

Department of Defense  
Department of the Air Force  
**CONSOLIDATED BALANCE SHEET**  
As of June 30, 2008 and 2007

	<b>2008 Consolidated</b>	<b>2007 Consolidated</b>
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<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	129,374,046,205.11	112,569,190,360.70
2. Investments (Note 4)	875,397.37	823,362.99
3. Accounts Receivable (Note 5)	104,603,104.78	139,072,946.82
4. Other Assets (Note 6)	244,839,568.06	345,500,437.78
5. Total Intragovernmental Assets	<u>\$ 129,724,364,275.32</u>	<u>\$ 113,054,587,108.29</u>
B. Cash and Other Monetary Assets (Note 7)	\$ 103,709,884.97	\$ 106,544,294.77
C. Accounts Receivable, Net (Note 5)	514,120,229.83	1,047,042,369.88
E. Inventory and Related Property, Net (Note 9)	46,934,641,598.57	46,429,639,760.94
F. General Property, Plant and Equipment, Net (Note 10)	145,204,345,868.87	142,008,078,550.84
H. Other Assets (Note 6)	11,739,564,689.04	10,840,126,481.15
<b>2. TOTAL ASSETS</b>	<u>\$ 334,220,746,546.60</u>	<u>\$ 313,486,018,565.87</u>
<b>3. STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>4. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 2,157,820,507.70	\$ 1,499,541,843.40
3. Other Liabilities (Note 15 & 16)	1,883,893,050.42	2,342,706,283.76
4. Total Intragovernmental Liabilities	<u>\$ 4,041,713,558.12</u>	<u>\$ 3,842,248,127.16</u>
B. Accounts Payable (Note 12)	\$ 4,124,940,205.97	\$ 4,588,595,229.87
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,135,368,787.14	1,123,322,100.00
D. Environmental and Disposal Liabilities (Note 14)	6,526,750,729.50	6,200,718,713.15
F. Other Liabilities (Note 15 & Note 16)	5,811,237,062.79	5,529,393,115.49
<b>5. TOTAL LIABILITIES</b>	<u>\$ 21,640,010,343.52</u>	<u>\$ 21,284,277,285.67</u>
<b>6. NET POSITION</b>		
B. Unexpended Appropriations - Other Funds	128,953,424,450.67	112,602,156,113.40
C. Cumulative Results of Operations - Earmarked Funds	5,977,940.41	10,866,501.85
D. Cumulative Results of Operations - Other Funds	183,621,333,812.00	179,588,718,664.95
<b>7. TOTAL NET POSITION</b>	<u>\$ 312,580,736,203.08</u>	<u>\$ 292,201,741,280.20</u>
<b>8. TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 334,220,746,546.60</u>	<u>\$ 313,486,018,565.87</u>

Department of Defense  
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**CONSOLIDATED STATEMENT OF NET COST**  
 For the periods ended June 30, 2008 and 2007

	<b>2008 Consolidated</b>	<b>2007 Consolidated</b>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 106,591,532,121.60	\$ 109,733,558,720.98
B. (Less: Earned Revenue)	(3,745,866,852.93)	(3,701,764,271.43)
C. Net Program Costs	<u>\$ 102,845,665,268.67</u>	<u>\$ 106,031,794,449.55</u>
<b>4. Net Cost of Operations</b>	<u>\$ 102,845,665,268.67</u>	<u>\$ 106,031,794,449.55</u>

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2008 and 2007

	2008 Earmarked Funds	2008 All Other Funds
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 4,548,466.41	\$ 180,315,321,345.31
<b>2. Prior Period Adjustments:</b>		
<b>3. Beginning balances, as adjusted</b>	4,548,466.41	180,315,321,345.31
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	106,570,010,354.82
4.C. Nonexchange revenue	833,285.73	(1,631.69)
4.D. Donations and forfeitures of cash	2,357,969.43	0.00
4.E. Transfers-in/out without reimbursement	0.00	88,000,000.00
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	229,258,448.64
5.C. Imputed financing from costs absorbed by others	0.00	486,573,745.10
5.D. Other (+/-)	0.00	(1,223,924,962.67)
<b>6. Total Financing Sources</b>	3,191,255.16	106,149,915,954.20
<b>7. Net Cost of Operations (+/-)</b>	1,761,781.16	102,843,903,487.51
<b>8. Net Change</b>	1,429,474.00	3,306,012,466.69
<b>9. Cumulative Results of Operations</b>	5,977,940.41	183,621,333,812.00
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 80,465,486,805.49
<b>11. Prior Period Adjustments:</b>		
<b>12. Beginning balances, as adjusted</b>	0.00	80,465,486,805.49
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	156,788,176,000.00
13.B. Appropriations transferred-in/out	0.00	(69,422,000.00)
13.C. Other adjustments (rescissions, etc)	0.00	(1,660,806,000.00)
13.D. Appropriations used	0.00	(106,570,010,354.82)
<b>14. Total Budgetary Financing Sources</b>	0.00	48,487,937,645.18
<b>15. Unexpended Appropriations</b>	0.00	128,953,424,450.67
<b>16. Net Position</b>	5,977,940.41	312,574,758,262.67

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2008 and 2007

	2008 Eliminations	2008 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 180,319,869,811.72
<b>2. Prior Period Adjustments:</b>		
<b>3. Beginning balances, as adjusted</b>	0.00	180,319,869,811.72
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	106,570,010,354.82
4.C. Nonexchange revenue	0.00	831,654.04
4.D. Donations and forfeitures of cash	0.00	2,357,969.43
4.E. Transfers-in/out without reimbursement	0.00	88,000,000.00
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	229,258,448.64
5.C. Imputed financing from costs absorbed by others	0.00	486,573,745.10
5.D. Other (+/-)	0.00	(1,223,924,962.67)
<b>6. Total Financing Sources</b>	0.00	106,153,107,209.36
<b>7. Net Cost of Operations (+/-)</b>	0.00	102,845,665,268.67
<b>8. Net Change</b>	0.00	3,307,441,940.69
<b>9. Cumulative Results of Operations</b>	0.00	183,627,311,752.41
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 80,465,486,805.49
<b>11. Prior Period Adjustments:</b>		
<b>12. Beginning balances, as adjusted</b>	0.00	80,465,486,805.49
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	156,788,176,000.00
13.B. Appropriations transferred-in/out	0.00	(69,422,000.00)
13.C. Other adjustments (rescissions, etc)	0.00	(1,660,806,000.00)
13.D. Appropriations used	0.00	(106,570,010,354.82)
<b>14. Total Budgetary Financing Sources</b>	0.00	48,487,937,645.18
<b>15. Unexpended Appropriations</b>	0.00	128,953,424,450.67
<b>16. Net Position</b>	0.00	312,580,736,203.08

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2008 and 2007

	<b>2007 Earmarked Funds</b>	<b>2007 All Other Funds</b>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 4,539,548.08	\$ 180,854,183,593.89
<b>2. Prior Period Adjustments:</b>		
<b>3. Beginning balances, as adjusted</b>	<u>4,539,548.08</u>	<u>180,854,183,593.89</u>
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	104,873,918,705.24
4.C. Nonexchange revenue	525,808.58	5,532.84
4.D. Donations and forfeitures of cash	1,524,247.49	0.00
4.E. Transfers-in/out without reimbursement	0.00	250,000,000.00
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	187,192,258.93
5.C. Imputed financing from costs absorbed by others	0.00	524,981,542.01
5.D. Other (+/-)	0.00	(1,065,491,620.71)
<b>6. Total Financing Sources</b>	<u>2,050,056.07</u>	<u>104,770,606,418.31</u>
<b>7. Net Cost of Operations (+/-)</b>	1,918,061.87	106,029,876,387.68
<b>8. Net Change</b>	<u>131,994.20</u>	<u>(1,259,269,969.37)</u>
<b>9. Cumulative Results of Operations</b>	4,671,542.28	179,594,913,624.52
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 70,186,333,502.64
<b>11. Prior Period Adjustments:</b>		
<b>12. Beginning balances, as adjusted</b>	<u>0.00</u>	<u>70,186,333,502.64</u>
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	147,671,922,835.00
13.B. Appropriations transferred-in/out	0.00	518,393,481.00
13.C. Other adjustments (rescissions, etc)	0.00	(900,575,000.00)
13.D. Appropriations used	0.00	(104,873,918,705.24)
<b>14. Total Budgetary Financing Sources</b>	0.00	42,415,822,610.76
<b>15. Unexpended Appropriations</b>	0.00	112,602,156,113.40
<b>16. Net Position</b>	<u>4,671,542.28</u>	<u>292,197,069,737.92</u>

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended June 30, 2008 and 2007

