

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

	2007 Consolidated	2006 Consolidated
1. Program Costs		
A. Gross Costs	\$ 109,733,558,720.98	\$ 103,085,444,727.26
B. (Less: Earned Revenue)	(3,701,764,271.43)	(3,466,299,667.43)
C. Net Program Costs	<u>\$ 106,031,794,449.55</u>	<u>\$ 99,619,145,059.83</u>
2. Cost Not Assigned to Programs	0.00	0.00
3. (Less: Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	<u><u>\$ 106,031,794,449.55</u></u>	<u><u>\$ 99,619,145,059.83</u></u>

Department of Defense

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2007 and 2006

	2007 Earmarked Funds	2007 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 4,539,548.08	\$ 180,854,183,593.89
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	4,539,548.08	180,854,183,593.89
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
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 and cash equivalents	1,524,247.49 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	250,000,000.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	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)
6. Total Financing Sources	2,050,056.07	104,770,606,418.31
7. Net Cost of Operations (+/-)	1,918,061.87	106,029,876,387.68
8. Net Change	131,994.20	(1,259,269,969.37)
9. Cumulative Results of Operations	4,671,542.28	179,594,913,624.52
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 70,186,333,502.64
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	70,186,333,502.64
13. Budgetary Financing Sources:		
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)
14. Total Budgetary Financing Sources	0.00	42,415,822,610.76
15. Unexpended Appropriations	0.00	112,602,156,113.40
16. Net Position	4,671,542.28	292,197,069,737.92

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2007 and 2006

	2007 Eliminations	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 180,858,723,141.97
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
3. Beginning balances, as adjusted	0.00	180,858,723,141.97
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
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 and cash equivalents	0.00	1,524,247.49
4.E. Transfers-in/out without reimbursement	0.00	250,000,000.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	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)
6. Total Financing Sources	0.00	104,772,656,474.38
7. Net Cost of Operations (+/-)	0.00	106,031,794,449.55
8. Net Change	0.00	(1,259,137,975.17)
9. Cumulative Results of Operations	0.00	179,599,585,166.80
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 70,186,333,502.64
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	70,186,333,502.64
13. Budgetary Financing Sources:		
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)
14. Total Budgetary Financing Sources	0.00	42,415,822,610.76
15. Unexpended Appropriations	0.00	112,602,156,113.40
16. Net Position	0.00	292,201,741,280.20

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2007 and 2006

	2006 Earmarked Funds	2006 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 5,451,165.74	\$ 161,338,650,206.55
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	11,929,000,000.00
3. Beginning balances, as adjusted	5,451,165.74	173,267,650,206.55
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	(1,251,498.55)	100,864,655,680.79
4.C. Nonexchange revenue	716,205.75	0.00
4.D. Donations and forfeitures of cash and cash equivalents	1,331,875.24 0.00	0.00 0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	65,654,195.56
5.C. Imputed financing from costs absorbed by others	0.00	517,998,882.19
5.D. Other (+/-)	0.00	3,511,758,055.79
6. Total Financing Sources	796,582.44	104,960,066,814.33
7. Net Cost of Operations (+/-)	1,617,985.56	99,617,527,074.27
8. Net Change	(821,403.12)	5,342,539,740.06
9. Cumulative Results of Operations	4,629,762.62	178,610,189,946.61
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ (1,251,498.55)	\$ 63,717,888,679.53
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	(1,251,498.55)	63,717,888,679.53
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	139,764,959,000.00
13.B. Appropriations transferred-in/out	0.00	2,652,960,165.00
13.C. Other adjustments (rescissions, etc)	0.00	(2,116,346,991.00)
13.D. Appropriations used	1,251,498.55	(100,864,655,680.79)
14. Total Budgetary Financing Sources	1,251,498.55	39,436,916,493.21
15. Unexpended Appropriations	0.00	103,154,805,172.74
16. Net Position	4,629,762.62	281,764,995,119.35

