

**Department of Defense**  
**Department of the Air Force**  
**CONSOLIDATED BALANCE SHEET**  
**As of June 30, 2006 and 2005**

	<b>2006 Consolidated</b>	<b>2005 Consolidated Restated</b>
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<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 102,751,012,737.59	\$ 96,434,436,627.58
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	174,639,203.89	181,288,897.41
2. Investments (Note 4)	719,973.01	714,533.44
3. Accounts Receivable (Note 5)	407,497,311.77	670,105,660.58
4. Other Assets (Note 6)	436,904,638.02	406,055,546.75
5. Total Intragovernmental Assets	<u>\$ 103,770,773,864.28</u>	<u>\$ 97,692,601,265.76</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 157,430,168.81	\$ 148,288,562.95
C. Accounts Receivable, Net (Note 5)	1,099,701,924.32	1,019,508,454.92
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	49,227,872,840.82	50,617,018,199.07
F. General Property, Plant and Equipment, Net (Note 10)	138,228,446,625.12	131,344,125,333.70
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	10,537,496,177.65	10,959,447,951.00
<b>2. TOTAL ASSETS</b>	<u><u>\$ 303,021,721,601.00</u></u>	<u><u>\$ 291,780,989,767.40</u></u>
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 1,759,529,747.24	\$ 1,554,166,653.67
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	2,236,005,976.28	1,488,995,125.79
4. Total Intragovernmental Liabilities	<u>\$ 3,995,535,723.52</u>	<u>\$ 3,043,161,779.46</u>
B. Accounts Payable (Note 12)	\$ 5,015,581,155.24	\$ 5,968,292,663.60
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)	6,745,295,810.89	6,978,930,306.90
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	4,348,246,549.38	5,147,115,185.11
<b>4. TOTAL LIABILITIES</b>	<u><u>\$ 21,252,096,719.03</u></u>	<u><u>\$ 22,300,942,175.07</u></u>
<b>5. NET POSITION</b>		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ 0.00
B. Unexpended Appropriations - Other Funds	103,154,805,172.74	86,267,645,459.08
C. Cumulative Results of Operations - Earmarked Funds	4,629,762.62	0.00
D. Cumulative Results of Operations - Other Funds	178,610,189,946.61	183,212,402,133.25
<b>6. TOTAL NET POSITION</b>	<u><u>\$ 281,769,624,881.97</u></u>	<u><u>\$ 269,480,047,592.33</u></u>
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 303,021,721,601.00</u></u>	<u><u>\$ 291,780,989,767.40</u></u>

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

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 103,085,444,727.26	\$ 94,850,353,454.54
B. (Less: Earned Revenue)	(3,466,299,667.43)	(4,384,455,116.32)
C. Net Program Costs	<u>\$ 99,619,145,059.83</u>	<u>\$ 90,465,898,338.22</u>
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	<u><u>\$ 99,619,145,059.83</u></u>	<u><u>\$ 90,465,898,338.22</u></u>

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

	2006 Consolidated	2005 Consolidated Restated
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<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 161,344,101,372.29	\$ 168,982,134,685.46
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	11,929,000,000.00	10,262,000,000.00
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<b>3. Beginning balances, as adjusted</b>	173,273,101,372.29	179,244,134,685.46
<b>4. Budgetary Financing Sources:</b>		
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	100,864,655,680.79	92,856,459,736.26
4.E. Nonexchange revenue		
4.E.1 Earmarked funds	716,205.75	0.00
4.E.2 All other funds	0.00	570,565.21
4.F. Donations and forfeitures of cash and cash equivalents		
4.F.1 Earmarked funds	1,331,875.24	0.00
4.F.2 All other funds	0.00	1,478,597.10
4.G. Transfers-in/out without reimbursement (+/-)	0.00	967,200,000.00
4.H. Other budgetary financing sources (+/-)		
4.H.1 Earmarked funds	0.00	0.00
4.H.2 All other funds	0.00	0.00
<b>5. Other Financing Sources:</b>		
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 (+/-)	65,654,195.56	61,008,050.64
5.C. Imputed financing from costs absorbed by others	517,998,882.19	547,448,836.80
5.D. Other (+/-)	3,511,758,055.79	0.00
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<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	796,582.44	0.00
6.B. All other funds	104,960,066,814.33	94,434,165,786.01
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	1,617,985.56	0.00
7.B. All other funds	99,617,527,074.27	90,465,898,338.22
<b>8. Net Change</b>		
8.A. Earmarked funds	(821,403.12)	0.00
8.B. All other funds	5,342,539,740.06	3,968,267,447.79
<b>9. Ending Balances</b>		
9.A. Earmarked funds	4,629,762.62	0.00
9.B. All other funds	178,610,189,946.61	183,212,402,133.25

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

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>10. Total all funds</b>	\$ <u>178,614,819,709.23</u>	\$ <u>183,212,402,133.25</u>

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

	2006 Consolidated	2005 Consolidated
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<b>UNEXPENDED APPROPRIATIONS</b>		
<b>1. Beginning Balances</b>	\$ 63,716,637,180.98	\$ 49,660,670,196.09
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
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<b>3. Beginning balances, as adjusted</b>	63,716,637,180.98	49,660,670,196.09
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received		
4.A.1 Earmarked funds	0.00	0.00
4.A.2 All other funds	139,764,959,000.00	128,888,188,000.00
4.B. Appropriations transferred-in/out (+/-)	2,652,960,165.00	1,285,436,000.00
4.C. Other adjustments (rescissions, etc) (+/-)	(2,116,346,991.00)	(710,189,000.75)
4.D. Appropriations used		
4.D.1 Earmarked Funds	1,251,498.55	0.00
4.D.2 All other Funds	(100,864,655,680.79)	(92,856,459,736.26)
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
<b>5. Other Financing Sources:</b>		
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
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<b>6. Total Financing Sources</b>		
6.A. Earmarked funds	1,251,498.55	0.00
6.B. All other funds	39,436,916,493.21	36,606,975,262.99
<b>7. Net Cost of Operations (+/-)</b>		
7.A. Earmarked funds	0.00	0.00
7.B. All other funds		
<b>8. Net Change</b>		
8.A. Earmarked funds	1,251,498.55	0.00
8.B. All other funds	39,436,916,493.21	36,606,975,262.99
<b>9. Ending Balances</b>		
9.A. Earmarked funds	0.00	0.00
9.B. All other funds	103,154,805,172.74	86,267,645,459.08

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

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
<b>10. Total all funds</b>	\$ <u>103,154,805,172.74</u>	\$ <u>86,267,645,459.08</u>

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

	<b>2006 Combined</b>	<b>2005 Combined</b>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 13,006,208,304.77	\$ 9,048,570,951.49
2. Recoveries of prior year unpaid obligations	798,360,165.46	752,848,350.86
3. Budget authority		
3.A. Appropriation	139,767,254,155.55	128,890,451,254.50
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	6,493,230,172.35	6,321,349,778.87
3.D.1.b. Change in receivables from Federal sources	(661,843,637.71)	(17,124,813.22)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(116,439,097.61)	276,945,093.95
3.D.2.b. Without advance from Federal sources	1,447,927,782.08	1,722,315,253.62
3.D.3. Anticipated for rest of year, without advances	2,205,683,248.41	1,056,546,359.90
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	149,135,812,623.07	138,250,482,927.62
4. Nonexpenditure transfers, net, anticipated and actual	2,652,960,165.00	2,252,636,000.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(2,116,346,991.00)	(710,189,000.00)
<b>7. Total Budgetary Resources</b>	<b>\$ 163,476,994,267.30</b>	<b>\$ 149,594,349,229.97</b>

