in Mississippi, and Eglin AFB in Florida. The Civil Engineer Damage Assessment Teams are faced with three broad categories of buildings, structures, and utilities: (1) facilities that only have cosmetic/minor damage and therefore small repair costs; (2) facilities that have major damage making it more economical to build new rather than repair therefore creating new military construction;

and (3) structures that have significant damage, but it is more economical to repair them rather than to build new, therefore creating capitalized improvements. Once the assessments are completed, and decision on course of action and execution method are made, the values of the buildings, structures, and utilities on the financial statements will either increase due to new construction and capital improvements or adjust downward because they were demolished by the hurricanes and/or require demolition as part of the recovery and restoration effort.

For 2nd Quarter, FY 2006 reports, the Air Force used some FY 2002 ending data for (ST/STE) but did use actual data for the B2 aircraft. The FY 2002 values were still being used for all other (ST/STE) because the two systems previously used to report ST/STE have been turned off and are scheduled to be replaced by Air Force Equipment Management System (AFEMS) in FY 2006.

The value of the Air Force's General PP&E real property in the possession of contractors is included in the values 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 above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. The Government Accountability Office, the Inspector General, DoD, and the Air Force are developing new policies and a contractor-reporting process to capture General PP&E information for future reporting purposes in compliance with GAAP.

Assets Under Capital Lease

As of March 31	2006	2005
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 453,481,227.52	\$ 459,265,000.60
B. Equipment	0.00	0.00
C. Accumulated Amortization	(317,827,963.39)	(295,504,253.02)
D. Total Capital Leases	\$ 135,653,264.13	\$ 163,760,747.58

Fluctuations

Assets under Capital Lease on line 1.D. decreased \$28.1 million, or 17 percent, due to the privatization of a \$9.3 million lease at Hanscom AFB along with a complete recalculation of all Capital Leases throughout the Air Force network. The increase of \$44.9 million, or 11 percent in Land and Building and \$55.4 million, or 23 percent, increase in accumulated amortization is the result of a change in methodology for the use of interest rates that applies to the individual leases. The Air Force previously used the interest rate provided with each of the 10 capital leases. This interest rate did not accurately provide the cost of money to compute fair market value. The current interest rate used reflects the appropriate government rate that best reflects the government's cost of borrowing, using the historical rates from the Federal Reserve. The new change was coordinated between the Air Force and OSD.

Relevant Information for Comprehension

The Air Force is the lessee in ten capital leases. These leases are for military family housing acquired through Section 801 Family Housing Program. The leased items are capitalized and reported as an asset when the costs of the items exceed the capitalization threshold. Leased items not meeting the capitalization threshold are expensed. All leases originating prior to FY 1992 are funded on a fiscal-year basis. Six of the current military family housing leases originated before FY 1992. The Air Force has adjusted their records to account for the termination and conveyance of one lease as of October 30, 2004.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of March 31	2006	2005
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	660,668,181.74	874,923,147.69
D. Total Intragovernmental Liabilities	\$ 660,668,181.74	\$ 874,923,147.69
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 227,376,437.31	\$ 145,192,078.71
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,147,437,480.00	1,163,442,240.00
C. Environmental Liabilities	6,331,893,539.44	6,520,072,090.37
D. Other Liabilities	2,740,512,286.01	2,686,315,757.84
E. Total Nonfederal Liabilities	\$ 10,447,219,742.76	\$ 10,515,022,166.92
3. Total Liabilities Not Covered by Budgetary Resources	\$ 11,107,887,924.50	\$ 11,389,945,314.61
4. Total Liabilities Covered by Budgetary Resources	\$ 11,564,055,145.55	\$ 10,644,336,070.22
5. Total Liabilities	\$ 22,671,943,070.05	\$ 22,034,281,384.83

Fluctuations

Intragovernmental Other Liabilities, decreased \$214.3 million, or 24 percent, primarily due to the reconciliation and clean-up of custodial liabilities during the 3rd Quarter FY 2005. There was a discrepancy between the amount previously reported as custodial liabilities and the corresponding non-entity asset accounts.

The increase of \$82.2 million, or 57 percent, in Nonfederal Accounts Payables can be attributed to closed year payables in the Military Personnel Appropriation for FY 2000. In FY 2005, this amount was reported as a "covered liability." FY 2000 closed at the end of FY 2005 and so the obligation was reclassified to "not covered." The next step is to validate these obligations with the funds manager and de-obligate funds where appropriate.

Information Related to Liabilities Not Covered by Budgetary Resources: Other Liability Disclosures

Other Intragovernmental Liabilities Not Covered by Budgetary Resources consists of \$230.3 million in Federal Employees' Compensation Act (FECA) reimbursement to the Department of Labor, \$34.1 million in unemployment compensation, and \$396.3 million in custodial liabilities.

Other Nonfederal Liabilities Not Covered by Budgetary Resources consists of \$58.6 million in capital lease liabilities, \$237.6 million in contingent liabilities, \$2.4 billion in accrued annual leave liabilities for military and civilians, and \$310.5 thousand in accrued interest liability.

Note 12.	Accounts Payable
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As of March 31	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 1,700,551,212.99	\$ N/A	\$ 1,700,551,212.99	\$ 1,692,869,764.70
2. Nonfederal Payables (to the Public)	6,317,298,070.20	0.00	6,317,298,070.20	6,703,865,262.24
3. Total	<u>\$ 8,017,849,283.19</u>	<u>\$ 0.00</u>	<u>\$ 8,017,849,283.19</u>	<u>\$ 8,396,735,026.94</u>

The Intragovernmental Payables category consists of amounts owed to other federal agencies for goods or services ordered and received but payment has not been made. Interest, penalties, and administrative fees are not applicable to intragovernmental payables. As a result of guidance from Treasury, Judgment Fund Liabilities resulting from the Contract Dispute Act (CDA) and the Notification and Federal Employee Antidiscrimination and Retaliatory Act (NoFEAR) of 2002 are now included in Intragovernmental Payables. The Non-Federal Payables (to the Public) category consists of payments to non-federal governmental entities.