	<b>2007 Eliminations</b>	<b>2007 Consolidated</b>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 180,858,723,141.97
<b>2. Prior Period Adjustments:</b>		
<b>3. Beginning balances, as adjusted</b>	0.00	180,858,723,141.97
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	104,873,918,705.24
4.C. Nonexchange revenue	0.00	531,341.42
4.D. Donations and forfeitures of cash	0.00	1,524,247.49
4.E. Transfers-in/out without reimbursement	0.00	250,000,000.00
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	187,192,258.93
5.C. Imputed financing from costs absorbed by others	0.00	524,981,542.01
5.D. Other (+/-)	0.00	(1,065,491,620.71)
<b>6. Total Financing Sources</b>	0.00	104,772,656,474.38
<b>7. Net Cost of Operations (+/-)</b>	0.00	106,031,794,449.55
<b>8. Net Change</b>	0.00	(1,259,137,975.17)
<b>9. Cumulative Results of Operations</b>	0.00	179,599,585,166.80
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 70,186,333,502.64
<b>11. Prior Period Adjustments:</b>		
<b>12. Beginning balances, as adjusted</b>	0.00	70,186,333,502.64
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	147,671,922,835.00
13.B. Appropriations transferred-in/out	0.00	518,393,481.00
13.C. Other adjustments (rescissions, etc)	0.00	(900,575,000.00)
13.D. Appropriations used	0.00	(104,873,918,705.24)
<b>14. Total Budgetary Financing Sources</b>	0.00	42,415,822,610.76
<b>15. Unexpended Appropriations</b>	0.00	112,602,156,113.40
<b>16. Net Position</b>	0.00	292,201,741,280.20

Department of Defense  
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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended June 30, 2008 and 2007

	<b>2008 Combined</b>	<b>2007 Combined</b>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 21,175,344,375.24	\$ 17,112,926,725.72
2. Recoveries of prior year unpaid obligations	5,017,525,611.72	3,343,205,955.42
3. Budget authority		
3.A. Appropriation	156,791,365,528.71	147,673,972,934.54
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	6,890,689,763.73	7,003,659,073.62
3.D.1.b. Change in receivables from Federal sources	(771,402,447.81)	(1,232,154,987.29)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(95,723,220.07)	274,718,549.57
3.D.2.b. Without advance from Federal sources	1,989,120,758.71	1,979,301,626.18
3.D.3. Anticipated for rest of year, without advances	762,530,813.82	1,739,337,334.36
3.E. Subtotal	<u>165,566,581,197.09</u>	<u>157,438,834,530.98</u>
4. Nonexpenditure transfers, net, anticipated and actual	18,578,000.00	768,393,481.00
6. Permanently not available	(1,660,806,000.00)	(900,575,000.00)
<b>7. Total Budgetary Resources</b>	<u><u>\$ 190,117,223,184.05</u></u>	<u><u>\$ 177,762,785,693.12</u></u>

Department of Defense  
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**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the periods ended June 30, 2008 and 2007

	2008 Combined	2007 Combined
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 117,223,157,197.32	\$ 109,069,268,438.62
8.B. Reimbursable	6,598,997,663.54	6,795,846,046.27
8.C. Subtotal	<u>123,822,154,860.86</u>	<u>115,865,114,484.89</u>
9. Unobligated balance:		
9.A. Apportioned	62,890,948,974.50	58,615,585,005.82
9.B. Exempt from apportionment	4,180,079.21	3,525,160.68
9.C. Subtotal	<u>62,895,129,053.71</u>	<u>58,619,110,166.50</u>
10. Unobligated balance not available	3,399,939,269.48	3,278,561,041.73
<b>11. Total status of budgetary resources</b>	<u><u>\$ 190,117,223,184.05</u></u>	<u><u>\$ 177,762,785,693.12</u></u>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	60,933,360,203.22	53,989,100,736.62
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (2,366,785,293.53)	\$ (2,633,723,578.16)
12.C. Total unpaid obligated balance	58,566,574,909.69	51,355,377,158.46
13. Obligations incurred net (+/-)	\$ 123,822,154,860.86	\$ 115,865,114,484.89
14. Less: Gross outlays	(112,754,796,083.19)	(111,096,593,724.84)
15. Obligated balance transferred, net payments from Federal sources (+/-)		
16. Less: Recoveries of prior year unpaid obligations, actual	(5,017,525,611.72)	(3,343,205,955.42)
17. Change in uncollected customer payments from Federal sources (+/-)	(1,217,718,310.90)	(747,146,638.89)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	66,983,193,369.17	55,414,415,541.25
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	(3,584,503,604.43)	(3,380,870,217.05)
18.C. Total, unpaid obligated balance, net, end of period	<u>63,398,689,764.74</u>	<u>52,033,545,324.20</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	112,754,796,083.19	111,096,593,724.84
19.B. Less: Offsetting collections	(6,794,966,543.66)	(7,278,377,623.19)
19.C. Less: Distributed Offsetting receipts	(71,386,398.89)	9,421,739.78
<b>19.D. Net Outlays</b>	<u><u>\$ 105,888,443,140.64</u></u>	<u><u>\$ 103,827,637,841.43</u></u>



<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 Department of Defense (DoD), Financial Management Regulation (FMR), Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements," and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Air Force is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is excluded from the statements or otherwise 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 OMB Circular A-136 due to limitations of its financial and nonfinancial management processes and systems that feed 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 maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Air Force continues to implement process and system improvements addressing these limitations.

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 Air Force currently has nine auditor identified financial statement material weaknesses: (1) financial and nonfinancial feeder systems do not contain an adequate audit trail and other systems controls, (2) intragovernmental transactions cannot be accurately identified by the customer, which is required for eliminations when preparing consolidated financial statements, (3) operating materials and supplies may not be reported in the financial statements accurately, (4) the Air Force needs additional controls over financial reporting for general property, plant and equipment (PP&E), (5) the value of the Air Force government furnished and contractor acquired material is not accurately reported, (6) the amounts for environmental liability may not be reliable due to lack of supporting documentation, (7) the Air Force has material amounts of accounting adjustments that are not adequately supported, (8) the Statement of Net Cost is based on budgetary obligations, disbursements and collections and may not report all actual cost, and (9) the Air Force is unable to reconcile budgetary obligations to net cost in Note 21,

Reconciliation of Net Cost of Operations to Budget. These findings are being addressed with corrective actions in the Financial Improvement Plan.

### **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 DoD and made the Air Force a department within DoD. The overall mission of the Air Force is to deliver sovereign options for the defense of the United States of America and its global interests to fly and fight in air, space and cyberspace.

### **1.C. Appropriations and Funds**

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

- General funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction accounts.
- Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, 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 them from general revenues.
- Special fund accounts are used to record government receipts reserved for a specific purpose.
- Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The Air Force is acting as an agent or custodian for funds awaiting distribution.

The Air Force is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds for another agency. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. Exceptions include all U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Air Force is a party to allocation transfers as the child for the Department of Agriculture.

The Air Force is a party to allocation transfers as the child for EOP (Foreign Military Sales – Military Assistance Program) meeting OMB exception, however, activities are reported in the Department’s financial statements for this fund, not the Air Force.

The Air Force allocates funds, as the parent, to the Department of Transportation.

The accounts used to prepare the financial statements are categorized as either entity or nonentity. The Air Force 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 the major 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.D. Basis of Accounting**

For FY 2008, 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 (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis. However, some accounts such as civilian pay, military pay and accounts payable are presented on the accrual basis of accounting on the financial statements, as required by federal accounting standards.

The DoD has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. 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 derived from budgetary transactions (obligations), transactions from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is working towards a cost reporting methodology that meets the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

#### **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 for goods 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, Transmittal Memorandum #1, User Charges. The Air Force recognizes revenue when earned within the constraints of current system capabilities. In some 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

Note 21, Reconciliation of Net Cost of Operations to Budget. 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, accruals are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. In general, the Air Force uses the consumption method of accounting for OM&S, since OM&S is defined in the SFFAS No. 3, "Accounting for Inventory and Related Property," as materiel that has not been issued to the end user.

#### **1.G. Accounting for Intragovernmental Activities**

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, the Air Force cannot accurately eliminate intragovernmental transactions by customer because the Air Force's systems do not track at the transaction level. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD balances are then eliminated. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, to include sufficient up-front edits and controls eliminating the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," and the U.S. 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, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The DoD's proportionate share of public debt and related expenses of the Federal Government are not included. The Federal Government does not apportion debt and its

related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

#### **1.H. Transactions with Foreign Governments and International Organizations**

Each year, 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, 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 in U.S. dollars 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 USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between the Air Force's recorded balance in FBWT accounts and U.S. 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 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 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.

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: operations and maintenance, military personnel, military construction, family housing operations 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 fluctuation transactions.

#### **1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable include three categories: 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 in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

The allowance for uncollectible for the Air Force entity receivables is computed based on the average annual write off over a five year period. Interest allowance is calculated using an average percent of write offs to outstanding public accounts receivable over a five year period.

#### **1.L. Direct Loans and Loan Guarantees**

Not applicable.

#### **1.M. Inventories and Related Property**

Related property includes OM&S and stockpile materials. The majority of OM&S, with the exception of munitions not held for sale, are valued using the moving average cost method. Munitions not held for sale are valued at standard purchase price. The Air Force uses consumption method for OM&S in all cases.

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.

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

## **1.N. Investments in U.S. Securities**

The Air Force reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized 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.

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 Air Force uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition and disposals information.

The DoD real property capitalization threshold is currently \$20 thousand. The Air Force has implemented this threshold.