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

	2006 Combined	2005 Combined
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 100,560,927,894.75	\$ 71,885,765,397.68
8.B. Reimbursable	5,834,118,880.83	28,310,244,335.26
8.C. Subtotal	<u>106,395,046,775.58</u>	<u>100,196,009,732.94</u>
9. Unobligated balance:		
9.A. Apportioned	54,331,984,645.28	46,259,671,370.80
9.B. Exempt from apportionment	3,379,085.61	3,045,183.06
9.C. Subtotal	<u>54,335,363,730.89</u>	<u>46,262,716,553.86</u>
10. Unobligated balance not available	2,746,583,760.83	3,135,622,943.17
<b>11. Total status of budgetary resources</b>	<u><u>\$ 163,476,994,267.30</u></u>	<u><u>\$ 149,594,349,229.97</u></u>
<b>Change in Obligated Balance:</b>		
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>\$ 106,395,046,775.58</u>	<u>\$ 100,196,009,732.94</u>
14. Less: Gross outlays	(106,213,971,752.87)	(101,060,480,434.55)
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>(798,360,165.46)</u>	<u>(752,848,350.86)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(786,084,144.37)	(1,705,190,440.40)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	51,223,495,436.39	52,190,819,504.32
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(3,621,580,365.77)</u>	<u>(4,009,196,086.71)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>47,601,915,070.62</u>	<u>48,181,623,417.61</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	106,213,971,752.87	101,060,480,434.55
19.B. Less: Offsetting collections	(6,376,791,074.74)	(6,598,294,872.82)
19.C. Less: Distributed Offsetting receipts	<u>(86,859,988.71)</u>	<u>(83,191,165.79)</u>
<b>19.D. Net Outlays</b>	<u><u>\$ 99,750,320,689.42</u></u>	<u><u>\$ 94,378,994,395.94</u></u>

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

	2006 Combined	2005 Combined
	<hr/>	<hr/>
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
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	<hr/> 0.00	<hr/> 0.00
4. Nonexpenditure transfers, net, anticipated and actual	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
<b>7. Total Budgetary Resources</b>	<hr/> <hr/> \$ 0.00	<hr/> <hr/> \$ 0.00



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

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
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<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 106,395,046,775.58	\$ 100,196,009,732.94
2. Less: Spending authority from offsetting collections and recoveries (-)	(7,961,235,384.57)	(9,056,333,664.08)
3. Obligations net of offsetting collections and recoveries	98,433,811,391.01	91,139,676,068.86
4. Less: Offsetting receipts (-)	(86,859,988.71)	(83,191,165.79)
5. Net obligations	<hr/> 98,346,951,402.30	<hr/> 91,056,484,903.07
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	65,654,195.56	61,008,050.64
8. Imputed financing from costs absorbed by others	517,998,882.19	547,448,836.80
9. Other (+/-)	3,511,758,055.79	0.00
10. Net other resources used to finance activities	<hr/> 4,095,411,133.54	<hr/> 608,456,887.44
<b>11. Total resources used to finance activities</b>	<hr/> <b>\$ 102,442,362,535.84</b>	<hr/> <b>\$ 91,664,941,790.51</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	984,171,882.80	(10,872,488,394.54)
12b. Unfilled Customer Orders	1,331,488,684.47	1,999,260,347.57
13. Resources that fund expenses recognized in prior periods	(729,830,885.81)	(1,097,043,513.21)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	86,859,988.71	83,191,165.79
15. Resources that finance the acquisition of assets	(11,746,781,455.97)	(12,773,278,142.03)
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 (+/-)	(3,577,412,251.35)	(61,008,050.64)
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<hr/> <b>\$ (13,651,504,037.15)</b>	<hr/> <b>\$ (22,721,366,587.06)</b>
<b>18. Total resources used to finance the net cost of operations</b>	<hr/> <b>\$ 88,790,858,498.69</b>	<hr/> <b>\$ 68,943,575,203.45</b>

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

	<b>2006 Consolidated</b>	<b>2005 Consolidated</b>
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<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	92,293,598.90	156,292,060.37
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 (+/-)	0.00	10,047,343.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 92,293,598.90	<hr/> 166,339,403.37
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	9,535,620,377.33	7,628,872,548.51
26. Revaluation of assets or liabilities (+/-)	455,232,308.09	(449,697,695.60)
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	5,853,902,086.44	1,029,455,286.11
27d. Other	(5,108,761,809.62)	13,147,353,592.38
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 10,735,992,962.24	<hr/> 21,355,983,731.40
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<hr/> \$ 10,828,286,561.14	<hr/> \$ 21,522,323,134.77
<b>30. Net Cost of Operations</b>	<hr/> <hr/> \$ 99,619,145,059.83	<hr/> <hr/> \$ 90,465,898,338.22

<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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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 not discernable.

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 * 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 (GPRR)". 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 (SFAS) 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 % 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 % 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 nonmarketable securities. 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," establishes generally accepted accounting principles for valuing and reporting military equipment (e.g. ships, aircraft, combat vehicles, weapons) in federal financial statements. The Standard provided for the use of estimated historical cost for valuing military equipment if obtaining actual historical cost information is not practical. The Department estimated historical cost using the Bureau of Economic Analysis (BEA) estimates to calculate the value of the military equipment for reporting periods from October 1, 2002 through March 31, 2006.

Effective for reporting periods beginning after March 31, 2006, the Department is replacing the BEA estimation methodology with military equipment values based on internal Departmental records. The Department initially identified the universe of military equipment by meeting with program managers to gather information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals. The military equipment baseline is updated using expenditure information, and information from acquisition and logistics personnel to identify acquisitions and disposals.

The Department is moving away from a standard capitalization threshold for all categories (e.g. real property, military equipment, etc.) of General Property Plant and Equipment (PP&E) to one that is specific for each individual category.

The capitalization threshold was revised from \$100,000 to \$20,000 for real property. The current \$100,000 capitalization threshold remains unchanged for the remaining General PP&E categories.

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. Also, improvement costs over the DoD capitalization threshold of \$100,000 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 liability commences when the plant or equipment 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 liability is recognized for an asset when management makes a decision to dispose of the asset.

### **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.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2006	2005
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 174,639,203.89	\$ 181,288,897.41
B. Accounts Receivable	2,322,646.93	4,515,117.23
C. Total Intragovernmental Assets	\$ 176,961,850.82	\$ 185,804,014.64
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 157,430,168.81	\$ 148,288,562.95
B. Accounts Receivable	574,876,275.41	272,944,307.88
C. Other Assets	203,825,000.00	156,902,157.49
D. Total Nonfederal Assets	\$ 936,131,444.22	\$ 578,135,028.32
<b>3. Total Nonentity Assets</b>	\$ 1,113,093,295.04	\$ 763,939,042.96
<b>4. Total Entity Assets</b>	\$ 301,908,628,305.96	\$ 291,017,050,724.44
<b>5. Total Assets</b>	\$ 303,021,721,601.00	\$ 291,780,989,767.40

Fluctuations

Total nonentity assets increased by \$349.2 million (46%) primarily due to a \$302.0 million increase in nonfederal accounts receivable. In the past, DFAS-DE erroneously reported off-line public accounts receivable in receipt and deposit accounts as entity. DFAS-DE corrected the error during 3<sup>rd</sup> Quarter, FY 2006. These receivables are now correctly recorded as nonentity in accordance with the classification of accounts as entity versus nonentity in DoDFMR, Volume 6B, Attachment 20A.

Relevant Information for Comprehension

Nonentity assets are assets held by an entity but are not available for use in the operations of the entity. Nonfederal other assets are advances to contractors. The Nonentity Fund Balance with Treasury asset class represents amounts in Air Force's deposit fund, receipt accounts, and two suspense fund accounts (i.e. F3882 and F3886) 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.

Other nonfederal assets consist of advances to contractors as part of the advance payment pool agreements 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.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of June 30	2006	2005
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 102,745,961,672.58	\$ 96,478,942,837.60
B. Revolving Funds	0.00	0.00
C. Trust Funds	4,097,844.23	5,557,920.75
D. Special Funds	953,220.78	702,486.73
E. Other Fund Types	174,639,203.89	130,522,279.91
F. Total Fund Balances	\$ 102,925,651,941.48	\$ 96,615,725,524.99
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 102,938,476,856.23	\$ 96,628,641,286.73
B. Fund Balance per Air Force	102,925,651,941.48	96,615,725,524.99
<b>3. Reconciling Amount</b>	\$ 12,824,914.75	\$ 12,915,761.74

Fluctuations

Total fund balances increased by \$6.3 billion (7%) primarily due to an increase in appropriated funds for FY 2006. The Air Force received an increase in appropriated funds in FY 2006 for the Global War on Terrorism (GWOT), to address hurricanes in the Gulf of Mexico, and for the Pandemic Influenza Act of 2006. Most of the additional funding for GWOT was received with the FY 2006 appropriations unlike in FY 2005, when the GWOT funding was received with supplemental appropriations later in the year.