Other Disclosures

Judgment Fund liabilities for 2nd Quarter, FY 2006 total \$3.3 million as of March 31, 2006. This is a result of contractor claims under the CDA in the amount of \$3.1 million for Air Force contracts that have been adjudicated in favor of the contractor by a court or a board. Initially, Treasury pays the monetary awards to the contractor. The Air Force must subsequently reimburse the Treasury's Judgment Fund for the amount that was paid to the contractors. Also included is \$170.0 thousand owed for Judgment Fund liabilities because of reimbursements and judgments amounts resulting from the NoFEAR of 2002. These amounts can change daily and can fluctuate substantially due to new billings by the Treasury, and to payments made to the Treasury by DFAS and the U.S. Army Corps of Engineers on behalf of the Air Force.

Intragovernmental Eliminations

For the majority of intra-agency sales, the Air Force's feeder systems and the DFAS 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 payable to the related intragovernmental accounts receivable. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with current or foreseeable resources. The DoD summary-level seller accounts receivables were compared to the Air Force accounts payable. An adjustment was posted to the Air Force accounts payable based on the comparison with the accounts receivable of the DoD components providing goods or services to the Air Force. The DoD and Air

Force intend to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations.

Note 13.	Debt
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As of March 31	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
1. Agency Debt (Intragovernmental)					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Total Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of March 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities--				
Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 387,680,000.00	\$ 3,447,503,677.27	\$ 3,835,183,677.27	\$ 4,039,947,807.58
2. Active Installations—Military Munitions Response Program (MMRP)	15,000,000.00	1,329,856,000.00	1,344,856,000.00	1,344,856,000.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0.00	133,055,890.64	133,055,890.64	175,968,896.17
2. Environmental Closure Requirements	2,354,000.00	49,301,000.00	51,655,000.00	112,283,000.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	99,564,174.37	1,035,461,555.99	1,135,025,730.36	1,292,367,000.73
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	12,627,742.57	131,324,602.02	143,952,344.59	133,767,043.37
4. Other	19,129,371.04	198,951,213.37	218,080,584.41	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	\$ 536,355,287.98	\$ 6,325,453,939.29	\$ 6,861,809,227.27	\$ 7,099,189,747.85

New cost estimates for all environmental liabilities are only submitted at year-end. Quarterly changes to the liability figure are a result of current-year expenditures.

Other Categories Disclosure

Others Category Disclosure Comparative Table		
(Amounts in thousands)	2006	2005
Other Accrued Environmental Costs - Other		
Total	\$0.0	\$0.0
Base Realignment and Closure - Other		
Manpower services at BRAC installations and headquarters offices.	\$218,080.6	\$0.0
Total	\$218,080.6	\$0.0
Environmental Disposal for Weapons Systems Programs - Other		
Total	\$0.0	\$0.0

Base Realignment and Closure (BRAC) – Other includes costs for manpower at BRAC installations and headquarter offices for services performed by Global Engineering Integration and Technical Assistance (GEITA) in development and execution of environmental and property transfer programs. The increase also includes costs for the Air Force Center for Environmental Excellence (AFCEE). In addition, various mandated direct costs are included in the total cost. These costs include the cost for Technical Assistance for Public Participation (TAPP), Agency for Toxic Substances and Disease Registry (ATSDR), Environmental Protection Agency’s (EPA’s) and Defense/State Memorandum of Agreement (DSMOA).

Fluctuations

Other Accrued Environmental Liabilities—Active Installations—Environmental Corrective Action decreased \$42.9 million, or 24 percent. RCRA corrective actions are defined by the Environmental Protection Agency as Solid Waste Management Units (SWMU). SWMUs are not determined in a scientific manner and may arise from any indication of potential pollution. Therefore, there are a high number of SWMUs. Limited initial investigation generally leads to the conclusion that there is no significant pollution at the SWMU. The amount of the liability fluctuates greatly from year-to-year as further investigation results in significant changes in cost estimates. These changes result from the additional information gained in each step of the cleanup process and the relatively few sites that actually require significant cleanup costs.

Other Accrued Environmental—Active Installations—Environmental Closure Requirements decreased \$60.6 million, or 54 percent, due primarily to the fact that the Air Force no longer recognizes the costs of closure for Underground Storage Tanks (USTs) and Treatment, Storage, and Disposal Facilities (TSDFs) as environmental liabilities. The Air Force does not plan to abandon these facilities and therefore has no liability to be recognized in the financial statements. RCRA states that the cleanup of a UST facility takes place only when the tank is abandoned for 12 consecutive months. The only closure liability that meets the accounting requirements for recognition is that of landfills. As of September 30, 2005, the liability for landfill closure was estimated at \$51.7 million based on the percentage of the landfill used as of September 30, 2005 with a total liability for landfill closures of \$203.8 million. The change in the landfill liability represents increased improvement in direct cost estimates to close and monitor landfills, as well as improved information concerning the use of the landfills. The size of a landfill is not limited over time and opening a greater capacity each period may expand the landfill. Therefore, a landfill that was 50 percent full last year may only be 40 percent full this year. The Air Force plans to develop a methodology to reduce the variability in the capacity used to amortize the landfill liability.

Base Realignment and Closure (BRAC) Installations—Installation Restoration decreased \$157.3 million, or 12 percent. The decrease is due to cleanup work performed, expensed, and paid during the reporting period as well as revaluations attributed primarily to the adjustment of Chanute Air Force Base's Last Remedial Action in Place (LRIP) date from FY 2007 to FY 2009. This adjustment was the result of the Air Force Real Property Agency's (AFRPA's) bottoms-up review and subsequent budget scrubs. In FY 2004, with LRIP projected for FY 2007, Chanute based its environmental assumptions on fast-track cleanup efforts and programmed massive dig and haul efforts and Engineering Evaluation Cost Analysis (EECA) to meet the September 30, 2007 LRIP date. With the FY 2009 LRIP, many fast track requirements were eliminated or scopes significantly reduced, which affected Cost-To-Complete (CTC) projections. In addition to the LRIP date change, Chanute's current Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) status - the Remedial Investigation phase - has produced more accurate data during FY 2005 which in turn has allowed the BRAC Environmental Coordinator to make better assumptions to more clearly define the environmental requirements for Chanute. The data supports significantly less remedial action than was previously assumed by operating location. Many of the environmental sites can be recommended in Record of Decision documents for Long Term Monitoring with Land Use Control/Institutional Controls cost rather than dig and haul and/or active systems, which have greatly reduced out-year costs.