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 the acquisition cost equals or exceeds DoD capitalization threshold of \$100 thousand. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100 thousand for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

General PP&E previously capitalized at amounts below \$100 thousand was written off General Fund financial statements in FY 1998.

When it is in the best interest of the government, the Air Force provides government property to contractors to complete contract work. The Air Force either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds DoD capitalization threshold, Federal accounting standards require that it be reported on the Air Force's Balance Sheet. Currently, the Air Force only reports on the Balance Sheet the value of property that the Air Force owns or leases to the contractor. The Air Force does not report the value of equipment purchased directly by the contractor.



The DoD is developing new policies and a contractor reporting process for Government Furnished Equipment that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, Air Force reports only government property in the possession of contractors that is maintained in Air Force's property systems. The DoD has issued new property accountability and reporting requirements that require Air Force 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 DoD's policy is to record advances and prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The Air Force has not fully implemented this policy primarily due to system limitations.

#### **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 essentially equivalent to an installment purchase of property (a capital lease), 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 government's incremental borrowing rate at the inception of the lease. The Air Force, as the lessee, receives the use and possession of leased property, for example real estate or equipment, 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 Air Force in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Services Administration (GSA) bills, and Interservice Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than 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.

## **1.R. Other Assets**

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

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, Air Force may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisition Regulation Supplement authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments for real property and ships are reported as Construction in Progress. It is DoD's policy to record certain contract financing payments as Other Assets.

## **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 there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending, or threatened litigation, and possible claims and assessments. The Air Force's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments 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 Air Force's assets. This type of liability has two components: nonenvironmental and environmental. Consistent

with SFFAS No. 6, “Accounting for Property, Plant, and Equipment,” recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon DoD’s policy, which is consistent with SFFAS No. 5, “Accounting for Liabilities of Federal Government.” Air Force does not recognize contingent liabilities associated with nonenvironmental disposals due to immateriality.

#### **1.T. Accrued Leave**

The Air Force reports as liabilities military leave and civilian earned leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

#### **1.U. Net Position**

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

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

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfer in and out of assets that were not reimbursed.

#### **1.V. Treaties for Use of Foreign Bases**

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Air Force purchases capital assets overseas with appropriated funds; however, 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. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental clean-up.

#### **1.W. Comparative Data**

The Air Force’s financial statements and notes are presented on a comparative basis.

#### **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, unless title passes.

### **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 monthly accounting reports. In-transit payments are those payments that have been made, but have not been recorded in the fund holder's accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are also applied to the entities' accounts receivable balance.

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

### **1.Z. Significant Events**

Beginning 4<sup>th</sup> Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget."

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of June 30	2008	2007
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 185,193,340.16	\$ 185,177,346.74
B. Accounts Receivable	162,514.21	1,207,967.30
C. Total Intragovernmental Assets	\$ 185,355,854.37	\$ 186,385,314.04
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 103,709,884.97	\$ 106,544,294.77
B. Accounts Receivable	118,872,334.65	620,159,177.35
C. Other Assets	184,475,000.00	193,825,000.00
D. Total Nonfederal Assets	\$ 407,057,219.62	\$ 920,528,472.12
<b>3. Total Nonentity Assets</b>	\$ 592,413,073.99	\$ 1,106,913,786.16
<b>4. Total Entity Assets</b>	\$ 333,628,333,472.61	\$ 312,379,104,779.71
<b>5. Total Assets</b>	\$ 334,220,746,546.60	\$ 313,486,018,565.87

#### Relevant Information for Comprehension

Nonentity assets are assets for which the Air Force maintains stewardship accountability and responsibility to report, but are not available for the Air Force's operations.

Intragovernmental Fund Balance with Treasury asset class represents amounts in Air Force's deposit fund and two suspense fund accounts (Uniformed Services Thrift Savings Plan Suspense and Thrift Savings Plan Suspense) that are not available for Air Force use.

Intragovernmental Accounts Receivable and Nonfederal Accounts Receivable, when collected, goes to the U.S. Treasury as miscellaneous receipts. The Nonfederal Accounts Receivable amount also includes interest receivables on aged debts.

Nonfederal Cash and Other Monetary Assets represent disbursing officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by the Air Force disbursing officers as agents of U.S. Treasury.

Nonfederal Other 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 research institutions for experimental 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	2008	2007
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 129,182,998,335.39	\$ 112,378,175,986.05
B. Revolving Funds	0.00	0.00
C. Trust Funds	4,409,102.96	4,885,938.54
D. Special Funds	1,445,426.60	951,089.37
E. Other Fund Types	185,193,340.16	185,177,346.74
F. Total Fund Balances	\$ 129,374,046,205.11	\$ 112,569,190,360.70
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 112,226,795,456.80	\$ 112,611,025,200.24
B. Fund Balance per Air Force	129,374,046,205.11	112,569,190,360.70
<b>3. Reconciling Amount</b>		
	\$ (17,147,250,748.31)	\$ 41,834,839.54

Fund Balance with Treasury

Other Funds Types include balances in deposit fund, receipt accounts, and Thrift Saving Plan (TSP).

The Air Force shows a reconciling amount of \$17.1 billion with U.S. Treasury, which is comprised of:

- \$17.2 billion in supplemental funding authority that was not received in time for U.S. Treasury to issue warrants; therefore the supplemental was not included in FBWT, per U.S. Treasury.

<b>Status of Fund Balance with Treasury</b>
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As of June 30	2008	2007
<b>1. Unobligated Balance</b>		
A. Available	\$ 62,132,598,239.89	\$ 56,879,772,832.14
B. Unavailable	3,399,939,269.48	3,278,561,041.73
<b>2. Obligated Balance not yet Disbursed</b>	\$ 66,983,193,369.17	\$ 55,414,415,541.25
<b>3. Nonbudgetary FBWT</b>	\$ 443,678,304.97	\$ 378,119,767.14
<b>4. NonFBWT Budgetary Accounts</b>	\$ (3,585,362,978.40)	\$ (3,381,678,821.56)
<b>5. Total</b>	<u>\$ 129,374,046,205.11</u>	<u>\$ 112,569,190,360.70</u>

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support the FBWT.

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, services that have not been performed, and goods and services that have been delivered/received but not paid.

Nonbudgetary FBWT includes entity and nonentity FBWT accounts that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. The items reported consist of FBWT for suspense, deposit and receipt accounts.

NonFBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. The items that comprise the amount reported as NonFBWT consist of reimbursements and other income earned receivable, investments and discounts in U.S. Treasury securities, and unfilled customer orders without advances. This category reduces the Status of FBWT.

Unobligated Balances are segregated to show available and unavailable amounts in the note schedule. Certain Unobligated Balances may be restricted to future use and are not apportioned for current use. The Unobligated Balance unavailable of \$3.4 billion is not available for new obligations because the period for new obligations established by law has expired.

<b>Disclosures Related to Suspense/Budget Clearing Accounts</b>
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As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 - 2008
<b>Account</b>				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Budget Clearing Account Suspense	330,492,181.74	328,831,207.84	313,970,743.03	(14,860,464.81)
F3880 – Lost or Cancelled Treasury Checks	501,279.67	334,757.68	1,300,118.52	965,360.84
F3882 – Uniformed Services Thrift Savings Plan Suspense	31,915,350.22	34,790,049.54	35,971,831.08	1,181,781.54
F3885 – Interfund/IPAC Suspense	(57,203,344.35)	(136,223,545.12)	(56,785,896.74)	79,437,648.38
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 305,705,467.28</b>	<b>\$ 227,732,469.94</b>	<b>\$ 294,456,795.89</b>	<b>66,724,325.95</b>



<b>Disclosures Related to Problem Disbursements</b>
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As of June 30	2006	2007	2008	(Decrease)/ Increase from FY 2007 to 2008
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDs)	\$ 135,219,141.24	\$ 63,074,934.54	\$ 97,649,242.20	\$ 34,574,307.66
B. Negative Unliquidated Obligations (NULO)	5,363,208.15	7,613,692.64	11,234,196.97	3,620,504.33
C. In-Transit Disbursements	1,397,325,118.81	1,162,198,490.09	1,137,548,322.61	(24,650,167.48)
<b>Total</b>	<u>\$ 1,537,907,468.20</u>	<u>\$ 1,232,887,117.27</u>	<u>\$ 1,246,431,761.78</u>	<u>\$ 13,544,644.51</u>

<b>Note 4.</b>	<b>Investments and Related Interest</b>
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As of June 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	867,928.83		(3,381.10)	864,547.73	882,978.44
5. Total Nonmarketable, Market-Based	867,928.83		(3,381.10)	864,547.73	882,978.44
B. Accrued Interest	10,849.64			10,849.64	10,849.64
C. Total Intragovernmental Securities	\$ 878,778.47		\$ (3,381.10)	\$ 875,397.37	\$ 893,828.08
<b>2. Other Investments</b>					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
<b>3. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	814,430.30		(1,217.77)	813,212.53	808,956.74
5. Total Nonmarketable, Market-Based	814,430.30		(1,217.77)	813,212.53	808,956.74
B. Accrued Interest	10,150.46			10,150.46	10,150.46
C. Total Intragovernmental Securities	\$ 824,580.76		\$ (1,217.77)	\$ 823,362.99	\$ 819,107.20
<b>4. Other Investments</b>					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A