Reconciling Amount

The reconciling amount of \$12.8 million is caused by allocation transfers. An allocation transfer occurs when the Treasury appropriates funds to one federal entity, which then transfers the authority to execute its funds to another federal entity.

The Air Force has received \$20.7 million in transfers from the Department of Agriculture and the Foreign Military Sales – Military Assistance Program. These funds are included in the FBWT per Treasury, but are not included in the fund balance with treasury (FBWT) per Air Force.

The Department of Transportation has received \$7.9 million in transfers from the Air Force. These funds are included in FBWT per Air Force but are not included in FBWT per Treasury.

<b>Status of Fund Balance with Treasury</b>
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As of June 30	2006	2005
<b>1. Unobligated Balance</b>		
A. Available	\$ 52,129,431,020.07	\$ 45,205,959,412.31
B. Unavailable	2,746,583,760.83	3,135,622,943.17
<b>2. Obligated Balance not yet Disbursed</b>	\$ 51,223,495,436.39	\$ 48,180,913,683.42
<b>3. Nonbudgetary FBWT</b>	\$ 448,429,320.95	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (3,622,287,601.45)	\$ 0.00
<b>5. Total</b>	<u>\$ 102,925,651,936.79</u>	<u>\$ 96,522,496,038.90</u>

Fluctuations

Unobligated balance – available increased \$6.9 billion (15%) primarily due to an increase in appropriated funds in FY 2006. Most of the fluctuation is due to procurement and construction appropriations receiving their funding later in the year as compared to FY 2005. Additional appropriations for the Global War on Terrorism (GWOT), to address hurricanes in the Gulf of Mexico, and for the Pandemic Influenza Act of 2006 have also contributed to the increased unobligated balance.

The Unobligated balance – unavailable decreased \$389.0 million (12%) primarily because the Air Force received a transfer of \$805.9 million from the Defense Working Capital Fund in June of 2005 that was not authorized for obligation by the Office of Management and Budget (OMB) until July 2005. In FY 2006, there were no significant transfers of funds to the Air Force that were not authorized for obligation, therefore decreasing the amount of unobligated unavailable funds compared to FY 2005. Offsetting this decrease is an increase of \$485.2 million in the amount of funds that are not available for obligation because the period for obligation set by law has lapsed.

Nonbudgetary FBWT increased by \$448.4 million because Nonbudgetary FBWT was not reported in the footnote for FY 2005.

NonFBWT Budgetary Accounts decreased by \$3.6 billion because NonFBWT Budgetary Accounts were not reported in the footnote for FY 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.

Although funds have been appropriated, \$2.7 billion of these funds are not available for obligation because the period for obligation established by law has lapsed. In addition, \$577.2 thousand in funds rescinded in March 2006 by PL 109-148 have not been apportioned by OMB and therefore are not available for obligation.

The total status of FBWT (above) is \$4.69 less than the total fund balance with Treasury – total fund balances (section 1). This difference was caused by investment transactions processed with the Bureau of Public Debt on June 30, 2006 that generated changes to the balances of unrealized discounts of \$4.69. However, the Air Force will not report the unrealized discount change to Treasury until July 2006.

<b>Disclosures Related to Suspense/Budget Clearing Accounts</b>
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As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 - 2006
<b>Account</b>				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	333,597,277.67	297,794,504.62	330,492,181.74	32,697,677.12
F3880 – Lost or Cancelled Treasury Checks	3,400,884.55	781,972.20	501,279.67	(280,692.53)
F3882 – Uniformed Services Thrift Savings Plan Suspense	20,836,652.00	50,766,617.50	31,915,350.22	(18,851,267.28)
F3885 – Interfund/IPAC Suspense	(14,720,177.49)	(381,719,884.13)	(57,203,344.35)	324,516,539.78
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 343,114,636.73</b>	<b>\$ (32,376,789.81)</b>	<b>\$ 305,705,467.28</b>	<b>\$ 338,082,257.09</b>

Fluctuations

Total suspense/budget clearing accounts increased \$338.1 million (1,044%) primarily due to a \$324.5 million increase in F3885 – Interfund/IPAC Suspense. This change represents a decrease in the amount of intragovernmental payments and collections in suspense. In April 2006, the DFAS Transaction Interface Module was implemented (DTIM-IPAC). DTIM-IPAC has greatly reduced the time transactions remain in suspense thereby reducing the amount and dollar value of transactions that are in F3885 – Interfund/IPAC Suspense.

Relevant Information for Comprehension

The F3875 suspense clearing accounts represents the primary sources of the overall positive balance. Account F3875 reported a positive balance of \$330.5 million that represents the Disbursing Officer's (DO) suspense. Account F3885, that includes the Interfund/IPAC suspense, reported a negative balance of \$57.2 million. These suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

The F3880 suspense account reported a positive balance of \$501.3 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 \$31.9 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.

<b>Disclosures Related to Problem Disbursements and In-Transit Disbursements</b>
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As of June 30	2004	2005	2006	(Decrease)/ Increase from FY 2005 to 2006
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDs)	\$ 111,140,325.35	\$ 324,042,252.26	\$ 135,219,141.24	\$ (188,823,111.02)
B. Negative Unliquidated Obligations (NULO)	8,489,354.88	17,798,848.80	5,363,208.15	(12,435,640.65)
<b>2. Total In-transit Disbursements, Net</b>				
	\$ 1,378,502,243.92	\$ 591,996,154.95	\$ 692,935,610.51	\$ 100,939,455.56

Fluctuations

The Air Force had a \$201.3 million decrease in problem disbursements and a \$100.9 million increase in in-transits. The Defense Finance and Accounting Service has efforts underway to improve the systems, to resolve all previous problem disbursements, and to process all in-transits 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 \$2.0 million. The amount of UMDs over 120 days old is \$0, NULOs is \$0 and in-transits is \$2.9 million. The current absolute value of in-transits is \$1.4 billion.

The increase in in-transits of \$100.9 million (17%) can be attributed to a \$193.0 million increase in Interfund activity and an \$85.0 million decrease in intraservice (Air Force for Air Force) cross disbursement activity. Fluctuations are driven by the cyclical nature of Interfund and cross disbursement activities.

The decrease of \$188.8 million (58%) in UMDs and the \$12.4 million (70%) decrease in NULOs can be attributed to a 20% increase in the rate of automated posting of disbursements since May 2005 when various system enhancements (e.g. DFAS Transaction Interface Module) were implemented.

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.

<b>Note 4.</b>	<b>Investments and Related Interest</b>
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As of June 30	2006				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based	\$ 710,000.00		\$ 2,997.90	\$ 712,997.90	\$ 703,409.69
B. Accrued Interest	6,975.11			6,975.11	6,975.11
C. Total Intragovernmental Securities	<u>\$ 716,975.11</u>		<u>\$ 2,997.90</u>	<u>\$ 719,973.01</u>	<u>\$ 710,384.80</u>
<b>2. Other Investments</b>					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

As of June 30	2005				
	Par Value / Cost	Amortization Method	Unamortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>3. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based	\$ 710,000.00		\$ (265.81)	\$ 709,734.19	\$ 708,045.31
B. Accrued Interest	4,799.25			4,799.25	4,799.25
C. Total Intragovernmental Securities	<u>\$ 714,799.25</u>		<u>\$ (265.81)</u>	<u>\$ 714,533.44</u>	<u>\$ 712,844.56</u>
<b>4. Other Investments</b>					
A. Total Investments	<u>\$ 0.00</u>		<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>N/A</u>

### Relevant Information for Comprehension

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.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of June 30	2006			2005
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 407,497,311.77	N/A	\$ 407,497,311.77	\$ 670,105,660.58
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 1,223,652,117.13	\$ (123,950,192.81)	\$ 1,099,701,924.32	\$ 1,019,508,454.92
<b>3. Total Accounts Receivable</b>	\$ 1,631,149,428.90	\$ (123,950,192.81)	\$ 1,507,199,236.09	\$ 1,689,614,115.50

Fluctuations

Intragovernmental Receivables decreased by \$262.6 million (39%) primarily due to DFAS-DE senior management's aggressive initiative to reduce outstanding accounts receivable balances. DFAS-DE was able to identify invalid recording of accounts receivables at the field sites during FY 2005. For example, receivables were established for balances that were actually unfilled customer orders. These invalid recordings were corrected to conform to the DoDFMR during FY 2006. The 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) and contractor debts. It also includes net interest receivables per DoDFMR 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 Treasury Report on Receivables (TROR) Due from the Public and the Balance Sheet was accomplished. This reconciliation is performed to ensure that the financial statements are in agreement with the receivable amount reported to the Department of the Treasury. The difference between accounts receivable on the Balance Sheet and TROR Due from the Public include the allowance for estimated uncollectible of \$124.0 million, unsupported collections in transit in the amount of \$241.0 thousand, and undistributed collections of \$463.8 thousand. Undistributed collections are prorated between public and intragovernmental receivables based on a percentage calculated from receivable amounts represented on the Balance Sheet.