Base Realignment and Closure (BRAC) – Other increased \$218.1 million, or 100 percent. The increase is due to improved identification of costs resulting in the addition of this line item in 4th Quarter, FY 2005. The increase includes cost for manpower services at BRAC installations and headquarters offices for services performed by Global Engineering Integration and Technical Assistance (GEITA). This contractual support provides program level support for management oversight services at various BRAC installations. This supports the strategy development and execution for environmental and property transfer programs. This support allows the installations to remain on track working towards the Defense Planning Goals which includes: property transfer, Remedial Actions in Place (RIP), Last RIP (LRIP), Operating Properly and Successfully (OPS), Response Complete (RC) and ultimately, Site Closure (SC). Also, the increase includes costs for the Air Force Center for Environmental Excellence (AFCEE). AFCEE provides technical, management, contract and administrative manpower assistance to manage and execute BRAC projects and other closure related matters for closure bases. The Program Managers are the heart of program execution and single point of contact for all activities cradle-to-grave. Programs Managers frequently require technical consultation from staff members who are experts in toxicology, risk assessment, engineering, chemistry, and hydrogeology. Contracting personnel provide the necessary contracting expertise to conduct acquisition planning, develop contracting strategies, execute contract awards, and administer those contracts. Administrative personnel are required to adequately leverage the myriad of technical and project management correspondence, reports, visitors, and callers to relieve staff from clerical duties.

In addition, various mandated direct costs are included in the total cost. These costs include the cost for Technical Assistance for Public Participation (TAPP) grants which allow community members to obtain objective, independent scientific and engineering support concerning the restoration process through the issuance of government purchase orders to small businesses. Also, included are costs for the Agency for Toxic Substances and Disease Registry (ATSDR), which is mandated under CERCLA Section 104(i) to evaluate all federal facilities on or proposed to the Environmental Protection Agency's (EPA's) National Priorities List (NPL) for public health concerns. In addition, under the EPA's Fast Track Cleanup, an agreement was made between service components and DoD to provide funds to the Deputy Under Secretary of Defense (Installation and Environment) in support of the BRAC Fast Track Program. They provide assistance in setting up BRAC Environmental Coordinator/BRAC Cleanup Teams (BEC/BCT) workshops to develop BRAC environmental policies and issue Defense Planning Guidance and Goals. Also, direct costs

are included for the Defense/State Memorandum of Agreement (DSMOA) program which was established by DoD to enhance state and territorial involvement in the cleanup of active and closing DoD installations and at Formerly Used Defense Sites (FUDS). This program provides funds to federal organizations and state regulatory programs that mandate funding in order to support AFRPA.

General Disclosures:

Accrued Environmental Restoration Liabilities Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) and Other Accrued Environmental Costs Active Installations – Environmental Corrective Action

Environmental cleanup liabilities are incurred in connection with the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA). Cost estimates are performed using the Remedial Action Cost Engineering and Requirements System (RACER) unless there is a historic comparable project, a specific bid, or an independent government cost estimate for the project. The liability amount is composed of the sum of several stages of activity and not necessarily contained in a single estimate or contract.

The change in environmental cleanup liability during a reporting period is comprised of revaluations of the cost-to-complete cleanup of engineering sites that existed at the beginning of the period plus the cost-to-complete cleanup for new engineering sites introduced during the reporting period, less amounts expensed in the program during the reporting period. The beginning environmental cleanup liability plus the cost-to-complete new engineering sites added during the period plus or minus changes in cost-to-complete estimates (revaluations) during the period is equal to the ending environmental cleanup liability for the period. Because the Accrued Environmental Restoration Liabilities is accounted for as a totally self-contained program, all direct and indirect costs of the program are captured and reported.

Other Accrued, non-BRAC environmental cleanup liabilities represent corrective actions generally required under RCRA law. These environmental cleanup liabilities are estimated in the same manner as Accrued environmental cleanup liabilities. The change in Other Accrued, non-BRAC environmental cleanup liabilities during a reporting period is comprised of revaluations of the cost-to-complete for engineering sites that existed at the beginning of the period plus the cost-to-complete for new engineering sites added during the reporting period less amounts expensed during the period. Because the Other Accrued, non-BRAC environmental cleanup activity is part of general funding achieved using Air Force Operation and Maintenance appropriated funds, there is no special accounting for the costs of the cleanup program per se. Therefore, the costs captured for the Other Accrued, non-BRAC environmental cleanup reflect only direct costs. Because this program was not tracked and appropriated specifically, there was no accounting specific to this program. Expense codes for this program were established in 1999 and implemented in FY 2000. Therefore, the expense portion of the estimate has no significant history. Because of the lack of expense history for the program, there is no reliable data for estimating the current portion of the Other Accrued, non-BRAC environmental cleanup liability. It is believed that the current portion of the environmental cleanup liability in this area is relatively small and not material in the classification of liabilities. Because the Other Accrued, non-BRAC environmental cleanup liabilities are only estimated between July 1 and September 1 of each year, there is no significant change other than at fiscal year-end for Other Accrued, non-BRAC environmental liabilities. On less than an annual basis the only change to the liability estimate in this area is the amount recorded as expensed during the reporting period.

Included in the Accrued Environmental Restoration Liability for September 30, 2005 are 32 engineering sites that represent building demolition and debris removal totaling \$50.0 million. These costs represent joint costs that entail environmental and non-environmental aspects that cannot be separated for reporting purposes.