As of June 30

2007

Cost

Amortization  
MethodAmortized  
(Premium) / Discount

Investments, Net

Market Value  
Disclosure**3. Intragovernmental Securities**

## A. Nonmarketable, Market-Based

1. Military Retirement Fund

\$

0.00

\$

0.00

\$

0.00

\$

0.00

2. Medicare Eligible Retiree Health Care Fund

0.00

0.00

0.00

0.00

3. US Army Corps of Engineers

0.00

0.00

0.00

0.00

4. Other Funds

814,430.30

(1,217.77)

813,212.53

808,956.74

5. Total Nonmarketable, Market-Based

814,430.30

(1,217.77)

813,212.53

808,956.74

B. Accrued Interest

10,150.46

10,150.46

10,150.46

C. Total

Intragovernmental Securities

\$

824,580.76

\$

(1,217.77)

\$

823,362.99

\$

819,107.20

**4. Other Investments**

## A. Total Other Investments

\$

0.00

\$

0.00

\$

0.00

N/A

### Relevant Information for Comprehension

The Federal Government does not set aside assets to pay future benefits and expenditures associated with earmarked funds. The cash generated from earmarked funds are deposited in U.S. Treasury, which uses the cash for general Federal Government purposes. The U.S. Treasury securities are issued to the earmarked funds as evidence of earmark fund receipts. The U.S. Treasury securities are an asset to the Air Force and a liability to U.S. Treasury. Because the Air Force and U.S. Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the Federal Governmentwide financial statements. The U.S. Treasury securities provide the Air Force with authority to draw upon U.S. Treasury to make future benefit payments or other expenditures. When the Air Force requires redemption of these securities, the Federal Government finances the securities 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 Federal Government finances all other expenditures.

Intragovernmental Securities (Other) primarily represents the Air Force Gift Fund investment in U.S. Treasury Securities.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of June 30	2008			2007
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 104,603,104.78	N/A	\$ 104,603,104.78	\$ 139,072,946.82
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 582,930,122.97	\$ (68,809,893.14)	\$ 514,120,229.83	\$ 1,047,042,369.88
<b>3. Total Accounts Receivable</b>	\$ 687,533,227.75	\$ (68,809,893.14)	\$ 618,723,334.61	\$ 1,186,115,316.70

<b>Aged Accounts Receivable</b>
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As of June 30	2008		4th Quarter 2007	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
<b>CATEGORY</b>				
<b>Nondelinquent</b>				
Current	\$ 146,353,783.14	\$ 197,549,792.00	\$ 727,854,638.00	\$ 236,748,118.00
Noncurrent	0.00	10,235,272.00	0.00	0.00
<b>Delinquent</b>				
1 to 30 days	\$ 705,826.00	\$ 10,427,178.00	\$ 20,901,521.00	\$ 7,129,629.00
31 to 60 days	520,702.00	4,139,878.00	1,215,820.00	3,483,363.00
61 to 90 days	82,245.00	5,072,696.00	950,500.00	6,200,061.00
91 to 180 days	952,707.00	15,299,197.00	170,222.00	14,036,295.00
181 days to 1 year	321,411.00	19,349,263.00	250,417.00	25,829,165.00
Greater than 1 year and less than or equal to 2 years	567,436.00	50,972,814.00	122,332.00	47,913,994.00
Greater than 2 years and less than or equal to 6 years	1,654,659.00	37,046,401.00	85,965.00	54,581,866.00
Greater than 6 years and less than or equal to 10 years	0.00	212,130,472.00	0.00	188,099,124.00
Greater than 10 years	0.00	22,589,333.00	0.00	22,068,687.00
<b>Subtotal</b>	<b>\$ 151,158,769.14</b>	<b>\$ 584,812,296.00</b>	<b>\$ 751,551,415.00</b>	<b>\$ 606,090,302.00</b>
Less Supported Undistributed Collections	8,627,843.48	(3,779,070.26)	(1,530,425.60)	(3,828,809.55)
Less Eliminations	(55,183,507.84)	0.00	(361,198,532.08)	0.00
Less Other	0.00	1,896,897.23	0.00	0.00
<b>Total</b>	<b>\$ 104,603,104.78</b>	<b>\$ 582,930,122.97</b>	<b>\$ 388,822,457.32</b>	<b>\$ 602,261,492.45</b>

Abnormal Account Balance

The abnormal amount in undistributed collections of \$8.6 million as reflected on the Aged Accounts Receivable Schedule, was primarily due to the classified program error which included two days of July business in 3<sup>rd</sup> Quarter, FY 2008. The system involved has been identified and will be corrected in 4<sup>th</sup> Quarter, FY 2008.

<b>Note 6.</b>	<b>Other Assets</b>
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As of June 30	2008	2007
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 244,839,568.06	\$ 345,500,437.78
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 244,839,568.06	\$ 345,500,437.78
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 11,475,007,289.09	\$ 10,566,356,171.34
B. Advances and Prepayments on behalf of Foreign Governments	0.00	0.00
C. Advances and Prepayments	80,082,399.95	79,945,309.81
D. Other Assets (With the Public)	184,475,000.00	193,825,000.00
E. Total Nonfederal Other Assets	\$ 11,739,564,689.04	\$ 10,840,126,481.15
<b>3. Total Other Assets</b>	\$ 11,984,404,257.10	\$ 11,185,626,918.93

Relevant Information for Comprehension

The Outstanding Contract Financing Payment balance of \$11.5 billion is comprised of \$10.9 billion in contract financing payments and an additional \$587.8 million in estimated future payments that will be paid upon future delivery and Government acceptance of satisfactory products and services.

Nonfederal Other Assets (With the Public) is comprised primarily of Advance Payment Pool Agreements with nonprofit educational institutions. These agreements are funded under cost type contract procedures and are mainly for experimental research and development requirements.

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

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
----------------	---------------------------------------

As of June 30	2008	2007
<b>1. Cash</b>	\$ 84,374,093.67	\$ 103,101,692.76
<b>2. Foreign Currency</b>	19,335,791.30	3,442,602.01
<b>3. Other Monetary Assets</b>	0.00	0.00
<b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	<b>\$ 103,709,884.97</b>	<b>\$ 106,544,294.77</b>

Relevant Information for Comprehension

The amount reported as cash and foreign currency consists primarily of cash held by Disbursing Officers. The foreign currency amount reported is valued at the U.S. Treasury's prevailing exchange rate, which is the most favorable rate available to the U.S. Government for foreign exchange transactions. Foreign currency is primarily used to make vendor disbursements and to exchange U.S. dollars for military personnel.

Cash and foreign currency are nonentity assets and, as such, considered restricted assets that are held by the Air Force but not available for use in its operations. These assets are held by the Air Force's Disbursing Officers as agents of the U.S. Treasury. The total balance of \$103.7 million is restricted.

<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**

Not Applicable.



<b>Summary of Direct Loans and Loan Guarantees</b>
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As of June 30	2008	2007
<b>Loans Receivable</b>		
<u>Direct Loans</u>		
1. Foreign Military Loan Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Foreign Military Financing Account	0.00	0.00
4. Military Debt Reduction Financing Account	0.00	0.00
<b>5. Total Direct Loans</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<u>Defaulted Loan Guarantees</u>		
6. A. Foreign Military Financing Account	\$ 0.00	\$ 0.00
B. Military Housing Privatization Initiative	0.00	0.00
C. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>7. Total Default Loan Guarantees</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>8. Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

As of June 30	2008	2007
<b>Loan Guarantee Liability</b>		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
2. Military Housing Privatization Initiative	0.00	0.00
3. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>4. Total Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Direct Loans Obligated</b>
-------------------------------

As of June 30	2008	2007
<b>Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):</b>		
<b>1. Foreign Military Loan Liquidating Account</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 Loan Losses	0.00	0.00
E. Value of Assets Related to Direct Loans, Net	\$ 0.00	\$ 0.00
<b>Direct Loans Obligated After FY 1991 (Present Value Method):</b>		
<b>2. 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>3. Foreign Military Financing Account</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>4. Military Debt Reduction Financing Account</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, Net	\$ 0.00	\$ 0.00
<b>5. Total Direct Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Total Amount of Direct Loans Disbursed</b>
---

As of June 30	2008	2007
<b>Direct Loan Programs</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
3. Military Debt Reduction Financing Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

2008	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
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007	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
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2008	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
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
2007	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
Foreign Military Financing Account	0.00	0.00	0.00	0.00	0.00
Military Debt Reduction Financing Account	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
		2008	2007		
<b>5. Total Direct Loan Subsidy Expense:</b>					
Military Housing Privatization Initiative	\$ 0.00	\$ 0.00			
Foreign Military Financing Account	0.00				
Military Debt Reduction Financing Account	0.00				
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>			



**Subsidy Rate for Direct Loans by Program**

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

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

As of June 30	2008	2007
<b>Beginning Balances, Changes and Ending Balance:</b>		
<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>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<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>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<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>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Defaulted Guaranteed Loans</b>
-----------------------------------