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 Receivable

As of June 30	2006		2005	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
<b>CATEGORY</b>				
<b>Nondelinquent</b>				
Current	\$ 352,365,901.00	\$ 217,636,335.00	\$ 1,117,295,325.00	\$ 236,504,863.00
Noncurrent	4,637,803.00	0.00	0.00	0.00
<b>Delinquent</b>				
1 to 30 days	\$ 177,000,919.00	\$ 6,332,191.00	\$ 0.00	\$ 0.00
31 to 60 days	149,210,195.00	24,136,146.00	0.00	0.00
61 to 90 days	33,224,953.00	9,091,921.00	123,783,547.00	39,251,209.00
91 to 180 days	18,850,052.00	25,547,451.00	25,518,025.00	12,705,961.00
181 days to 1 year	69,898,988.00	31,387,549.00	54,824,255.00	36,518,668.00
Greater than 1 year and less than or equal to 2 years	6,963,338.00	11,338,934.00	2,681,119.00	651,675,939.00
Greater than 2 years and less than or equal to 6 years	5,589,786.00	696,938,617.00	4,583,403.39	34,062,524.00
Greater than 6 years and less than or equal to 10 years	7,165.77	183,789,574.37	17,693.30	182,871,046.00
Greater than 10 years	0.00	17,578,692.00	0.00	59,005,098.00
<b>Subtotal</b>	<b>\$ 817,749,100.77</b>	<b>\$ 1,223,777,410.37</b>	<b>\$ 1,328,703,367.69</b>	<b>\$ 1,252,595,308.00</b>
Less Supported Undistributed Collections	0.00	240,530.76	0.00	(35,985.57)
Less Eliminations	(410,153,814.00)	0.00	(657,477,752.11)	0.00
Less Other	(97,975.00)	(365,824.00)	(1,119,955.00)	(44,170,166.51)
<b>Total</b>	<b>\$ 407,497,311.77</b>	<b>\$ 1,223,652,117.13</b>	<b>\$ 670,105,660.58</b>	<b>\$ 1,208,389,155.92</b>

For nondelinquent, noncurrent accounts receivables, the Air Force currently has 30 claims in the amount of \$4.6 million, which is expected to be paid within a contract year. These contracts are reported by the Air Force in the Operation and Maintenance appropriation. Throughout the year, contact is made by the DFAS-DE on these cases to ensure collections.

Receivables as a result of transactions arising within DoD or other federal agencies are being collected through the Intergovernmental Payment and Collection System (IPAC) in accordance with trading partner agreements. In addition, demand letters are sent to debtors once the payment becomes 30 days delinquent in accordance with the procedures outlined in the Concept of Operations for Managing Accounts Receivables. 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.

The amount represented in the Other Category in the schedule of Aged Accounts Receivable consist of undistributed collections.

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30	2006	2005
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 436,904,638.02	\$ 406,055,546.75
B. Total Intragovernmental Other Assets	\$ 436,904,638.02	\$ 406,055,546.75
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 10,255,132,254.29	\$ 10,694,183,633.91
B. Other Assets (With the Public)	282,363,923.36	265,264,317.09
C. Total Nonfederal Other Assets	\$ 10,537,496,177.65	\$ 10,959,447,951.00
<b>3. Total Other Assets</b>	<b>\$ 10,974,400,815.67</b>	<b>\$ 11,365,503,497.75</b>

#### Relevant Information for Comprehension

The Air Force reports all outstanding finance payments for fixed price contracts that are not based on percentage or stage of completion as advances and prepayments. The Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If a satisfactory product is not delivered, the Air Force is not obligated to reimburse the contractor for its cost while the contractor is liable to repay the Air Force for the full amount of the outstanding contract finance payment.

Other Assets (With the Public) is composed of travel advances and 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 the 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.

The Air Force was unable to compare its other assets balances with the corresponding balances of its intragovernmental trading partners.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of June 30	2006	2005
<b>1. Cash</b>	\$ 151,659,564.57	\$ 146,773,272.97
<b>2. Foreign Currency</b>	5,770,604.24	1,515,289.98
<b>3. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$ 157,430,168.81	\$ 148,288,562.95

Relevant Information for Comprehension

The amounts reported for the cash and foreign currency 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 of foreign currency reported was valued using the Department of Treasury's prevailing rate of exchange, the most favorable rate available to the U.S. Government when acquiring foreign currency. Foreign currency is used to make official disbursements and to provide foreign currency for the exchange of U.S. dollars for military personnel.

Cash and foreign currency are nonentity assets and, as such, are considered restricted assets that are held by the Air Force but not available to use in its operations. The total balance of \$157.4 million is restricted. These assets are held by the Air Force's disbursing officers as agents of the Treasury.

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

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

Military Housing Privatization Initiative

Armament Retooling & Manufacturing Support Initiative

<b>Direct Loans Obligated After FY 1991</b>
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As of June 30	2006	2005
<b>Loan Programs</b>		
<b>1. Military Housing Privatization Initiative</b>		
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
<b>2. Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Total Amount of Direct Loans Disbursed</b>
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As of June 30	2006	2005
<b>Direct Loan Programs</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
<b>2. Total</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

## Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

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

## Subsidy Rate for Direct Loans

As of June 30	Interest Differential	Defaults	Fees and other Collections	Other	Total
<b>Direct Loan Programs</b>					
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 June 30	2006	2005
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>		
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
<b>E. Total of the above Subsidy Expense Components</b>	\$ 0.00	\$ 0.00
<b>3. Adjustments</b>		
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
<b>G. Total of the above Adjustment Components</b>	\$ 0.00	\$ 0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$ 0.00	\$ 0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>		
A. Interest Rate Re-estimate	\$ 0.00	\$ 0.00
B. Technical/Default Reestimate	0.00	0.00
<b>C. Total of the above Reestimate Components</b>	\$ 0.00	\$ 0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$ 0.00	\$ 0.00

**Defaulted Guaranteed Loans from Post FY 1991 Guarantees**

As of June 30	2006		2005	
<b>Loan Guarantee Program(s)</b>				
<b>1. Military Housing Privatization Initiative</b>				
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
<b>2. Armament Retooling &amp; Manufacturing Support Initiative</b>				
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
<b>3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>				
	\$	0.00	\$	0.00

<b>Guaranteed Loans Outstanding</b>
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As of June 30	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2006		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2005		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Liabilities for Post FY 1991 Loan Guarantees, Present Value**

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

## Subsidy Expense for Post FY 1991 Loan Guarantees

As of June 30

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

**Subsidy Rates for Loan Guarantees**

As of June 30	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Loan Guarantee Programs:</b>					
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%

<b>Schedule for Reconciling Loan Guarantee Liability Balances for Post FY 1991 Loan Guarantees</b>
--

As of June 30	2006	2005
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$ 0.00	\$ 0.00
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>		
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
<b>E. Total of the above Subsidy Expense Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>3. Adjustments</b>		
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
<b>H. Total of the above Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>4. Ending Balance of the Loan Guarantee Liability before Reestimates</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>5. Add or Subtract Subsidy Reestimates by Component</b>		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
<b>C. Total of the above Reestimate Components</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Air Force General Fund

**Administrative Expenses**

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of June 30	2006	2005
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	49,227,872,840.82	50,617,018,199.07
3. Stockpile Materials, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 49,227,872,840.82</b>	<b>\$ 50,617,018,199.07</b>

<b>Inventory, Net</b>
-----------------------

As of June 30	2006			2005		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
<b>1. Inventory Categories</b>						
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
<b>F. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	

## 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 June 30	2006			2005	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
<b>1. OM&amp;S Categories</b>					
A. Held for Use	\$ 37,705,592,034.17	\$ 0.00	\$ 37,705,592,034.17	\$ 39,688,019,482.17	SP, LAC
B. Held for Repair	11,522,280,806.65	0.00	11,522,280,806.65	10,928,998,716.90	SP, LAC
C. Excess, Obsolete, and Unserviceable	1,057,912,141.29	(1,057,912,141.29)	0.00	0.00	NRV
<b>D. Total</b>	<b>\$ 50,285,784,982.11</b>	<b>\$ (1,057,912,141.29)</b>	<b>\$ 49,227,872,840.82</b>	<b>\$ 50,617,018,199.07</b>	

### 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

Operating Materials and Supplies (OM&S) include weapon systems, spare and repair parts, ammunition, tactical missiles, centrally managed spare aircraft engines, and uninstalled cruise and intercontinental ballistic missile motors.