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2007 and 2006

	2006 Eliminations	2006 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	\$ 0.00	\$ 161,344,101,372.29
2. Prior Period Adjustments:		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	11,929,000,000.00
3. Beginning balances, as adjusted	0.00	173,273,101,372.29
4. Budgetary Financing Sources:		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	100,863,404,182.24
4.C. Nonexchange revenue	0.00	716,205.75
4.D. Donations and forfeitures of cash and cash equivalents	0.00	1,331,875.24
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	65,654,195.56
5.C. Imputed financing from costs absorbed by others	0.00	517,998,882.19
5.D. Other (+/-)	0.00	3,511,758,055.79
6. Total Financing Sources	0.00	104,960,863,396.77
7. Net Cost of Operations (+/-)	0.00	99,619,145,059.83
8. Net Change	0.00	5,341,718,336.94
9. Cumulative Results of Operations	0.00	178,614,819,709.23
UNEXPENDED APPROPRIATIONS		
10. Beginning Balances	\$ 0.00	\$ 63,716,637,180.98
11. Prior Period Adjustments:		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
12. Beginning balances, as adjusted	0.00	63,716,637,180.98
13. Budgetary Financing Sources:		
13.A. Appropriations received	0.00	139,764,959,000.00
13.B. Appropriations transferred-in/out	0.00	2,652,960,165.00
13.C. Other adjustments (rescissions, etc)	0.00	(2,116,346,991.00)
13.D. Appropriations used	0.00	(100,863,404,182.24)
14. Total Budgetary Financing Sources	0.00	39,438,167,991.76
15. Unexpended Appropriations	0.00	103,154,805,172.74
16. Net Position	0.00	281,769,624,881.97

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

	<u>2007 Combined</u>	<u>2006 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
1. Unobligated balance, brought forward, October 1	\$ 17,112,926,725.72	\$ 13,006,208,304.77
2. Recoveries of prior year unpaid obligations	3,343,205,955.42	798,360,165.46
3. Budget authority		
3.A. Appropriation	147,673,972,934.54	139,767,254,155.55
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	7,003,659,073.62	6,493,230,172.35
3.D.1.b. Change in receivables from Federal sources	(1,232,154,987.29)	(661,843,637.71)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	274,718,549.57	(116,439,097.61)
3.D.2.b. Without advance from Federal sources	1,979,301,626.18	1,447,927,782.08
3.D.3. Anticipated for rest of year, without advances	1,739,337,334.36	2,205,683,248.41
3.D.4. Previously unavailable	0.00	0.00
3.D.5. Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<u>157,438,834,530.98</u>	<u>149,135,812,623.07</u>
4. Nonexpenditure transfers, net, anticipated and actual	768,393,481.00	2,652,960,165.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	(900,575,000.00)	(2,116,346,991.00)
7. Total Budgetary Resources	<u><u>\$ 177,762,785,693.12</u></u>	<u><u>\$ 163,476,994,267.30</u></u>

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

	2007 Combined	2006 Combined
Status of Budgetary Resources:		
8. Obligations incurred:		
8.A. Direct	\$ 109,069,268,438.62	\$ 100,560,927,894.75
8.B. Reimbursable	6,795,846,046.27	5,834,118,880.83
8.C. Subtotal	<u>115,865,114,484.89</u>	<u>106,395,046,775.58</u>
9. Unobligated balance:		
9.A. Apportioned	58,615,585,005.82	54,331,984,645.28
9.B. Exempt from apportionment	3,525,160.68	3,379,085.61
9.C. Subtotal	<u>58,619,110,166.50</u>	<u>54,335,363,730.89</u>
10. Unobligated balance not available	3,278,561,041.73	2,746,583,760.83
11. Total status of budgetary resources	<u><u>\$ 177,762,785,693.12</u></u>	<u><u>\$ 163,476,994,267.30</u></u>
Change in Obligated Balance:		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	53,989,100,736.62	51,840,780,579.14
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>\$ (2,633,723,578.16)</u>	<u>\$ (2,835,496,221.40)</u>
12.C. Total unpaid obligated balance	51,355,377,158.46	49,005,284,357.74
13. Obligations incurred net (+/-)	<u>\$ 115,865,114,484.89</u>	<u>\$ 106,395,046,775.58</u>
14. Less: Gross outlays	(111,096,593,724.84)	(106,213,971,752.87)
15. Obligated balance transferred, net		
15.A. Actual transfers, unpaid obligations (+/-)	0.00	0.00
15.B. Actual transfers, uncollected customer payments from Federal sources (+/-)	<u>0.00</u>	<u>0.00</u>
15.C. Total Unpaid obligated balance transferred, net	0.00	0.00
16. Less: Recoveries of prior year unpaid obligations, actual	<u>(3,343,205,955.42)</u>	<u>(798,360,165.46)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(747,146,638.89)	(786,084,144.37)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	55,414,415,541.25	51,223,495,436.39
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(3,380,870,217.05)</u>	<u>(3,621,580,365.77)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>52,033,545,324.20</u>	<u>47,601,915,070.62</u>
Net Outlays		
19. Net Outlays:		
19.A. Gross outlays	111,096,593,724.84	106,213,971,752.87
19.B. Less: Offsetting collections	(7,278,377,623.19)	(6,376,791,074.74)
19.C. Less: Distributed Offsetting receipts	9,421,739.78	(86,859,988.71)
19.D. Net Outlays	<u><u>\$ 103,827,637,841.43</u></u>	<u><u>\$ 99,750,320,689.42</u></u>