As of June 30

	2008	2007
<b>Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):</b>		
<b>1. Foreign Military Liquidating Account</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 Loan Losses	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$ 0.00
<b>Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):</b>		
<b>2. 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>3. 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>4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>		
	\$ 0.00	\$ 0.00



<b>Guaranteed Loans Outstanding</b>
-------------------------------------

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
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2008</b>		
<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
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2007</b>		
<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
3. Foreign Military Liquidating Account	0.00	0.00
<b>4. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Liabilities for Post FY 1991 Loan Guarantees, Present Value</b>
--

As of June 30	2008	2007
<b>Liabilities for Loan Guarantee Programs from Pre-FY 1992 (Allowance for Loss):</b>		
1. Foreign Military Liquidating Account	\$ 0.00	\$ 0.00
<b>2. Total Loan Guarantee Liability (Pre-FY 1992)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):</b>		
3. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
4. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>5. Total Loan Guarantee Liability (Post-FY 1991)</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>6. Total Loan Guarantee Liability</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Loan Guarantees by Program

As of June 30

2008	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>
2007	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>
2008	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	\$ 0.00	\$ 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>
2007	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	\$ 0.00	\$ 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>
2008	2007				
<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 by Program

As of June 30	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Budget Subsidy Rates for Loan Guarantees:</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%

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

As of June 30	2008		2007	
<b>Beginning Balance, Changes, and Ending Balance:</b>				
<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>	\$	0.00	\$	0.00
<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>	\$	0.00	\$	0.00
<b>4. Ending Balance of the Loan Guarantee Liability before Reestimates</b>	\$	0.00	\$	0.00
<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>	\$	0.00	\$	0.00
<b>6. Ending Balance of the Loan Guarantee Liability</b>	\$	0.00	\$	0.00

**Administrative Expenses**

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of June 30	2008	2007
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	46,934,641,598.57	46,429,639,760.94
3. Stockpile Materials, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 46,934,641,598.57</b>	<b>\$ 46,429,639,760.94</b>

## Inventory, Net

As of June 30	2008			2007		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	LAC,MAC
C. Excess, Obsolete, and Unserviceable		0.00	0.00	0.00	0.00	NRV
D. Raw Materials		0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process		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	2008			2007		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	\$ 35,619,398,491.80	\$ 0.00	\$ 35,619,398,491.80	\$ 35,997,560,177.63		SP, LAC
B. Held for Repair	11,315,243,106.77	0.00	11,315,243,106.77	10,432,079,583.31		SP, LAC
C. Excess, Obsolete, and Unserviceable	2,053,407,872.11	(2,053,407,872.11)	0.00	0.00		NRV
<b>D. Total</b>	<b>\$ 48,988,049,470.68</b>	<b>\$ (2,053,407,872.11)</b>	<b>\$ 46,934,641,598.57</b>	<b>\$ 46,429,639,760.94</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

### General Composition of OM&S

The Operating Materials and Supplies (OM&S) include weapon systems spares, ammunition, tactical missiles, aerial target drones, uninstalled aircraft and cruise missile engines, and uninstalled 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.

### Restrictions on the use of OM&S

The Air Force does not maintain any OM&S restricted assets.

### 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 for Repair includes all economically repairable materials and all other condition codes as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DoD 4000.25-2-M).

The category Held as Excess, Obsolete, and Unserviceable includes all materials 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.

## Stockpile Materials, Net

As of June 30	2008			2007		
	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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		

**Legend for Valuation Methods:**

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

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

**Note 10. General PP&E, Net**

As of June 30	2008					2007
	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	\$ 442,808,380.56	N/A	\$ 442,808,380.56	\$ 438,270,513.25
B. Buildings, Structures, and Facilities	S/L	20 Or 40	49,067,703,609.95	\$ (28,031,549,066.38)	21,036,154,543.57	20,254,041,193.41
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	725,536,480.57	(238,341,092.17)	487,195,388.40	623,981,412.13
E. General Equipment	S/L	5 or 10	35,060,088,859.73	(27,641,667,753.10)	7,418,421,106.63	6,297,595,933.06
F. Military Equipment	S/L	Various	252,398,304,751.67	(140,534,918,098.72)	111,863,386,652.95	110,941,460,968.45
G. Assets Under Capital Lease	S/L	lease term	393,002,401.23	(298,364,283.99)	94,638,117.24	108,276,178.17
H. Construction-in- Progress	N/A	N/A	3,861,741,679.52	N/A	3,861,741,679.52	3,344,452,352.37
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			<u>\$ 341,949,186,163.23</u>	<u>\$ (196,744,840,294.36)</u>	<u>\$ 145,204,345,868.87</u>	<u>\$ 142,008,078,550.84</u>

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

Legend for Valuation Methods:

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

Relevant Information for ComprehensionGeneral PP&E

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

The Air Force estimates values for capitalized military equipment using departmental internal records.

In 3<sup>rd</sup> Quarter, FY 2008, the Air Force reported \$168.4 million for Special Tools and Special Test Equipment (ST/STE) for the B2 and C135 aircraft. In calendar year 2008, the remaining ST/STE will continue to be inventoried, costed, and loaded into Air Force Equipment Management System (AFEMS). All ST/STE should be reported by the end of FY 2009.

Heritage Assets and Stewardship Land

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 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 4,091 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 13 museums with the major museum located at Wright-Patterson Air Force Base, Ohio. It houses the main collection of historical artifacts. The 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 Air Force also has several heritage centers that are no longer considered museums.

**Major Collections:** The Air Force has four significant collections which contain the Air Force art collection and three other collections at the Air Force Academy that consist of historical items, memorabilia, and 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 1,425 archeological sites listed on or eligible for the National Register.

<b>Assets Under Capital Lease</b>
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As of June 30	2008	2007
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 393,002,401.23	\$ 405,987,908.22
B. Equipment	0.00	0.00
C. Accumulated Amortization	(298,364,283.99)	(297,711,730.05)
D. Total Capital Leases	\$ 94,638,117.24	\$ 108,276,178.17

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of June 30	2008	2007
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	773,915,856.53	1,073,029,270.99
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 773,915,856.53</b>	<b>\$ 1,073,029,270.99</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 202,165,790.12	\$ 140,763,144.38
B. Military Retirement and Other Federal Employment Benefits	1,132,558,273.01	1,123,322,100.00
C. Environmental Liabilities	5,873,335,305.93	5,621,046,704.19
D. Other Liabilities	2,617,239,683.84	2,944,734,114.26
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 9,825,299,052.90</b>	<b>\$ 9,829,866,062.83</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 10,599,214,909.43</b>	<b>\$ 10,902,895,333.82</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 11,040,795,434.09</b>	<b>\$ 10,381,381,951.85</b>
<b>5. Total Liabilities</b>	<b>\$ 21,640,010,343.52</b>	<b>\$ 21,284,277,285.67</b>

Information Related to Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are liabilities for which congressional action is needed before budgetary resources can be provided.

The material amounts and or sensitive areas included in Total Liabilities Not Covered by Budgetary Resources are categorized as not covered based on the fact that there is no current or immediate appropriation available for liquidation. These liabilities will be included in future budget years as Liabilities Covered by Budgetary Resources. The Air Force fully expects to receive the necessary resources to cover these liabilities in future years.

Other Intragovernmental Liabilities are primarily comprised of Federal Employees' Compensation Act (FECA) liabilities to the Department of Labor and custodial liabilities.

Other Nonfederal Liabilities are primary comprised of contingent liabilities and accrued annual leave liabilities for military and civilians.

Military Retirement and Other Federal Employment Benefits not covered by budgetary resources represent the FECA actuarial in the amount of \$1.1 billion. The FECA actuarial is not due and payable during the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

The liabilities for Military Retirement and Other Federal Employment Benefits, Environmental Liabilities, annual leave liabilities for military and civilians, FECA, and unemployment compensation account for 98% of the Total Liabilities not Covered by Budgetary Resources. These liabilities will be liquidated with future appropriations because the due dates extend past the budget life cycle of appropriations currently funded and received.

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of June 30	2008			2007
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 2,157,820,507.70	\$ N/A	\$ 2,157,820,507.70	\$ 1,499,541,843.40
2. Nonfederal Payables (to the Public)	4,124,382,145.94	558,060.03	4,124,940,205.97	4,588,595,229.87
<b>3. Total</b>	<b>\$ 6,282,202,653.64</b>	<b>\$ 558,060.03</b>	<b>\$ 6,282,760,713.67</b>	<b>\$ 6,088,137,073.27</b>

Relevant Information for Comprehension

The Air Force's systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer side balances are adjusted to agree with internal seller side balances for revenue, accounts receivable, and unearned revenue. Accounts Payable were reviewed on a case-by-case basis and adjusted to accrue additional payables and expenses as appropriate.



<b>Note 13.</b>	<b>Debt</b>
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As of June 30	2008			2007	
	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>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

Not Applicable.