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.

Some munitions included in OM&S are restricted to use. Restricted munitions are items that cannot be expected to meet performance requirements under all conditions. They are only used in emergency combat situations in which no other suitable munitions are immediately available.

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

The category Held for Use includes all materials available for issuance. 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 material available for issuance, 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 % 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 June 30	2006			2005	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
<b>1. Stockpile Materials Categories</b>					
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	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	

**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

<b>Note 10.</b>	<b>General PP&amp;E, Net</b>
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As of June 30	2006					2005
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes</b>						
A. Land	N/A	N/A	\$ 434,795,808.12	N/A	\$ 434,795,808.12	\$ 433,052,459.17
B. Buildings, Structures, and Facilities	S/L	20 Or 40	47,308,287,286.82	\$ (27,245,153,128.55)	20,063,134,158.27	17,503,616,478.76
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	37,938,862,990.34	(30,063,052,274.66)	7,875,810,715.68	7,702,331,533.75
F. Military Equipment	S/L	Various	221,410,000,000.00	(115,680,000,000.00)	105,730,000,000.00	101,522,000,000.00
G. Assets Under Capital Lease	S/L	lease term	453,481,227.52	(323,143,014.37)	130,338,213.15	158,195,906.71
H. Construction-in- Progress	N/A	N/A	3,507,382,529.50	N/A	3,507,382,529.50	4,001,146,842.31
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			\$ 311,847,410,842.30	\$ (173,618,964,217.18)	\$ 138,228,446,625.12	\$ 131,344,125,333.70

<sup>1</sup> Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

### Fluctuations

Total general PP&E increased \$6.9 billion (5%) primarily due to a \$4.2 billion increase in military equipment which resulted from an increase during FY 2006 in acquisitions of existing active programs such as the C17 Tactical Transport Aircraft.

Total general PP&E also increased \$2.6 billion because of an increase in buildings, structures, and facilities. This increase was primarily caused by \$3.2 billion in acquisitions over the last four quarters that represent renovations to existing buildings and construction of new facilities to improve the management of Air Force programs, and mission operations. Renovations and acquisitions have occurred across the Air Force and no single location or project has had a significant impact on the increase to buildings, structures, and facilities.

### Relevant Information for Comprehension

The Air Force changed its method of valuing military equipment in 3<sup>rd</sup> Quarter, FY 2006. Previously, military equipment was valued using Bureau of Economic Analysis (BEA) data. Beginning 3<sup>rd</sup> Quarter, FY 2006, military equipment is valued based on internal records. The value of military equipment for the 3<sup>rd</sup> Quarter, FY 2005 was restated from \$91.3 billion to \$104.2 billion for comparative purposes using the new valuation method. See note 19 for further disclosures.

For 3<sup>rd</sup> Quarter, FY 2006, military equipment is valued at \$105.7 billion based on internal records. Under the previously used BEA valuation methodology, this equipment would have been valued at \$94.4 billion.

Personal property of 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.

There are restrictions on the Air Force's ability to dispose of real property (land and buildings) located outside the continental United States.

### 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 Air Force installations. Hurricanes Dennis, Katrina and Rita were particularly damaging. 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. As of July 1, 2006, the Civil Engineer Damage Assessment Teams have completed the assessments of the damages. The values of the buildings, structures, and utilities on the financial statements will be adjusted accordingly and represented in the 4<sup>th</sup> Quarter 2006 financial statements.

Included in the net book value of general equipment for 3<sup>rd</sup> 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 net book value of ST/STE for the 3<sup>rd</sup> Quarter, FY 2006 is \$170.3 million, which is immaterial to the balance of general equipment.

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.

### Heritage Assets

Heritage Assets and Stewardship Land are resources that protect, restore, enhance, modernize, preserve and sustain mission capability within the Air Force 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 to be heritage assets. In 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's civil engineering group as part of their overall responsibility.

**Museums:** The Air Force Museum System consists of 19 museums with the major museum located at Wright-Patterson Air Force Base, Ohio. It houses the main collection of historical artifacts. 17 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 19<sup>th</sup> 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 its 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.

<b>Assets Under Capital Lease</b>
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As of June 30	2006	2005
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 453,481,227.52	\$ 459,265,000.60
B. Equipment	0.00	0.00
C. Accumulated Amortization	(323,143,014.37)	(301,069,093.89)
D. Total Capital Leases	<u>\$ 130,338,213.15</u>	<u>\$ 158,195,906.71</u>

Fluctuations

Total capital leases decrease of \$27.9 million (18%) primarily due to the current year increase in accumulated amortization of \$22.1 million. The Air Force is not acquiring new capital leases however, the change in amortization will continue and cause a decrease in the net value of assets under capital lease.

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 their costs exceed the capitalization threshold. Leased items not meeting this 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.

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30	2006	2005
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	1,015,330,621.79	682,042,337.36
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 1,015,330,621.79</b>	<b>\$ 682,042,337.36</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 49,555,896.06	\$ 141,889,702.03
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,147,437,480.00	1,163,442,240.00
C. Environmental Liabilities	6,160,296,580.76	6,422,165,045.70
D. Other Liabilities	2,607,344,429.96	2,770,359,685.65
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 9,964,634,386.78</b>	<b>\$ 10,497,856,673.38</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 10,979,965,008.57</b>	<b>\$ 11,179,899,010.74</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 10,272,131,710.46</b>	<b>\$ 11,121,043,164.33</b>
<b>5. Total Liabilities</b>	<b>\$ 21,252,096,719.03</b>	<b>\$ 22,300,942,175.07</b>

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

Other Intragovernmental Liabilities Not Covered by Budgetary Resources consists of Federal Employees' Compensation Act (FECA) liability to the Department of Labor, unemployment compensation, and custodial liabilities.

Other Nonfederal Liabilities Not Covered by Budgetary Resources consists of capital lease liabilities, contingent liabilities, and accrued annual leave liabilities for military and civilians.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of June 30	2006			2005
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 1,759,529,747.24	\$ N/A	\$ 1,759,529,747.24	\$ 1,554,166,653.67
2. Nonfederal Payables (to the Public)	5,015,581,155.24	0.00	5,015,581,155.24	5,968,292,663.60
<b>3. Total</b>	<u>\$ 6,775,110,902.48</u>	<u>\$ 0.00</u>	<u>\$ 6,775,110,902.48</u>	<u>\$ 7,522,459,317.27</u>

Fluctuations

Intragovernmental payables increased by \$205.4 million (13%) primarily due to an increase in FY 2006 in work done by Air Mobility Command of the U.S. Transportation Command for the Air Force in transporting cargo and personnel in support of Global War on Terrorism.

Nonfederal payables decreased by \$952.7 million (16%) primarily in aircraft procurement. Aircraft deliveries are not static and vary from year to year depending on what Air Force budgeted for and the associated lead times. During FY 2006, the production of the F-22, C-17, C130J, Predator, and the Joint STARS aircraft has been reduced. The Air Force anticipates more changes in the future as the Joint Strike Force program builds up and these programs continue to draw down.