All environmental liabilities for Accrued restoration represent estimates of cleanups covering all time and actual results may vary significantly from such estimates. The current liability represents a deflated level of expected activity during FY 2006 and should be accurate, although not precise, because of variations in the timing of expense recognition and official estimates for the year's activity.

Accrued Environmental Restoration Liabilities Active Installations – Military Munitions Response Program (MMRP)

The environmental cleanup of military ranges is governed by the Military Munitions Rule in 40 CFR 266.201. Environmental cleanup liabilities on ranges refer only to munitions related activities. Other actions are captured under the DERP, BRAC, and non-DERP, non-BRAC environmental cleanup categories. Additionally, environmental cleanup liabilities are reported only for closed ranges.

Environmental cleanup areas within a closed range are referred to as Munitions Response Areas (MRAs). As studies are done to find munitions-related contamination on closed ranges, the number of sites is expected to rise. As investigations progress, the number of sites will increase to reflect specific areas of pollution. The Air Force expects the number of sites reported to increase as pollution is discovered and sites are defined in areas less than the total boundary of the closed range. For example, one closed range of 100 acres may become three sites: one of five acres with pollution A, one of 15 acres with pollution B, and the remaining 80 acres with no pollution found. Thus, one closed range can become three sites, each with its own cost-to-complete cleanup estimate. The sum of the sites' costs-to-complete cleanup becomes the environmental cleanup liability for closed ranges. The environmental cleanup for closed ranges is in its infancy, and the total liability is expected to increase significantly over the coming years as investigations progress. Current policy is to investigate all closed ranges by the end of 2007.

Although there are no stated standards for the environmental cleanup of closed ranges, the Air Force has implemented studies to determine the extent of pollution from munitions. It is expected that there will be significant changes in range cleanup standards that eventually will be applied on a case-by-case basis for munitions-response requirements.

As investigations progress, it is expected the environmental cleanup liability for closed ranges will increase materially. The liability for environmental cleanup will reflect direct costs. Also, the lack of expense history for range environmental cleanup makes it impossible to estimate current liabilities reliably for some time. The current liability reflects the amount contained in the President's Budget that shows the expected activity for the next fiscal year.

Other Accrued Environmental Liabilities Active Installations – Environmental Closure Requirements

Environmental closure liabilities are incurred under RCRA with the cost-to-complete closure reported for RCRA facilities. Cost estimates are prepared under assumptions defined in the RCRA law and estimated using RACER in the absence of a specific contract cost or bid. The specific facilities reported are RCRA permitted landfills.

Disposal liabilities are presented as an accrued amount for the life of the landfill, and the total liability is presented in the year-end narrative. The accounting standard requires full cost be recognized for closure liability. Closure liabilities recognized by the Air Force cover only direct costs. No cost accounting exists to determine indirect closure costs. Costs incurred in periods greater than 30 years into the future are considered immaterial. The present value of such costs would be negligible in recognition of closure liabilities if such recognition were not on a current cost basis.

There are no material changes in environmental closure liabilities on less than an annual basis because revaluation and addition of new engineering sites occurs in the last quarter of the year in preparation for the budget process. Because environmental closure liabilities are estimated in the last quarter of the year, new closure facilities are recognized in the last quarter of the year and no accounting process to capture environmental closure expenses, there is no material change in environmental closure liabilities on less than an annual basis. The total amortized annual portion of the liability estimate is recognized in the fiscal yearend liability; therefore, there is no change in the amortized liability amount on a quarterly basis. There is no value to the amortization of the estimated liability more frequently than annually because there is no cash impact for such recognition and there is no funding requirement in connection with the liability amortization. Because the function does not generate any revenues it is not essential to match costs against revenues to establish net income.

The environmental closure liability for landfills is based on the proportion of the landfill used as of the reporting date. This estimate includes the cost of capping the fill, as well as 30 years of monitoring required by federal regulations.

Reporting of landfill closure liability is not in conformance with the accounting standard. The standard would recognize all future costs regardless of timing. The Air Force recognizes only the initial closure. A landfill cap typically requires replacement every 30 to 40 years. An estimation of current costs based on all future costs, regardless of timing, would result in an infinite liability. This result would be meaningless and not the intent of the standard. The Air Force, therefore, reports only the cost of the initial cap required to close a landfill. The Air Force believes this reporting is more meaningful. The present value of the future caps (those after the initial cap) would be negligible.

Base Realignment and Closure (BRAC) Installation Restoration Program, Environmental Corrective Action/Closure Requirements, and Other

The Air Force Real Property Agency (AFRPA) estimates their total environmental liability only at year-end. Quarterly changes to the liability figure are a result of current-year expenditures. This amount includes all cleanup requirements to meet applicable laws and regulatory requirements and to transfer property. However, this amount does not include Land Use Control/Institutional Control costs beyond system operations associated with property transfer. Cost estimates are assigned to current operating periods using RACER.

Reporting Estimates

The Air Force attempts to prepare financial statements in accordance with Federal Generally Accepted Accounting Principles (GAAP). These accounting principles require certain estimates, judgments, and assumptions that we believe are reasonable based upon information available to us at the time of the estimates. These estimates, judgments, and assumptions may affect the reported amounts of environmental liabilities as of the date of the financial statements.

Our financial statements would be affected to the extent there are material differences between these estimates and actual results. There are areas in which management judgment in selecting any available alternative could produce a materially different result. Because the estimated costs are derived from the summation of cost estimates at individual engineering sites the overall liability recognized cannot be attributed to specific causes, such as technology changes or changes in legal requirements during the period.

Engineering sites represent cost centers established for the purposes of management of the cleanup activities directly related to the process. The basis for accounting is the accounting site that is the installation. The installation represents the lowest level for which expenses may be determined. However, expenses also are summed across the Air Force in the determination of the changes in the liability estimates. Because of this rollup activity in the determination of a financial statement for the entire entity, changes cannot be attributed to specific reasons at the Air Force level. Such attribution would be meaningless and misleading and is not attempted by the Air Force.