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities--</b>				
<b>Nonfederal</b>				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 411,588,500.00	\$ 3,106,236,921.09	\$ 3,517,825,421.09	\$ 3,376,300,990.14
2. Active Installations—Military Munitions Response Program (MMRP)	28,364,900.00	1,368,684,000.00	1,397,048,900.00	1,393,705,204.49
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—Non-BRAC				
1. Environmental Corrective Action	8,900,000.00	148,469,188.41	157,369,188.41	129,286,161.93
2. Environmental Closure Requirements	4,068,000.00	83,295,000.00	87,363,000.00	99,481,000.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure Installations				
1. Installation Restoration Program	112,590,000.00	1,241,726,002.99	1,354,316,002.99	1,125,879,229.32
2. Military Munitions Response Program	280,000.00	3,240,000.00	3,520,000.00	0.00
3. Environmental Corrective Action / Closure Requirements	771,000.00	8,537,217.01	9,308,217.01	76,066,127.27
4. Asbestos	0.00	0.00	0.00	0.00
5. Non-Military Equipment	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Military Equipment / Weapons Programs				
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0.00	0.00	0.00	0.00
2. Non-Nuclear Powered Military Equipment	0.00	0.00	0.00	0.00
3. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
E. Chemical Weapons Disposal Programs				
1. Chemical Agents and Munitions Destruction (CAMD)	0.00	0.00	0.00	0.00
2. CAMD Assembled Chemical Weapons Assessment (ACWA)	0.00	0.00	0.00	0.00
3. Other	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities</b>	<b>\$ 566,562,400.00</b>	<b>\$ 5,960,188,329.50</b>	<b>\$ 6,526,750,729.50</b>	<b>\$ 6,200,718,713.15</b>

## Other Information Related to Environmental Liabilities

An environmental liability is a probable and measurable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. For financial statement reporting purposes, environmental cleanup costs include (1) costs associated with environmental restoration of sites funded under the Air Force portion of the Defense Environmental Restorations Program (DERP), (2) corrective actions funded with other than DERP, Base Realignment and Closure (BRAC), and (3) environmental costs associated with future disposal of facilities, equipment, munitions, or closure facilities. These costs include researching and determining the existence of hazardous waste, removing, containing, and/or disposing of hazardous waste from property, or material and/or property that consist of hazardous waste at the time of shutdown or disposal of the asset. Cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs related to Air Force operations that result in hazardous waste.

## Other Categories

In the future, the Air Force plans to start reporting environmental liabilities for other facilities, such as fuel storage tanks, military and nonmilitary equipment, and asbestos.

## Applicable Laws and Regulations for 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 human health or environmental risk. The Air Force does this in coordination with regulatory agencies, and if applicable, with other responsible parties. The Air Force is also required to recognize closure and post closure costs for its 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 include:

- (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 Authorizations Acts

The two laws with the majority of cost estimates for active environmental cleanup are CERCLA and RCRA.

## Types of Environmental Liabilities Identified

The Air Force has cleanup requirements for DERP sites at active installations, BRAC installations, and cleanup requirements at active installations that are not covered by DERP. The Air Force is required to perform all environmental cleanup in coordination with regulatory agencies, other responsible parties, and current property owners.

The environmental cleanup of military ranges is governed by the military munitions rule in 40 CFR 266.202, Definition of Solid Waste. Environmental cleanup on ranges refers to munitions related activities. Environmental cleanup areas within a closed range are referred to as Munitions Response Areas. As studies are done to find munitions related contamination on closed ranges, the number of cleanup projects is expected to rise. As investigations progress, the number of military munitions responses will increase to reflect specific areas of pollution. The Air Force expects the number of responses reported to increase as pollution is discovered and their identification is defined in areas less than the total boundary of the closed range.

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

The Air Force uses engineering estimates and independently validated models to estimate environmental cleanup costs. The models are either developed within the Remedial Action Cost Engineering Requirements application, or a historic comparable project, a specific bid, or an independent government cost estimate is referenced for the current project. The Air Force validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate environmental cleanup costs based on data received during a preliminary assessment and initial site investigation. The Air Force primarily uses engineering estimates after obtaining data during the remedial investigation/feasibility phase of the environmental project. Once the environmental cleanup cost estimates are complete, Air Force complies with accounting standards to assign costs to current operating periods. The Air Force 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 accounting standard requires full cost be recognized for closure requirements. The Air Force has closure requirements or disposal liabilities at active installations. Disposal liabilities are presented as an accrued amount for the life of the landfill. 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 (closing) the landfill, as well as 30 years of monitoring required by federal regulations.

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 expenses the associated environmental cost systemically over the life of the asset. 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 clean up contamination for Stewardship PP&E at the time the asset is placed into service. The Air Force uses the physical capacity method for systematic recognition for operating landfills. In the future, the Air Force plans to start reporting environmental liability for other facilities, such as fuel storage tanks, military and nonmilitary equipment, and asbestos. At that time, the Air Force plans to use life expectancy in years.

### 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 Environmental Liabilities. The Air Force does understand that 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

Environmental liabilities for the Air Force are based on accounting estimates which require certain judgments and assumptions to be made by management. The Air Force believes the estimates are reasonable based upon the information available at the time of calculation. Actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when the estimate was calculated. The liabilities can be further impacted if further investigation discovers contamination different than known at the time of the estimate. Air Force financial statements would be affected to the extent there are material differences between these estimates and actual costs. There are areas in which management judgment in selecting any available alternative could produce a materially different result.

Other Accrued, NonBRAC environmental cleanup activity uses Air Force Operation and Maintenance appropriated funds. Because of the type of funding used Air Force currently does not track as environmental costs. Therefore, the costs captured for the Other Accrued, NonBRAC environmental cleanup reflect only direct cost. It is believed that the current portion of the environmental liability is relatively small and not material. During FY 2008, the Air Force plans to develop a process for estimating the indirect cost and liability.

### Environmental Restoration for Overseas Bases

In addition to the liabilities reported above, the Air Force has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Air Force is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

<b>Environmental Disclosures</b>
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As of June 30	2008	2007
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	0.00	103,690,000.00
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

The unrecognized portion of the total cleanup is the estimated total cleanup cost less the amount that is recognized on the financial statements.

Changes in environmental regulations and cleanup standards resulted in a reduction of total cleanup cost due to amounts being reported only on an annual basis.

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of June 30	2008			2007
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 804,061,667.23	\$ 0.00	\$ 804,061,667.23	\$ 749,150,891.43
B. Deposit Funds and Suspense Account Liabilities	258,484,964.81	0.00	258,484,964.81	192,942,420.40
C. Disbursing Officer Cash	290,081,782.20	0.00	290,081,782.20	300,369,294.80
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	130,059,003.64	135,980,646.38	266,039,650.02	262,097,847.64
F. Custodial Liabilities	0.00	188,982,437.95	188,982,437.95	784,059,443.34
G. Employer Contribution and Payroll Taxes Payable	31,474,485.20	0.00	31,474,485.20	26,709,403.43
H. Other Liabilities	44,768,063.01	0.00	44,768,063.01	27,376,982.72
I. Total Intragovernmental Other Liabilities	\$ 1,558,929,966.09	\$ 324,963,084.33	\$ 1,883,893,050.42	\$ 2,342,706,283.76
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 1,945,008,890.45	\$ 0.00	\$ 1,945,008,890.45	\$ 1,302,432,324.20
B. Advances from Others	12,210,564.24	0.00	12,210,564.24	11,539,358.76
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	78,669,945.24	0.00	78,669,945.24	82,360,182.64
E. Temporary Early Retirement Authority	0.00	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities				
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	2,338,156,110.86	0.00	2,338,156,110.86	2,360,575,826.98
H. Capital Lease Liability	7,079,877.48	130,090,657.38	137,170,534.86	161,415,615.03
I. Contract Holdbacks	146,593,010.56	0.00	146,593,010.56	166,511,535.54
J. Employer Contribution and Payroll Taxes Payable	305,211,810.12	0.00	305,211,810.12	163,955,061.83
K. Contingent Liabilities	587,802,612.66	253,709,415.32	841,512,027.98	1,278,483,958.30
L. Other Liabilities	6,704,168.48	0.00	6,704,168.48	2,119,252.21
M. Total Nonfederal Other Liabilities	\$ 5,427,436,990.09	\$ 383,800,072.70	\$ 5,811,237,062.79	\$ 5,529,393,115.49
<b>3. Total Other Liabilities</b>	<b>\$ 6,986,366,956.18</b>	<b>\$ 708,763,157.03</b>	<b>\$ 7,695,130,113.21</b>	<b>\$ 7,872,099,399.25</b>

<b>Capital Lease Liability</b>
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As of June 30	2008				2007
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
<b>1. Future Payments Due</b>					
A. 2008	\$ 9,619,445.70	\$ 0.00	\$ 0.00	\$ 9,619,445.70	\$ 38,594,449.78
B. 2009	38,477,782.80	0.00	0.00	38,477,782.80	38,477,782.80
C. 2010	38,477,782.80	0.00	0.00	38,477,782.80	38,477,782.80
D. 2011	36,785,618.84	0.00	0.00	36,785,618.84	36,785,618.84
E. 2012	13,087,621.97	0.00	0.00	13,087,621.97	13,087,621.97
F. 2013	9,462,253.99	0.00	0.00	9,462,253.99	0.00
G. After 5 Years	17,376,300.01	0.00	0.00	17,376,300.01	26,838,554.00
H. Total Future Lease Payments Due	\$ 163,286,806.11	\$ 0.00	\$ 0.00	\$ 163,286,806.11	\$ 192,261,810.19
I. Less: Imputed Interest Executory Costs	26,116,271.25	0.00	0.00	26,116,271.25	37,609,971.39
J. Net Capital Lease Liability	\$ 137,170,534.86	\$ 0.00	\$ 0.00	\$ 137,170,534.86	\$ 154,651,838.80
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 118,500,545.68	\$ 137,573,742.69
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 18,669,989.18	\$ 23,841,872.34



## Relevant Information for Comprehension

The amount of Intragovernmental Other Liabilities represent Federal Government contributions for employee benefits, unemployment compensation, education benefits, and custodial liabilities.