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

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

Department of Defense
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COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2007 and 2006

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

Department of Defense
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CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2007 and 2006

	2007 Consolidated	2006 Consolidated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 115,865,114,484.89	\$ 106,395,046,775.58
2. Less: Spending authority from offsetting collections and recoveries (-)	(11,368,730,217.50)	(7,961,235,384.57)
3. Obligations net of offsetting collections and recoveries	104,496,384,267.39	98,433,811,391.01
4. Less: Offsetting receipts (-)	9,421,739.78	(86,859,988.71)
5. Net obligations	<u>104,505,806,007.17</u>	<u>98,346,951,402.30</u>
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	187,192,258.93	65,654,195.56
8. Imputed financing from costs absorbed by others	524,981,542.01	517,998,882.19
9. Other (+/-)	(1,065,491,620.71)	3,511,758,055.79
10. Net other resources used to finance activities	<u>(353,317,819.77)</u>	<u>4,095,411,133.54</u>
11. Total resources used to finance activities	<u>\$ 104,152,488,187.40</u>	<u>\$ 102,442,362,535.84</u>
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(1,648,983,873.25)	984,171,882.80
12b. Unfilled Customer Orders	2,254,020,175.75	1,331,488,684.47
13. Resources that fund expenses recognized in prior periods	(1,059,767,779.58)	(729,830,885.81)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	(9,421,739.78)	86,859,988.71
15. Resources that finance the acquisition of assets	(10,998,045,534.37)	(11,746,781,455.97)
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 (+/-)	878,299,361.78	(3,577,412,251.35)
17. Total resources used to finance items not part of the net cost of operations	<u>\$ (10,583,899,389.45)</u>	<u>\$ (13,651,504,037.15)</u>
18. Total resources used to finance the net cost of operations	<u>\$ 93,568,588,797.95</u>	<u>\$ 88,790,858,498.69</u>

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CONSOLIDATED STATEMENT OF FINANCING
For the periods ended June 30, 2007 and 2006

	2007 Consolidated	2006 Consolidated
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Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	88,124,375.60	92,293,598.90
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 (+/-)	22,963.10	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 88,147,338.70	<hr/> 92,293,598.90
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	8,803,156,184.72	9,535,620,377.33
26. Revaluation of assets or liabilities (+/-)	1,461,756,907.25	455,232,308.09
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	0.00	0.00
27c. Operating Material & Supplies Used	19,166,081,116.59	5,853,902,086.44
27d. Other	(17,055,935,895.66)	(5,108,761,809.62)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 12,375,058,312.90	<hr/> 10,735,992,962.24
29. Total components of net cost of operations that will not require or generate resources in the current period	<hr/> \$ 12,463,205,651.60	<hr/> \$ 10,828,286,561.14
30. Net Cost of Operations	<hr/> <hr/> \$ 106,031,794,449.55	<hr/> <hr/> \$ 99,619,145,059.83

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

These financial statements have been prepared to report the financial position and results of operations of the Air Force, as required by the “Chief Financial Officers Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force in accordance with the “Department of Defense Financial Management Regulation” (DoDFMR), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and to the extent possible generally accepted accounting principles (GAAP). Effective 4th Quarter FY 2006, DoD no longer publishes consolidating/combined financial statements. 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 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 management processes and systems and nonfinancial systems and processes 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 systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Air Force continues to implement process and system improvements addressing these limitations many of which are detailed below.