Environmental Disclosures

As of March 31	2006	2005
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	264,368,772.74	286,605,742.52
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	0.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

New cost estimates for all environmental liabilities are only submitted at year-end. Quarterly changes to the liability figure are a result of current-year expenditures. The new reporting requirement, in the figure below, requiring the five disclosures cannot be completely populated without a data call to the Air Force field sites. Amounts in schedule line C are \$0 for both FY 2006 and FY 2005. Schedule line items B, D, and E cannot be provided this quarter. A data call will be issued for 3rd Quarter, FY 2006 to populate the required information.

Note 15.	Other Liabilities
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As of March 31	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 595,078,357.72	\$ 0.00	\$ 595,078,357.72	\$ 494,492,503.90
B. Deposit Funds and Suspense Account Liabilities	544,743,149.19	0.00	544,743,149.19	11,894,994.96
C. Disbursing Officer Cash	326,143,250.33	0.00	326,143,250.33	304,148,121.99
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	124,515,907.63	105,739,251.50	230,255,159.13	234,173,703.02
F. Other Liabilities	483,167,626.64	1,005,809.00	484,173,435.64	687,817,501.92
G. Total Intragovernmental Other Liabilities	\$ 2,073,648,291.51	\$ 106,745,060.50	\$ 2,180,393,352.01	\$ 1,732,526,825.79
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 1,139,024,700.37	\$ 0.00	\$ 1,139,024,700.37	\$ 630,936,651.46
B. Advances from Others	68,468,642.59	0.00	68,468,642.59	79,445,936.32
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	75,463,041.63	0.00	75,463,041.63	75,236,480.95
E. Temporary Early Retirement Authority	159,620.76	0.00	159,620.76	771,530.53
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	2,443,964,707.66	0.00	2,443,964,707.66	2,337,035,488.49
H. Capital Lease Liability	17,475,078.36	182,766,721.51	200,241,799.87	216,521,372.85
I. Other Liabilities	299,524,459.05	237,606,755.65	537,131,214.70	302,440,083.65
J. Total Nonfederal Other Liabilities	\$ 4,044,080,250.42	\$ 420,373,477.16	\$ 4,464,453,727.58	\$ 3,642,387,544.25
3. Total Other Liabilities	\$ 6,117,728,541.93	\$ 527,118,537.66	\$ 6,644,847,079.59	\$ 5,374,914,370.04

Intra-government Fluctuations

Advances from Others increased \$100.6 million, or 20 percent, due to the increase in unearned revenue from orders primarily in the Research, Development, Test and Evaluation (RDT&E) classified program.

Deposit Funds and Suspense Accounts, line 1.B, increased \$532.8 million, or 4,480 percent, in comparison with FY 2005. This increase is attributable to two suspense accounts: F3875 and F3885. Budget Clearing Account (Suspense), Air Force, F3875, includes remittances which are required to be held temporarily in suspense because the specific account to be credited is not yet known. This fund increased \$310.2 million over the past year. The increase is due to many variables. Funds are placed in various suspense accounts such as Agricultural/Grazing Leases and Withheld FICA/FITW Medicare Taxes for Military that are collected in and released at various time. Also, this increase can be attributed to the International Acquisition Cross Servicing Agreement (ACSA) which has now been moved from “non-exempt (60 day rule)” to “exempt” status. Interfund/IPAC suspense, F3885, increased \$229.5 million. Funds are placed in this suspense account until they can be researched and assigned a valid appropriation, which will fluctuate from one reporting period to another depending upon the amount processed to the Treasury at that time.

Other Liabilities decreased \$203.6 million, or 30 percent, primarily due to reconciliation and clean-up of Custodial Liabilities. There was a discrepancy between the amounts previously reported as custodial liabilities and the corresponding nonentity asset account.

Other Liabilities

The amount of \$484.2 million represents \$52.8 million in government contributions for employee benefits, \$34.1 million in unfunded unemployment compensation liabilities, \$1.0 million in funded unemployment compensation liabilities, \$396.3 million in custodial liabilities, and \$(29.8) thousand in DoD education benefit liabilities. Education Benefits represents an abnormal balance as a result of over payment by the Air Force.

NonFederal Fluctuations

Accrued Funded Payroll and Benefits increased in the amount of \$508.1 million, or 81 percent, primarily due to a change in where payroll and benefits are recorded for the military personnel appropriations. In FY 2005, this liability was reported in accounts payable. Based on recommendation from an accounts payable workgroup, changes were made in 3rd Quarter FY 05 to account for the military payroll as accrued funded payroll and leave.

Advances from Others decreased in the amount of \$11.0 million, or 14 percent, as a result of the Continuing Resolution Act (CRA) due to customers not having funds available to advance to the Air Force. The major areas contributing to the decrease are Operations and Maintenance and Research, Development, Test and Evaluation.

The Temporary Early Retirement Authority (TERA) liabilities decrease of \$611.9 thousand, or 79 percent, is due to the expiration of the authority in FY 2001. The liability will continue to decrease as expenditures are made because the program was terminated resulting in no new liabilities.

Other Liabilities increased by a total of \$234.7 million or 78 percent. The major contributor of this is the posting of Contract Holdbacks in the amount of \$159.5 million as other liabilities. Mechanization of Contract Administration Services (MOCAS) accounts payable procedure was revised to require the identification of contract holdbacks separately from the accounts payable general ledger account. Air Force implemented these procedures during the 1st Quarter FY 2006.

Other Liabilities

The amount of \$537.1 million represents legal contingencies of \$237.6 million, accrued interest liability of \$310.5 thousand, employee benefits in the amount of \$142.7 million and contract holdbacks of \$156.5 million.

The recorded estimated probable liability amount of \$12.2 million has been included in the accompanying financial statements for open contractor claims greater than \$100,000 and neither under appeal nor in litigation. In addition to the contractor claims under appeal and the open contractor claims for an amount greater than \$100,000, the Air Force was party to numerous other contractor claims in amounts less than \$100,000 per claim. These claims are a routine part of the contracting business and are typically resolved through mutual agreement between the contracting officer and the contractor. Because of the routine nature of these claims, no requirement exists for a consolidated tracking mechanism to record the amount of each claim, the number of open claims, or the probability of the claim being settled in favor of the claimant. The potential liability arising from these claims in aggregate would not materially affect the operations or financial condition of the Air Force. A reasonably possible liability is estimated at \$8.4 million and is not included in the reported amount.