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

Contingent Liabilities include \$841.5 million in estimated future contract financing payments that will be paid to contractors upon delivery and Federal Government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The Air Force is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Federal Government acceptance. Because it is probable that the contractor will complete their efforts and deliver a satisfactory product to the Air Force and the amount of potential future payments are estimable; the Air Force has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Federal Government acceptance.

The recorded estimated probable liability amount of \$29.4 million is included in other liabilities nonfederal for open contractor claims greater than \$100.0 thousand. At this time, these claims are not in appeal or 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 \$26.1 million and is not included in the reported amount but is disclosed in 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 September 30, 2007, was valued at \$274.1 million and is included in other liabilities nonfederal. As of September 30, 2007, the Air Force was party to 14,984 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 \$504.3 million and is not included in the reported amount but is 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. Since monetary judgments paid to civil litigants come from a judgment fund administrated by U.S. Treasury, it is uncertain that claims will become a liability to the Air Force. There are only two types of cases where U.S. Treasury will seek reimbursements from the affected agency, the Contract Dispute Act cases and select Federal Government personnel disciplinary matters.

As of September 30, 2007, the Air Force was party to 195 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). The probable amount of loss from contractor

claims of \$123.9 million is included in other liabilities nonfederal. 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 \$530.4 million and is not included in the reported amount but is disclosed in Note 16.

Contractor claims and ASBCA claims are updated annually because there are only marginal changes.

#### Estimation Methodology

The Air Force General Counsel through legal determination assesses and categorizes all contingent legal liability cases that equal or exceed the materiality threshold set by DoDIG. For the remaining cases falling below the dollar materiality threshold set by DoDIG, they are considered in aggregate, if the total amount of the cases equal or exceed the established materiality threshold.

The Air Force General Counsel also solicits case data through quarterly data calls from the Air Force JAC (Civil Lawsuits and Litigation Directorate) and annually from HQ AFMC/JAB (ASBCA) and HQ AFMC/PK (Open Contractor Claims and Contract Appeals). Air Force financial management personnel use the solicited case data which includes the current reporting year and each of the prior two years to estimate the amounts of probable and reasonably possible contingent liabilities.

Air Force financial management personnel use a three year prior case analysis spreadsheet which was developed by the Air Force Audit Agency to calculate and estimate the amount of contingent liabilities (probable and reasonably possible) for reporting or disclosing in the quarterly financial statements. In cases where Air Force General Counsel discloses that a judgment has been awarded against the Air Force, these amounts will be reported on the Balance Sheet and within this note. Amounts for reasonably possible cases are disclosed in Note 16.

<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. We are not aware of any contingent liabilities relative to these actions.

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 Federal Government, some of the liabilities may be payable from the Judgment Fund. The Air Force records Judgment Fund liabilities in Note 12 "Accounts Payable" and Note 15, "Other Liabilities."

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

	<u>(In Millions)</u>
Contractual Actions:	
Contractor Claims	\$ 26.1
Appeals before Armed Services Board of Contract Appeals (ASBCA)	<u>504.3</u>
Total	\$ 530.4

The amounts disclosed for litigation claims and assessments are fully supportable and agree with the Air Force's legal representation letters and management summary schedule.

The amount of undelivered orders for open contracts citing cancelled appropriations which remain unfilled or unreconciled for which the Air Force may incur a contractual commitment for payment is \$840.4 million.

Contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to Note 15 for further details.

The Air Force is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, Air Force does not have a systemic process by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present the Air Force's contingent liabilities.

<b>Note 17.</b>	<b>Military Retirement and Other Federal Employment Benefits</b>
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As of June 30	2008			2007	
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
<b>1. Pension and Health Actuarial 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 Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Other Actuarial Benefits</b>					
A. FECA	\$ 1,132,558,273.01		\$ 0.00	\$ 1,132,558,273.01	\$ 1,123,322,100.00
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 Actuarial Benefits	\$ 1,132,558,273.01		\$ 0.00	\$ 1,132,558,273.01	\$ 1,123,322,100.00
<b>3. Other Federal Employment Benefits</b>	\$ 2,810,514.13		\$ (2,810,514.13)	\$ 0.00	\$ 0.00
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>	\$ 1,135,368,787.14		\$ (2,810,514.13)	\$ 1,132,558,273.01	\$ 1,123,322,100.00

Actuarial Cost Method Used:

Assumptions:

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

Relevant Information for ComprehensionFederal Employees' Compensation Act (FECA)

The FECA 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 present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds.

Interest rate assumptions utilized for discounting were as follows:

**2007**

4.93% in Year 1

5.08% 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 (COLAs)) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2007 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>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2008	2.63%	3.74.%
2009	2.90%	4.04%
2010	2.47%	4.00%
2011	2.37%	3.94%
2012 +	2.30%	3.94%

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2007 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the FY 2007 projection to the average pattern for the projections of the most recent three years.

The Air Force's actuarial liability for workers' compensation benefits is developed and provided by the Department of Labor at the end of each fiscal year. There is no change on a quarterly basis. A comparison of 4<sup>th</sup> Quarter, FY 2007, and 4<sup>th</sup> Quarter, FY 2006, disclosed a minor change. Programs for which actuarial benefits are computed include FECA, the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims.

Other Federal Employment Benefits is comprised of additional post employment benefits due and payable to military personnel.

<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	2008	2007
1. Intragovernmental Costs	\$ 25,601,919,246.52	\$ 23,372,732,232.86
2. Public Costs	80,989,612,875.08	86,360,826,488.12
<b>3. Total Costs</b>	<b>\$ 106,591,532,121.60</b>	<b>\$ 109,733,558,720.98</b>
4. Intragovernmental Earned Revenue	\$ (3,101,196,322.85)	\$ (3,049,682,624.72)
5. Public Earned Revenue	(644,670,530.08)	(652,081,646.71)
<b>6. Total Earned Revenue</b>	<b>\$ (3,745,866,852.93)</b>	<b>\$ (3,701,764,271.43)</b>
<b>7. Net Cost of Operations</b>	<b>\$ 102,845,665,268.67</b>	<b>\$ 106,031,794,449.55</b>

#### 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's systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer side balances are adjusted to agree with internal seller side balances for revenue. Accounts Payable were adjusted by accruing additional accounts payable and expenses.

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

The amounts presented in this statement are based on obligations and disbursements and, thus, may not report actual accrued costs in all cases and may not meet accounting standards. 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 Air Force's accounting systems do not capture information relative to heritage assets separately and distinctly from normal operations. Where it was able to separately identify the cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets, the Air Force has identified \$2.0 million for the fiscal year.

<b>Note 19. Disclosures Related to the Statement of Changes in Net Position</b>
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As of June 30	2008		2007	
	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	0.00	0.00	0.00	0.00
<b>C. Total Prior Period Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 140,365,103.69	\$ 0.00	\$ 148,949,226.89	\$ 0.00
B. Civilian Health	310,348,431.00	0.00	355,676,958.00	0.00
C. Civilian Life Insurance	1,093,174.48	0.00	1,051,151.94	0.00
D. Judgment Fund	34,767,035.93	0.00	19,304,205.18	0.00
E. Other	0.00	0.00	0.00	0.00
F. IntraEntity	0.00	0.00	0.00	0.00
<b>G. Total Imputed Financing</b>	<b>\$ 486,573,745.10</b>	<b>\$ 0.00</b>	<b>\$ 524,981,542.01</b>	<b>\$ 0.00</b>

Relevant Information for Comprehension

The Appropriation Received line item on the Statement of Changes in Net Position (SCNP) differs from that reported on the Statement of Budgetary Resources because Appropriations Received on SCNP do not include appropriated dedicated and earmarked receipts. Dedicated and earmarked receipts are accounted for as either nonexchange revenue or donations and forfeitures of cash and cash equivalent. This resulted in a \$3.2 million difference.

The eliminations column on SCNP will reflect zero dollars. Statement of Federal Financial Accounting Standards Number 27, "Identifying and Reporting Earmarked Funds," effective for reporting years after FY 2005, required that DoD modify the SCNP. The Federal Accounting Standards Advisory Board determined that restatement of prior comparative balances would not be allowed. To meet the requirement, additional columns were added to separately display gross amounts for earmarked funds, and all other (non earmarked) funds. In SCNP, all offsetting balances (i.e. transfers in and transfers out, revenues and expenses) for intraDoD activity between earmarked and other (non earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line.