<b>Note 13.</b>	<b>Debt</b>
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As of June 30	2006			2005	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
<b>1. Agency Debt (Intragovernmental)</b>					
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
<b>2. Total Debt</b>	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of June 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities-- Nonfederal</b>				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 387,680,000.00	\$ 3,360,671,050.99	\$ 3,748,351,050.99	\$ 3,952,730,474.07
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	130,215,158.50	130,215,158.50	173,646,957.75
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	77,259,406.59	1,037,416,983.29	1,114,676,389.88	1,264,528,290.29
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	9,798,887.21	131,572,603.75	141,371,490.96	130,885,584.79
4. Other	14,843,797.01	199,326,923.55	214,170,720.56	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
<b>2. Total Environmental Liabilities</b>	<b>\$ 506,936,090.81</b>	<b>\$ 6,238,359,720.08</b>	<b>\$ 6,745,295,810.89</b>	<b>\$ 6,978,930,306.90</b>

Other Categories Disclosure

<b>Others Category Disclosure Comparative Table</b>		
<b>(Amounts in thousands)</b>	<b>2006</b>	<b>2005</b>
<b>Other Accrued Environmental Costs - Other</b>		
<b>Total</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Base Realignment and Closure - Other</b>		
<b>Manpower services at BRAC installations and headquarters offices.</b>	<b>\$214,170.7</b>	<b>\$0.0</b>
<b>Total</b>	<b>\$214,170.7</b>	<b>\$0.0</b>
<b>Environmental Disposal for Weapons Systems Programs - Other</b>		
<b>Total</b>	<b>\$0.0</b>	<b>\$0.0</b>

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. Costs for the Air Force Center for Environmental Excellence (AFCEE) are also included. AFCEE provides technical, management, contract and administrative manpower assistance to manage and execute BRAC projects and other closure related matters for closure bases. 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).

The increase is due to improved identification of costs resulting in the addition of this line item in 4<sup>th</sup> Quarter, FY 2005. The Government Accountability Office (GAO) and the Department of Defense Inspector General (DoDIG) found that management costs for Cost-To-Complete (CTC) projections were not being included in the ending liability figure. The costs were identified and included 4<sup>th</sup> Quarter, FY 2005.

<b>Environmental Disclosures</b>
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As of June 30	2006	2005
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	258,275,949.01	272,484,525.93
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	152,145,000.00
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	40,000.00
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

The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment cannot be compared with 3<sup>rd</sup> Quarter, FY 2006 as these values are only reported once a year by the Air Force for use in the annual financial statement.

There are no values for the estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year since the Air Force has not placed any new assets with environmental closure requirements, such as landfills, into service in FY 2005 or FY 2006.

The changes in total cleanup costs due to changes in laws, regulations, and/or technology cannot be compared with 3<sup>rd</sup> Quarter, FY 2006 as these values are only reported once a year by the Air Force for use in the annual financial statement.

There is no value assigned to the changes in estimated costs due to changes in laws and technology related to prior periods for FY 2005. Because the data collected for total changes in cost estimates is due to changes in laws, regulations, and technology (D), the value reported (\$40.0 thousand) represented a change in a single estimate. This change occurred in the same period as the change in laws and technology. No value is reported for FY 2006 because this information is reported only once a year by the Air Force for use in the annual financial statement.

## Relevant Information for Comprehension

### Applicable Laws and Regulations of Cleanup Requirements.

The Air Force is required to clean-up contamination resulting from past waste disposal practices, leaks, spills and other past activity, which has created a public health or environmental risk. The Air Force does this in coordination with regulatory agencies, and if applicable, with other responsible parties, and current property owners. The Air Force is also required to recognize closure and post-closure costs for its General Property, Plant and Equipment (PP&E) and environmental corrective action costs for current operations. The Air Force is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC actions that have taken place in prior years. Examples of relevant laws and regulations that are considered for discussion, as applicable, include, but are not limited to:

- (a) Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- (b) Superfund Amendments and Reauthorization Act (SARA)
- (c) Clean Water Act
- (d) Safe Drinking Water Act
- (e) Clean Air Act
- (f) Resource Conservation and Recovery Act (RCRA)
- (g) Toxic Substances Control Act (TSCA)
- (h) Medical Waste Tracking Act
- (i) Atomic Energy Act
- (j) Nuclear Waste Policy Act
- (k) Low Level Radioactive Waste Policy Amendments Act
- (l) National Defense Authorization Acts
- (m) Military Munitions Rule in 40 CFR 266.201

The two laws with the vast majority of costs for active cleanup sites are CERCLA and RCRA. The amounts in the other laws are immaterial to the financial statements and cannot be identified without further research.

### Methods for Assigning Total Cleanup Costs to Current Operating Periods.

The Air Force uses engineering estimates and independently validated models to estimate environmental costs. The models are either contained within the Remedial Action Cost Engineering Requirements (RACER) System, or a historic comparable project, a specific bid, or an independent government cost estimate is referenced for the project. The Air Force validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Air Force primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project. Once the environmental cost estimates are complete, the Air Force complies with accounting standards to assign costs to current operating periods. 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.

The Air Force has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997 unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the Air Force expensed that portion of the asset that has passed since the General PP&E was placed into service and is systematically recognizing the remaining cost over the life of the assets. For General PP&E placed into service after September 30, 1997, the Air Force expenses the associated environmental costs systematically over the life of the asset. The Air Force expenses the full cost to cleanup contamination for Stewardship PP&E at the time the asset is placed into service. The Air Force uses the physical capacity for operating landfills method for systematic recognition.

### Types of Environmental Liabilities Identified.

The Air Force has clean up requirements for the Defense Environmental Restoration Program (DERP) sites at active installations, BRAC installations, and sites at active installations that are not covered by the DERP. The Air Force is required to cleanup DERP and sites not covered by the DERP in coordination with regulatory agencies, other responsible parties, and current property owners.

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. 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 FY 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.

### Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations.

The Air Force is not aware of any pending changes to reported values of reported Environmental Liabilities. The Air Force does understand that the liabilities can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

### Level of Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities.

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

Air Force 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.

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.

#### Other Disclosures.

#### Other Accrued Environmental Liabilities - Environmental Closure Requirements

Disposal liabilities are presented as an accrued amount for the life of the landfill, and the total liability is presented in the yearend 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.

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. The Air Force, therefore, reports only the cost of the initial cap required to close a landfill.

#### Other Accrued Environmental Liabilities - Environmental Corrective Actions

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. 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 FY 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.

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30	2006			2005
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 557,045,574.50	\$ 0.00	\$ 557,045,574.50	\$ 492,913,042.58
B. Deposit Funds and Suspense Account Liabilities	273,790,117.06	0.00	273,790,117.06	(78,769,061.08)
C. Disbursing Officer Cash	361,255,168.81	0.00	361,255,168.81	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	131,998,353.59	256,514,261.22	262,489,654.28
F. Other Liabilities	786,446,978.69	953,876.00	787,400,854.69	508,213,368.02
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 2,103,053,746.69</b>	<b>\$ 132,952,229.59</b>	<b>\$ 2,236,005,976.28</b>	<b>\$ 1,488,995,125.79</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 1,132,850,532.98	\$ 0.00	\$ 1,132,850,532.98	\$ 1,857,309,667.63
B. Advances from Others	41,859,000.95	0.00	41,859,000.95	74,353,104.68
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	79,735,877.45	0.00	79,735,877.45	93,466,360.07
E. Temporary Early Retirement Authority	132,921.05	0.00	132,921.05	627,277.56
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	2,310,957,553.55	0.00	2,310,957,553.55	2,412,504,725.30
H. Capital Lease Liability	6,798,326.35	188,258,551.12	195,056,877.47	216,521,372.85
I. Other Liabilities	323,263,605.28	264,390,180.65	587,653,785.93	492,332,677.02
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 3,895,597,817.61</b>	<b>\$ 452,648,731.77</b>	<b>\$ 4,348,246,549.38</b>	<b>\$ 5,147,115,185.11</b>
<b>3. Total Other Liabilities</b>	<b>\$ 5,998,651,564.30</b>	<b>\$ 585,600,961.36</b>	<b>\$ 6,584,252,525.66</b>	<b>\$ 6,636,110,310.90</b>

Fluctuations

Intragovernmental other liabilities increased \$747.0 million (50%) primarily due to a \$352.6 million increase in the deposit funds and suspense account liabilities. The increase is due to suspense accounts F3885 – Interfund/IPAC Suspense. This change represents a decrease in the amount of intragovernmental payments and collections in suspense. In April 2006, the DFAS Transaction Interface Module was implemented (DTIM-

IPAC). DTIM-IPAC has greatly reduced the time transactions remain in suspense thereby reducing the amount and dollar value of transactions that are in F3885-Interfund/IPAC Suspense. In addition, other liabilities increased by \$279.2 million as a result of custodial liabilities. In the past, DFAS-DE erroneously reported off-line public accounts receivables in the receipt and deposit fund accounts as entity. DFAS-DE corrected the error during 3<sup>rd</sup> Quarter, FY 2006. The correct classification of a receivable as nonentity results in the recognition of a corresponding custodial liability.