The total estimated probable liability for claims and litigation against the Air Force handled by the Civil Law and Litigation Directorate, as of Mar 31, 2006, was valued at \$195.2 million and has been included in the accompanying financial statements. As of March 31, 2006, the Air Force was party to 9,159 claims and litigation actions. This liability dollar amount recorded in the financial statements is an estimate based on the weighted average payout rate for the previous three years. A reasonably possible liability is estimated at \$32.6 million and is not included in the reported amount. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. It is uncertain that claims will ever accrue to the Air Force. In addition, many claims and lawsuits, even if successful, will not be paid out of Air Force Funds.

As of March 31, 2006, the Air Force was party to 78 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). The probable amount of loss from contractor claims of 30.2 million has been included in the financial statements. The contractor claims involve unique circumstances, which are considered by the ASBCA in formulating decisions on the cases. Such claims are funded primarily from Air Force appropriations. A reasonably possible liability is estimated at \$308.1 million and is not included in the reported amount.

Capital Lease Liability

As of March 31	2006				2005
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2006	\$ 21,345,850.40	\$ 0.00	\$ 0.00	\$ 21,345,850.40	\$ 45,127,536.20
B. 2007	39,877,786.80	0.00	0.00	39,877,786.80	42,032,230.80
C. 2008	38,594,449.78	0.00	0.00	38,594,449.78	38,953,523.76
D. 2009	38,477,782.80	0.00	0.00	38,477,782.80	38,477,782.80
E. 2010	38,477,782.80	0.00	0.00	38,477,782.80	38,477,782.80
F. 2011	36,785,618.84	0.00	0.00	36,785,618.84	0.00
G. After 5 Years	33,216,537.50	0.00	0.00	33,216,537.50	76,711,794.81
H. Total Future Lease Payments Due	\$ 246,775,808.92	\$ 0.00	\$ 0.00	\$ 246,775,808.92	\$ 279,780,651.17
I. Less: Imputed Interest Executory Costs	46,534,009.06	0.00	0.00	46,534,009.06	63,259,278.33
J. Net Capital Lease Liability	\$ 200,241,799.86	\$ 0.00	\$ 0.00	\$ 200,241,799.86	\$ 216,521,372.84
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 141,611,507.25	\$ 169,681,187.15
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 58,630,292.62	\$ 46,840,185.70

The Air Force is the lessee in ten capital leases. These leases are for military family housing acquired through the Section 801 Family Housing Program. All leases originating prior to FY 1992 are funded on a fiscal year basis. Six of the current military family housing leases were awarded before FY 1992.

Note 16.	Commitments and Contingencies
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Relevant Information for Comprehension

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

The Commitments and Contingencies consist of the following reasonably possible liabilities:

Contractual Actions:

Contractor Claims	\$ 8.3 Million
Appeals before Armed Services Board of Contract Appeals (ASBCA)	<u>308.1</u> Million \$ 316.4 Million
Claims and Litigation from Civil Law	<u>32.6</u> Million
Total	\$ 349.0 Million

Note 17.	Military Retirement Benefits and Other Employment Related Actuarial Liabilities
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As of March 31	2006			2005	
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other					
A. FECA	\$ 1,147,437,480.00		\$ 0.00	\$ 1,147,437,480.00	\$ 1,163,442,240.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. Total Other	\$ 1,147,437,480.00		\$ 0.00	\$ 1,147,437,480.00	\$ 1,163,442,240.00
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 1,147,437,480.00		\$ 0.00	\$ 1,147,437,480.00	\$ 1,163,442,240.00

Actuarial Cost Method Used:

Assumptions:

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

Information Related to Other Employment-Related Actuarial Liabilities:
Federal Employees' Compensation Act (FECA)

The Department of the Air Force'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. There is no change on a quarterly basis. The total liability for 2nd Quarter, FY 2006 is \$1.1 billion, a change of \$16.0 million (or one percent), in comparison with 2nd Quarter, FY 2005. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims.

The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2005
4.528% in Year 1

5.020% in Year 2 and thereafter

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

The compensation COLAs and CPIMs used in the projections for various CBYs were as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009 +</u>
COLA	2.20%	3.33%	2.93%	2.40%	2.40%
CPIM	4.33%	4.09%	4.01%	4.01%	4.01%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on three tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection, and (3) a comparison of the incremental paid losses (the medical component in particular) in CBY 2005 (by injury cohort) to the average pattern observed during the prior three CBYs.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue		
As of March 31	2006	2005
1. Intragovernmental Costs	\$ 16,266,963,825.53	\$ 14,370,171,537.75
2. Public Costs	52,041,153,855.97	50,759,094,344.71
3. Total Costs	\$ 68,308,117,681.50	\$ 65,129,265,882.46
4. Intragovernmental Earned Revenue	\$ (1,975,355,188.59)	\$ (1,864,889,198.71)
5. Public Earned Revenue	(331,782,982.67)	(1,850,834,321.36)
6. Total Earned Revenue	\$ (2,307,138,171.26)	\$ (3,715,723,520.07)
7. Net Cost of Operations	\$ 66,000,979,510.24	\$ 61,413,542,362.39

Fluctuations

Intragovernmental Costs increased \$1.9 billion, or 13 percent, in FY 2006, driven mainly by an increase in personnel costs. In FY 2005, the Air Force made contributions to the trust fund on a monthly basis. Beginning FY 2006, the Air Force changed business practices for funding Medicare-Eligible Retiree Health Fund Contributions and started contributing the amount for the entire year to the trust fund.