Other Financing Sources, Other consists of other gains and losses to adjust intragovernmental transfers in.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of June 30	2008	2007
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 70,164,299,496.25	\$ 58,623,394,740.70
2. Available Borrowing and Contract Authority at the End of the Period	0.00	0.00

### Apportionment Categories

Funds are apportioned by three categories: (1) Category A is apportioned quarterly, (2) Category B is apportioned by activity or project, and (3) Exempt are funds not subject to apportionment. The amounts of direct and reimbursable obligations incurred are stated in the table.

	Category A	Category B	Exempt
Direct	\$63.4 billion	\$53.8 billion	\$1.5 million
Reimbursable	\$3.5 billion	\$3.1 billion	\$5.7 million

### Intraentity Transactions

The Statement of Budgetary Resources (SBR) includes intraentity transactions because the statements are presented as combined.

### Permanent Indefinite Appropriations

Permanent indefinite appropriations are as follows (reference Note 23 for additional information):

- Department of the Air Force General Gift Fund [10 USC 2601(b)]
- Wildlife Conservation Fund [16 USC 670(a)]
- Air Force Cadet Fund [37 USC 725(s)]

### Appropriations Received

The Appropriation Received line item on the Statement of Changes in Net Position differs from that reported on SBR because Appropriations Received on the Statement of Changes in Net Position do not include dedicated appropriations and earmarked receipts. Dedicated appropriations and earmarked receipts are accounted for as either nonexchange revenue or donations and forfeitures of cash and cash equivalents. This resulted in a \$3.2 million difference.

Legal limitations and time restrictions on the use of unobligated appropriation balances such as upward adjustments are provided under Public Law.



<b>Note 21.</b>	<b>Reconciliation of Net Cost of Operations to Budget</b>
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As of June 30	2008	2007
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 123,822,154,860.86	\$ 115,865,114,484.89
2. Less: Spending authority from offsetting collections and recoveries (-)	(13,030,210,466.28)	(11,368,730,217.50)
3. Obligations net of offsetting collections and recoveries	\$ 110,791,944,394.58	\$ 104,496,384,267.39
4. Less: Offsetting receipts (-)	(71,386,398.89)	9,421,739.78
5. Net obligations	\$ 110,720,557,995.69	\$ 104,505,806,007.17
Other Resources:		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	229,258,448.64	187,192,258.93
8. Imputed financing from costs absorbed by others	486,573,745.10	524,981,542.01
9. Other (+/-)	(1,223,924,962.67)	(1,065,491,620.71)
10. Net other resources used to finance activities	\$ (508,092,768.93)	\$ (353,317,819.77)
<b>11. Total resources used to finance activities</b>	<b>\$ 110,212,465,226.76</b>	<b>\$ 104,152,488,187.40</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 (-)	\$ (6,052,844,219.63)	\$ (1,648,983,873.25)
12b. Unfilled Customer Orders	1,893,397,538.64	2,254,020,175.75
13. Resources that fund expenses recognized in prior Periods (-)	(623,369,700.30)	(1,059,767,779.58)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	71,386,398.89	(9,421,739.78)
15. Resources that finance the acquisition of assets (-)	(11,825,585,534.48)	(10,998,045,534.37)
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 (+/-)	994,666,514.03	878,299,361.78
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ (15,542,349,002.85)</b>	<b>\$ (10,583,899,389.45)</b>
<b>18. Total resources used to finance the Net Cost of Operations</b>	<b>\$ 94,670,116,223.91</b>	<b>\$ 93,568,588,797.95</b>

As of June 30		
	2008	2007
<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	\$ 101,332,147.61	\$ 88,124,375.60
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 (+/-)	458,319.80	22,963.10
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 101,790,467.41	\$ 88,147,338.70
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 8,178,906,225.26	\$ 8,803,156,184.72
26. Revaluation of assets or liabilities (+/-)	1,103,349,221.94	1,461,756,907.25
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material and Supplies Used	17,900,970,442.11	19,166,081,116.59
27d. Other	(19,109,467,311.96)	(17,055,935,895.66)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 8,073,758,577.35	\$ 12,375,058,312.90
<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	\$ 8,175,549,044.76	\$ 12,463,205,651.60
<b>30. Net Cost of Operations</b>	\$ 102,845,665,268.67	\$ 106,031,794,449.55

### Relevant Information for Comprehension

Beginning 4<sup>th</sup> Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with the Office of Management and Budget Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget."

The following note schedule 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 Used to Finance Activities, consists of other gains and losses to adjust intragovernmental transfers in.

Other Resources Used to Finance Items Not Part of the Net Cost of Operations include adjustments to net obligated resources that do not affect the Net Cost of Operations such as net transfers in and transfers out without reimbursement, and other gains and losses to adjust intragovernmental transfers in.

Other Components Requiring or Generating Resources in Future Period consist of expenses due to Air Force active military personnel, and for family housing expense.

Other Components not Requiring or Generating Resources include expense for Operations and Maintenance, Research Development Test and Evaluation, Military Construction, Family Housing, and Military Personnel Expense.

**Note 22.**

**Disclosures Related to Incidental Custodial Collections**

**Note 23.****Earmarked Funds****BALANCE SHEET**  
As of June 30, 2008

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
<b>ASSETS</b>					
Fund balance with					
Treasury	\$ 0.00	\$ 0.00	\$ 5,854,529.56	\$ 0.00	\$ 5,854,529.56
Investments	0.00	0.00	873,164.31	0.00	873,164.31
Accounts and Interest Receivable	0.00	0.00	871.68	0.00	871.68
Other Assets	0.00	0.00	10,239.90	0.00	10,239.90
<b>Total Assets</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 6,738,805.45</b>	<b>\$ 0.00</b>	<b>\$ 6,738,805.45</b>

**LIABILITIES and NET POSITION**

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Liabilities	0.00	0.00	760,865.04	0.00	760,865.04
<b>Total Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 760,865.04</b>	<b>\$ 0.00</b>	<b>\$ 760,865.04</b>
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	5,977,940.41	0.00	5,977,940.41
<b>Total Liabilities and Net Position</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 6,738,805.45</b>	<b>\$ 0.00</b>	<b>\$ 6,738,805.45</b>

**STATEMENT OF NET COST**

For the period ended June 30, 2008

Program Costs	\$ 0.00	\$ 0.00	\$ 7,472,627.36	\$ 0.00	\$ 7,472,627.36
Less Earned Revenue	0.00	0.00	(5,710,846.20)	0.00	(5,710,846.20)
<b>Net Program Costs</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 1,761,781.16</b>	<b>\$ 0.00</b>	<b>\$ 1,761,781.16</b>
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
<b>Net Cost of Operations</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 1,761,781.16</b>	<b>\$ 0.00</b>	<b>\$ 1,761,781.16</b>

Air Force General Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30, 2008	Military Retirement Fund		Medicare Eligible Retiree Health Care Fund		Other Earmarked Funds		Eliminations		Total
Net Position Beginning of the Period	\$	0.00	\$	0.00	\$	4,548,466.41	\$	0.00	\$ 4,548,466.41
Net Cost of Operations		0.00		0.00		1,761,781.16		0.00	1,761,781.16
Budgetary Financing Sources		0.00		0.00		3,191,255.16		0.00	3,191,255.16
Other Financing Sources		0.00		0.00		0.00		0.00	0.00
Change in Net Position	\$	0.00	\$	0.00	\$	1,429,474.00	\$	0.00	\$ 1,429,474.00
Net Position End of Period	\$	0.00	\$	0.00	\$	5,977,940.41	\$	0.00	\$ 5,977,940.41

Earmarked Funds

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, device, 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, device, 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 (a)]

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.

The Air Force Cadet Fund is classified as a special fund, the Air Force General Gift Fund and Wildlife Conservation Fund are trust funds. All three funds utilize receipt and expenditure accounts in accounting for and reporting the funds.

Relevant Information for Comprehension

The Total Earmarked Funds column is shown as consolidated. All intraDoD activity between earmarked funds and non earmarked funds has been eliminated from this column, which causes assets to not equal liabilities and net position.

<b>Note 24.</b>	<b>Other Disclosures</b>
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As of June 30	2008 Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments Due

Fiscal Year

2008	\$ 58,114,000.00	\$ 0.00	\$ 87,588,113.00	\$ 145,702,113.00
2009	55,634,000.00	0.00	91,091,637.00	146,725,637.00
2010	56,857,948.00	0.00	94,735,302.00	151,593,250.00
2011	58,108,822.86	0.00	98,524,715.00	156,633,537.86
2012	59,387,216.96	0.00	102,465,703.00	161,852,919.96
2013	60,693,735.73	0.00	106,564,331.00	167,258,066.73
After 5 Years	62,028,997.92	0.00	0.00	62,028,997.92

**Total Future Lease  
Payments Due**

	\$ 410,824,721.47	\$ 0.00	\$ 580,969,801.00	\$ 991,794,522.47
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Relevant Information for Comprehension

Leases in the land and buildings category include costs for operating leased housing facilities for the active Air Force in the United States and overseas. Section 801 Family Housing Program leases are not included in this category.

Other leases consist of Air Force vehicle leases from the General Services Administration and commercial lessors located in Europe, Southwest Asia, and the United States.



<b>Note 25.</b>	<b>Restatements</b>
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Not Applicable