Nonfederal other liabilities decreased \$798.9 million (16%) primarily due to a \$724.5 million decrease in accrued funded payroll and benefits. Contributing to this decrease is a reduction in Air Force military personnel resulting in less accruals for payroll and benefits in 3<sup>rd</sup> Quarter, FY 2006. Also, civilian pay accruals for remaining work days through the end of the month fluctuated. There were more days to accrue for 3<sup>rd</sup> Quarter, FY 2005 than 3<sup>rd</sup> Quarter, FY 2006.

#### Relevant Information for Comprehension

The amount of Intragovernmental Other Liabilities represents government contributions for employee benefits, unemployment compensation, and custodial liabilities.

The amount Nonfederal Other Liabilities represents legal contingencies, employee benefits, and contract holdbacks.

The recorded estimated probable liability amount of \$12.2 million has been included in the accompanying financial statements for open contractor claims greater than \$100.0 thousand 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 \$100.0 thousand, the Air Force was party to numerous other contractor claims in amounts less than \$100.0 thousand 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 and is disclosed Note 16.

The total estimated probable liability for claims and litigation against the Air Force handled by the Civil Law and Litigation Directorate, as of June 30, 2006, was valued at \$221.9 million and has been included in the accompanying financial statements. As of June 30, 2006, the Air Force was party to 14,719 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 and disclosed in Note 16. 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 June 30, 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 and disclosed in Note 16.

<b>Capital Lease Liability</b>
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As of June 30	2006				2005	
	Asset Category					
	Land and Buildings	Equipment	Other	Total	Total	
<b>1. Future Payments Due</b>						
A. 2006	\$ 10,532,229.50	\$ 0.00	\$ 0.00	\$ 10,532,229.50	\$	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	39,926,175.99	0.00	0.00	39,926,175.99	\$	76,711,794.81
H. Total Future Lease Payments Due	\$ 242,671,826.51	\$ 0.00	\$ 0.00	\$ 242,671,826.51	\$	279,780,651.17
I. Less: Imputed Interest Executory Costs	47,614,949.04	0.00	0.00	47,614,949.04	\$	63,259,278.33
J. Net Capital Lease Liability	\$ 195,056,877.47	\$ 0.00	\$ 0.00	\$ 195,056,877.47	\$	216,521,372.84
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 163,370,711.79	\$	169,681,187.15
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 31,686,165.68	\$	46,840,185.70

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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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."

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

	<u>(In Millions)</u>
Contractual Actions:	
Contractor Claims	\$ 8.4
Appeals before Armed Services Board of Contract Appeals (ASBCA)	<u>308.1</u> \$ 316.5
Claims and Litigation from Civil Law	<u>32.6</u>
Total	\$ 349.1

The Air Force is not aware of any amounts for contractual arrangements which may require future financial obligations (e.g., undelivered orders)

The Air Force is not aware of any obligations related to cancelled appropriations for which there are contractual commitments for payments.

<b>Note 17.</b>	<b>Military Retirement Benefits and Other Employment Related Actuarial Liabilities</b>
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As of June 30	2006			2005	
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits</b>					
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
<b>2. Other</b>					
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
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<b>\$ 1,147,437,480.00</b>		<b>\$ 0.00</b>	<b>\$ 1,147,437,480.00</b>	<b>\$ 1,163,442,240.00</b>

Actuarial Cost Method Used:

Assumptions:

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

Relevant Information for ComprehensionFederal Employees' Compensation Act (FECA)

The Air Force's actuarial liability for workers' compensation benefits is developed and provided by the Department of Labor (DOL) at the end of each fiscal year. There is no change on a quarterly basis. The total liability for 3<sup>rd</sup> Quarter, FY 2006 is \$1.1 billion, which is a change of \$16.0 million (1%) in comparison to 3<sup>rd</sup> Quarter, FY 2005, and includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported 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.

<b>Note 18.</b>	<b>General Disclosures Related to the Statement of Net Cost</b>
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Intragovernmental Costs and Exchange Revenue		
As of June 30	2006	2005

As of June 30	2006	2005
1. Intragovernmental Costs	\$ 23,439,832,497.62	\$ 21,585,679,314.75
2. Public Costs	79,645,612,229.64	73,264,674,139.79
<b>3. Total Costs</b>	<b>\$ 103,085,444,727.26</b>	<b>\$ 94,850,353,454.54</b>
4. Intragovernmental Earned Revenue	\$ (2,895,799,291.47)	\$ (2,736,215,266.89)
5. Public Earned Revenue	(570,500,375.96)	(1,648,239,849.43)
<b>6. Total Earned Revenue</b>	<b>\$ (3,466,299,667.43)</b>	<b>\$ (4,384,455,116.32)</b>
<b>7. Net Cost of Operations</b>	<b>\$ 99,619,145,059.83</b>	<b>\$ 90,465,898,338.22</b>

Fluctuations

Total costs increased \$8.2 billion (9%) primarily due to an increase in public costs resulting from the additional expenses in FY 2006 to address the hurricanes in the Gulf of Mexico and the Global War on Terrorism (GWOT). In addition, intragovernmental personnel costs increased in FY 2006. Beginning 1<sup>st</sup> Quarter, 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. In FY 2005, the Air Force made contributions to the trust fund on a monthly basis. FY 2006 intragovernmental costs include three months of costs that were not included 3rd Quarter, FY 2005.

Total earned revenue decreased \$918.2 million (21%) primarily due to a decrease in public earned revenue totaling \$1.1 billion in FY 2006. The decrease is due to an Air Force Equipment Management System (AFEMS) error in recording acquisitions during FY 2005. The transactions failed the AFEMS edits and were placed in a suspense account. After the Air Force cleared the suspense account during FY 2005, AFEMS erroneously recorded these suspense account transactions as increases in other gains rather than decreases in operating expenses. A system change occurred during 4<sup>th</sup> Quarter, FY 2005 to correct this problem. Consequently, other gains are accurately reflected for FY 2006.

Other Disclosures

The FY 2005 total costs have not been restated for the FY 2005 portion of the net cost adjustment related to the prior period adjustment for military equipment. This adjustment will be incorporated into the 4<sup>th</sup> Quarter FY 2006 financial statements. Refer to Notes 10 and 19 for further disclosures.

Intragovernmental costs above are understated and public costs overstated by \$87.0 million due to errors in the reporting of intragovernmental costs with the U.S. Postal Service. The errors will be corrected in 4<sup>th</sup> Quarter FY 2006.

#### Relevant Information for Comprehension

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

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

The Air Force is unable to compare its intragovernmental costs and revenues with the corresponding balances of its intragovernmental trading partners.

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

The amounts presented in this statement are based on obligations and disbursements and, thus, may not in all cases report actual accrued costs. As such, the information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems, adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets is \$1.9 million in 3<sup>rd</sup> Quarter, FY 2006.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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As of June 30	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments</b>				
<b>Increases (Decreases) to Net Position Beginning Balance</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	11,929,000,000.00	0.00	10,262,000,000.00	0.00
<b>C. Total Prior Period Adjustments</b>	<b>\$ 11,929,000,000.00</b>	<b>\$ 0.00</b>	<b>\$ 10,262,000,000.00</b>	<b>\$ 0.00</b>
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 169,815,438.93	\$ 0.00	\$ 173,711,837.75	\$ 0.00
B. Civilian Health	339,066,648.00	0.00	317,435,356.15	0.00
C. Civilian Life Insurance	1,076,550.21	0.00	1,013,122.22	0.00
D. Judgment Fund	8,040,245.05	0.00	55,288,520.68	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
<b>F. Total Imputed Financing</b>	<b>\$ 517,998,882.19</b>	<b>\$ 0.00</b>	<b>\$ 547,448,836.80</b>	<b>\$ 0.00</b>

Abnormalities

The abnormal balances found on the Statement of Changes in Net Position, and listed below, resulted from incorrect posting logic established by DFAS-DE that populates the US Standard General Ledger (USSGL) in the General Accounting and Finance System – Rehost (GAFS-R). Prior to FY 2005, GAFS-R erroneously updated unexpended appropriations used and expended appropriations for the earmarked funds. DFAS corrected the posting logic in the 4<sup>th</sup> Quarter, FY 2005, but the previous fiscal years transactions were not reversed until 1<sup>st</sup> Quarter, FY 2006 resulting in an abnormal balance on these lines:

<u>Cumulative Results of Operations</u>	
Line 4.D.1. Appropriations used – Earmarked Funds	\$(1,251,498)
<u>Unexpended Appropriations</u>	
Line 4.D.1. Appropriations used – Earmarked Funds	\$1,251,498

## Relevant Information for Comprehension

The Air Force recorded \$11.9 billion in a prior period adjustment for the reporting of military equipment. The Department, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," reported military equipment using data available from the Bureau of Economic Analysis (BEA) on an interim basis. Effective for the reporting period beginning after March 31, 2006, the Department is replacing the BEA estimation methodology with a valuation based on internal Departmental records. The Department initially identified the universe of military equipment by meeting with program managers to gather information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals. The military equipment baseline is updated using expenditure information, and information from acquisition and logistics personnel to identify acquisitions and disposals. The Department considers this a correction of a material error as we determined that the BEA estimates failed to consider disposals, thresholds, and construction in process, and thus not GAAP compliant.