Public Earned Revenue decreased \$1.5 billion, or 82 percent, in FY 2006, due in large part to an Air Force Equipment Management System (AFEMS) error in recording acquisitions during 1st and 2nd Quarters, FY 2005. In prior FYs, equipment custodians at base level incorrectly coded acquisition transactions. This error caused the transactions to fail the AFEMS edits and to be placed in a suspense account. When Air Force cleared the suspense account during 1st and 2nd Quarters, FY 2005, AFEMS erroneously captured any prior year acquisitions found in the suspense account as an increase in other gains rather than a decrease in operating expenses, since these amounts were capitalized. A system change occurred during FY 2005 year-end to correct this problem. Consequently, other gains is accurately reflected for 2nd Quarter, FY 2006. Furthermore, decrease in revenue is also caused by a change in the attribute used to reconcile transfers. Intragovernmental transfers-in were adjusted to equal intragovernmental transfers-out of the transferring entity. To adjust the transfer-in balance, other gains or other losses were updated. In FY 2005, the exchange revenue attribute was used on the other gains or other losses account and the adjustment amount were reported on the Statement of Net Cost. Starting 2nd Quarter, FY 2006, the non-exchange revenue attribute was used and so it is now reported on the Statement of Changes in Net Position.

Relevant Information for Comprehension

The Statement of Net Cost is unique because its principles are driven on understanding the net cost of programs and/or organizations that the Federal Government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity. In addition, intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Furthermore, public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of March 31	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 116,918,630.73	\$ 0.00	\$ 110,128,396.57	\$ 0.00
B. Civilian Health	225,203,960.00	0.00	210,976,220.00	0.00
C. Civilian Life Insurance	732,467.48	0.00	633,508.68	0.00
D. Judgment Fund	15,630,602.66	0.00	42,679,708.82	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 358,485,660.87	\$ 0.00	\$ 364,417,834.07	\$ 0.00

Fluctuations and Abnormalities

An increase of \$99.0 thousand, or 16 percent, in Civilian Life Insurance resulted from an increase in the gross pay figure used to compute the imputed financing.

The Judgment Fund imputed financing decrease of \$27.0 million, or 63 percent, is due to a decline in the number of Air Force lawsuits requiring payment by the Department of Treasury.

The abnormal balances found on the Statement of Changes in Net Position, and listed below, resulted from incorrect rules in the General Accounting and Finance System – Rehost (GAFS-R) in the prior years. As a result, Unexpended Appropriations Used and Expended Appropriations were updated incorrectly. The rules were subsequently corrected, but the previous years transactions were not reversed until this year resulting in an abnormal balance on these lines:

Cumulative Results of Operations

Line 4.D.1. Appropriations used – Earmarked Funds \$(1,251,498)

Unexpended Appropriations

Line 4.D.1. Appropriations used – Earmarked Funds \$1,251,498

Relevant Information for Comprehension:

Imputed Financing

The amounts remitted to the Office of Personnel Management (OPM) by and for employees covered by the Civil Service Retirement System (CSRS), the Federal Employees' Retirement System (FERS), the Federal Employees Health Benefits Program (FEHB), and the Federal Employees Group Life Insurance Program (FEGLI) do not fully cover the U.S. 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 Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. DFAS provides the costs to the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD [P&R]) for validation. Approved imputed costs are provided to the reporting components for inclusion in their financial statements.

The total Civilian Retirement imputed financing of \$116.9 million is comprised of \$101.4 million for the CSRS and \$15.5 million for the FERS. The imputed revenue is equal to the imputed expense recognized in the Statement of Net Cost.

Disclosures

Appropriations Received on the Statement of Change in Net Position does not agree with Appropriations Received on the Statement of Budgetary Resources due to differences between proprietary and budgetary accounting concepts and reporting requirements. This difference totals \$1.9 million.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of March 31	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 58,643,357,102.56	\$ 49,924,568,967.27
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

Fluctuations

The Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period increased \$8.8 billion, or 18 percent. This increase was caused by a change in way contractor progress payments were recorded. Beginning in the 3rd quarter, FY 2005, progress payments were credit to undelivered orders – obligations prepaid/advance, which is included in the Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period. This change resulted in an increase of \$10.1 billion, or 20 percent.

Apportionment Categories

The amount of direct obligations incurred and apportioned under Category A is \$39.5 billion, Category B is \$33.0 billion, and exempt is \$703.0 thousand. For reimbursable obligations incurred and apportioned, Category A is \$2.1 billion, Category B is \$1.7 billion, and exempt is \$0.

Intraentity Transactions

Intraentity transactions have not been eliminated because the statements are presented in as combined and combining. Due to accounting system deficiencies, the proper amount of intra-agency eliminations for this statement cannot be determined.

Permanent Indefinite Funds:Department of the Air Force General Gift Fund (10 USC 2601 (b))

The purpose of this fund is to accept, hold, administer, and spend any gift, devise, or bequest of real or personal property, made on the condition that it be used for the benefit, or in connection with the establishment, operation, or maintenance, of a school, hospital, library, museum, cemetery, or other institution or organization under the jurisdiction of the Air Force.

This appropriation is available to disburse funds deposited in the fund for the benefit or use of the designated institution or organization, subject to the terms of the gift, devise, or bequest.

Wildlife Conservation Fund (16 USC 670 (b))

The purpose of this fund is to provide for (1) the conservation and rehabilitation of natural resources on military installations; (2) the sustainable multipurpose use of the resources, which shall include hunting, fishing, trapping, and nonconsumptive uses; and (3) the public access to military installations to facilitate the use, subject to safety requirements and military security.

The funds are available to carry out the program of wildlife, fish and game conservation, rehabilitation, and such other expenses as may be necessary to carry out the purpose of the cited statutes.

Appropriations Received

Appropriations Received on the SBR does not agree with Appropriations Received on the Statement of Changes in Net Position. The SBR shows \$1.9 million more in Appropriations Received than the Statement of Changes in Net Position. The \$1.9 million difference exists because the Appropriated Trust or Special Funds and Appropriations Anticipated – Indefinite are reported on the Statement of Budgetary Resources but are not reported on the Statement of Changes in Net Position.

Fund	Appropriated Trust or Special Funds	Appropriations Anticipated – Indefinite	Totals
Air Force General Gift	\$1,000.0	\$0.0	\$1,000.0
Wildlife Conservation	\$412.0	\$534.0	\$946.0
Totals	\$1,412.0	\$534.0	\$1,946.0

(shown in thousands for comparative purposes only)

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.

Due to limitations in the Department of the Air Force's financial systems, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data constitute a previously identified deficiency.

No adjustment was made to bring the Statement of Financing into balance with the Statement of Net Cost.

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

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

Other Resources, Other consists of \$2.4 billion in other gains and losses to adjust intragovernmental transfers-in. Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations, Other consists of \$2.7 billion in net financing sources transferred in and out without reimbursement. Components Requiring or Generating Resources in Future Period, Other consists of \$103.9 thousand in closed year payables. Components Not Requiring or Generating Resources, Other consists of \$22.3 million in bad debt expense, \$(183.1) million in cost capitalization offset, and \$(2.6) billion in other expenses not requiring budgetary resources.

Components requiring or generating resources in future periods are costs not funded in the period the costs are incurred. The expense and the corresponding liability are recognized in the current period but the budgetary resource will not be provided until a subsequent period. The amount of liabilities not covered by budgetary resources for 2nd Quarter, FY 2006 is \$11.1 billion.

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

Note 23.	Earmarked Funds
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BALANCE SHEET				
As of March 31	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds

ASSETS

Fund balance with

Treasury	\$	0.00	\$	0.00	\$	5,018,902.08	\$	5,018,902.08
Investments		0.00		0.00		716,916.71		716,916.71
Accounts and Interest Receivable		0.00		0.00		872.32		872.32
Other Assets		0.00		0.00		0.00		0.00
Total Assets	\$	0.00	\$	0.00	\$	5,736,691.11	\$	5,736,691.11

LIABILITIES and NET POSITION

Military Retirement

Benefits and Other

Employment Related

Actuarial Liabilities	\$	0.00	\$	0.00	\$	0.00	\$	0.00
Other Liabilities		0.00		0.00		1,197,377.81		1,197,377.81
Unexpended Appropriations		0.00		0.00		0.00		0.00
Cumulative Results of Operations		0.00		0.00		4,539,313.30		4,539,313.30
Total Liabilities and Net Position	\$	0.00	\$	0.00	\$	5,736,691.11	\$	5,736,691.11

STATEMENT OF NET COST

As of March 31

Program Costs	\$	0.00	\$	0.00	\$	5,473,131.34	\$	5,473,131.34
Less Earned Revenue		0.00		0.00		(4,401,148.37)		(4,401,148.37)
Net Program Costs	\$	0.00	\$	0.00	\$	1,071,982.97	\$	1,071,982.97
Less Earned Revenues Not Attributable to Programs		0.00		0.00		0.00		0.00
Net Cost of Operations	\$	0.00	\$	0.00	\$	1,071,982.97	\$	1,071,982.97

STATEMENT OF CHANGES IN NET POSITION

As of March 31

Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	4,199,667.19	\$	4,199,667.19
Net Cost of Operations		0.00		0.00		1,071,982.97		1,071,982.97
Other Nonexchange Revenue		0.00		0.00		1,411,629.08		1,411,629.08
Change in Net Position	\$	0.00	\$	0.00	\$	339,646.11	\$	339,646.11
Net Position End of Period	\$	0.00	\$	0.00	\$	4,539,313.30	\$	4,539,313.30

Disclosures

1st Quarter, FY 2006 is the first quarter for which Note 23, Earmarked Funds, is required. As such, there are no variances to be reported or explained.

Note 23 schedule amounts are without eliminations (amounts are combined). The amounts reported in the total column do not match the amounts reported on the Balance Sheet or the Statement of Changes in Net Position. The differences are traced to intragovernmental activity which is not reported on the note schedule. For the Balance Sheet, Accounts Receivable has a difference of \$872 and Other Liabilities has a difference of \$1.2 million. The Statement of Changes in Net Position reflects a \$4.5 million elimination which is not reflected on the note schedule.

Earmarked Funds:

Wildlife Conservation Fund (16 USC 670 (b))

The Wildlife Conservation Fund has both appropriated and nonappropriated funding. Installation commanders are given the authority to collect fees from the sale of hunting and fishing permits. This fund is a permanent, indefinite, special fund used to carry out programs for wildlife, fish and game conservation, and rehabilitation.

Cadet Fund (37 USC 725 (s))

The Cadet Fund is a revolving trust fund account maintained for the benefit of the U.S. Air Force Academy Cadets. Collections from cadets are received at least equal to any disbursements. Disbursements are made for the cadets' personal services such as laundry, arts, and athletics.

Air Force General Gift Fund (10 USC 2601 (b))

The Air Force General Gift Fund provides for conditional gifts to the Air Force. These donated funds are invested in U.S. Treasury Securities, and interest earned is added back to the fund.

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

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

Future Payments Due

Fiscal Year

2006	\$	58,202,000.00	\$	0.00	\$	122,993,931.00	\$	181,195,931.00
2007		68,904,000.00		0.00		126,683,749.00		195,587,749.00
2008		68,904,000.00		0.00		130,484,262.00		199,388,262.00
2009		68,904,000.00		0.00		134,398,790.00		203,302,790.00
2010		68,904,000.00		0.00		138,430,753.00		207,334,753.00
2011		68,904,000.00		0.00		142,583,676.00		211,487,676.00
After 5 Years		68,904,000.00		0.00		146,861,186.00		215,765,186.00

**Total Future Lease
Payments Due**

\$	471,626,000.00	\$	0.00	\$	942,436,347.00	\$	1,414,062,347.00
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Relevant Information for Comprehension

Leases in the Land and Buildings category include costs for operating leased housing facilities in the U.S. and overseas for the active Air Force

The Air Force has no leases in the Equipment Category and does not anticipate any in the future.

Other leases consist of vehicle leases. The Air Force leases vehicles in three major geographic regions (stateside, Europe and Southwest Asia), and from two types of lessors, the General Service Administration (GSA) and commercial lessors.