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 \$2.3 million.

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. The financial statements recognized an imputed cost as the difference between the Government's cost of providing these benefits to the employees and contributions made by and for them. OPM provides the cost factors to 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. After validation, OUSD (P&R) provides the imputed costs to the reporting components for inclusion in their financial statements.

For the judgment fund, the Air Force recognizes liabilities and expenses when unfavorable litigation outcomes are probable and the amounts can be estimated. The Treasury provides the dollar amount of the imputed financing. The Treasury based the imputed financing on the amount the judgment fund is expected to pay for settlements.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2006	2005
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 53,603,197,018.49	\$ 53,778,209,839.23
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

### Apportionment Categories

The amount of direct obligations incurred and apportioned under category A is \$57.2 billion, category B is \$43.3 billion, and exempt is \$1.2 million. For reimbursable obligations incurred and apportioned, category A is \$3.4 billion, category B is \$2.4 billion, and exempt is \$5.4 million.

### Relevant Information for Comprehension

Intraentity transactions have not been eliminated because the financial statements are presented as combined and combining.

Permanent indefinite appropriations are the Wildlife Conservation Fund [16 USC 670 (b)] and the Department of the Air Force General Gift Fund [10 USC 2601 (b)]. Reference Note 23 for additional information.

There are no legal arrangements affecting the use of unobligated balances of budget authority.

Capital infusion in the amount of \$9.6 billion was received on June 15, 2006 from the Supplemental Appropriation Act for Defense – The Global War on Terror and Hurricane Recovery (P.L. 109-234).

There are no material differences between the information required by the Statement of Budgetary Resources (SBR) and the amounts described as “actual” in the Budget of the U.S. Government.

<b>Note 21.</b>	<b>Disclosures Related to the Statement of Financing</b>
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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 is 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 intraagency budgetary transactions not being eliminated:

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

Other Resources, Other consists of 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 net transfers in and transfers out without reimbursement. Components Not Requiring or Generating Resources, Other consists of cost capitalization offset and other expenses not requiring budgetary resources.

The Air Force's allocation transfers do not create a reconciling item on the transferor's or recipient's Statement of Financing.

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 3<sup>rd</sup> Quarter, FY 2006 is \$11.0 billion. In general, the changes in liabilities not covered by budgetary resources as shown on the Balance Sheet are reflected on the Statement of Financing. Differences are a result of custodial liabilities, unfunded capital lease liabilities, and environmental liabilities covered by unobligated budgetary resources.

<b>Note 22.</b>	<b>Disclosures Related to the Statement of Custodial Activity</b>
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Not applicable.

<b>Note 23.</b>	<b>Earmarked Funds</b>
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<b>BALANCE SHEET</b>	
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As of June 30

	MRF	MERHCF	Other Earmarked Funds	Total Earmarked Funds
<b>ASSETS</b>				
Fund balance with Treasury	\$ 0.00	\$ 0.00	\$ 5,051,065.01	\$ 5,051,065.01
Investments	0.00	0.00	719,973.01	719,973.01
Accounts and Interest Receivable	0.00	0.00	184,205.48	184,205.48
Other Assets	0.00	0.00	3,800.00	3,800.00
<b>Total Assets</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 5,959,043.50</b>	<b>\$ 5,959,043.50</b>

<b>LIABILITIES and NET POSITION</b>	
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Military Retirement Benefits and Other Employment Related Actuarial Liabilities	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Liabilities Unexpended Appropriations	0.00	0.00	1,329,280.88	1,329,280.88
Cumulative Results of Operations	0.00	0.00	4,629,762.62	4,629,762.62
<b>Total Liabilities and Net Position</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 5,959,043.50</b>	<b>\$ 5,959,043.50</b>

<b>STATEMENT OF NET COST</b>	
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As of June 30

Program Costs	\$ 0.00	\$ 0.00	\$ 7,724,256.44	\$ 7,724,256.44
Less Earned Revenue	0.00	0.00	(6,106,270.88)	(6,106,270.88)
<b>Net Program Costs</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 1,617,985.56</b>	<b>\$ 1,617,985.56</b>
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00
<b>Net Cost of Operations</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 1,617,985.56</b>	<b>\$ 1,617,985.56</b>

<b>STATEMENT OF CHANGES IN NET POSITION</b>	
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As of June 30

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	1,617,985.56	1,617,985.56
Other Nonexchange Revenue	0.00	0.00	2,048,080.99	2,048,080.99
<b>Change in Net Position</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 430,095.43</b>	<b>\$ 430,095.43</b>
<b>Net Position End of Period</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 4,629,762.62</b>	<b>\$ 4,629,762.62</b>

### Department of the Air Force General Gift Fund (10 USC 2601 (b))

The Department of the Air Force General Gift Fund accepts, holds, and administers any gift, devise, or bequest of real or personal property, made on the condition that it is used for the benefit (or in connection with the establishment, maintenance, or operation) of a school, hospital, library, museum, or cemetery under the Air Force's jurisdiction. The fund is available to such institutions or organizations – subject to the terms of the gift, devise, or bequest.

Conditional gifts are invested in U.S. Treasury securities, and any interest earned on these securities is added back into the fund.

### Wildlife Conservation Fund (16 USC 670 (b))

The Wildlife Conservation Fund provides for (1) the conservation and rehabilitation of natural resources on military installations; (2) the sustainable multipurpose use of the resources which include hunting, fishing, trapping, and nonconsumptive uses; and (3) the public access to military installations to facilitate its use – subject to safety requirements and military security. The fund is available to carry out these programs and other such expenses that may be necessary for the purpose of the cited statute.

Consisting of both appropriated and nonappropriated funding, this fund gives installation commanders the authority to collect fees from the sale of hunting and fishing permits.

### Air Force Cadet Fund (37 USC 725 (s))

The Air Force Cadet Fund is maintained for the benefit of Air Force Academy cadets. Disbursements are made for the personal services of cadets such as laundry, arts, and athletics while collections are received from the same cadets at least equal to any disbursements made.

### Relevant Information for Comprehension

No legislation exists that significantly changes the purpose of an earmarked fund or redirects a material portion of the accumulated balance of an earmarked fund.

There are no eliminations between earmarked funds and other funds in the financial statements.

<b>Note 24.</b>	<b>Other Disclosures</b>
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As of June 30	2006			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
<b>1. ENTITY AS LESSEE-</b>				
<b>Operating Leases</b>				
Future Payments Due				
<u>Fiscal Year</u>				
2006	\$ 58,202,000.00	\$ 0.00	\$ 124,107,547.00	\$ 182,309,547.00
2007	68,904,000.00	0.00	127,830,773.00	196,734,773.00
2008	68,904,000.00	0.00	131,665,697.00	200,569,697.00
2009	68,904,000.00	0.00	135,615,668.00	204,519,668.00
2010	68,904,000.00	0.00	139,684,138.00	208,588,138.00
2011	68,904,000.00	0.00	143,874,662.00	212,778,662.00
After 5 Years	68,904,000.00	0.00	148,190,902.00	217,094,902.00
<b>Total Future Lease Payments Due</b>	<b>\$ 471,626,000.00</b>	<b>\$ 0.00</b>	<b>\$ 950,969,387.00</b>	<b>\$ 1,422,595,387.00</b>

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.