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, (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 on the Statement of Financing. 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 as general, working capital (revolving funds), trust, special, and deposit funds. The Air Force uses these appropriations to execute their missions and report on resource usage.

- 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.
- General funds are used for financial transactions funded by congressional appropriations, including personnel, operations and maintenance; research and development; procurement; and military construction accounts.
- Trust funds contain the receipt and expenditure 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.
- 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, for example, payroll taxes.

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 department of its authority to obligate budget authority and outlay funds to another agency. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statement 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 to the transfer. 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. All activity related to the parent transfers is included in the parent's financial statements.

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

The Air Force allocates funds, as the parent, to the Department of Transportation. All activity related to these parent transfers is included in the Air Force financial statements.

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

The accounts used to prepare the financial statements are categorized as either entity or nonentity. 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 2007, the Air Force's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Air Force's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of the Air Force's legacy systems were designed to record information on a budgetary basis. However, when possible, the financial statements are presented on the accrual basis of accounting, 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 the 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 based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. As a result, the proprietary records may not align with the budgetary without adjustment.

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 and Performance and Results Act" (GPRA). The DoD is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

The Air Force receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Air Force recognizes revenue as a result of costs incurred 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 Number 1*. The Air Force recognizes revenue when earned within the constraints of current system capabilities. In other instances, revenue is recognized when bills are issued.

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Air Force's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. The Air Force's expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are consumed. 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 match buyer and seller transactions by customer because Air Force's systems do not track at buyer/seller level of detail. Generally, seller entities within DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD governmental balances are then eliminated. The Air Force properly eliminates the revenue results from IntraDoD sales of capitalized assets. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements that will ensure intragovernmental information is accurate and will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service (FMS) is responsible for eliminating transactions between DoD and other federal agencies. The U.S. 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, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the Office of Personnel Management (OPM). The DoD proportionate share of public debt and related expenses to 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. Beginning in FY 2007, DoD reports in its basic financial statements the Foreign Military Sales Program that DoD executes on behalf of the Executive Office of the President. This program was previously reported as "Other Accompanying Information."

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, therefore, is restricted. Amounts reported consist primarily of cash and foreign currency held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

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 foreign currency fluctuations.

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include three categories: accounts receivable, 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 U.S. Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

The allowance for the Air Force entity receivables is computed each quarter based on the average percent of write offs to outstanding public accounts receivable for the last five years. For closed years receivables and deferred debts in litigation, an allowance rate of 50% is used. Interest allowance is calculated using an average percent of write offs to outstanding public accounts receivable over a five year period starting with FY 2002 data.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

Related property includes OM&S and stockpile materiels. 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

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

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

1.O. General Property, Plant and Equipment

The SFFAS No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, established generally accepted accounting principles for valuing and reporting military equipment (e.g. ships, aircraft, combat vehicles, weapons) in federal financial statements. The Standard provided for the use of estimated historical cost for valuing military equipment if obtaining actual historical cost information is not practical. The DoD used Bureau of Economic Analysis (BEA) to calculate the value of the military equipment for reporting periods from October 1, 2002, through March 31, 2006.

Effective 3rd Quarter, FY 2006, DoD replaced the BEA estimation methodology with an estimation methodology for military equipment based on departmental internal records. The DoD initially 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 create a baseline. The military equipment baseline is updated using expenditure information and information related to acquisition and disposals.

In FY 2006, the capitalization threshold was revised from \$100 thousand to \$20 thousand for real property. The current \$100 thousand capitalization threshold remains unchanged for the remaining General PP&E categories.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD capitalization threshold of \$100 thousand. The DoD also requires capitalization of improvement costs over 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.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of \$15 thousand, \$25 thousand, and \$50 thousand for fiscal years 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below \$100 thousand were written off from the 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 the DoD capitalization threshold, Federal accounting standards require that it be reported on the Air Force's Balance Sheet.

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

1.P. Advances and Prepayments

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

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), the Air Force records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. The Air Force records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the 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 the Air Force in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Interservice Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms which are not expected to be renewed upon expiration. Other operating leases are generally one year leases. The Air Force expects to continue to reduce the level of owned assets while increasing the number of leased assets. The Air Force will strive to displace commercial leases with more economical GSA leases.

1.R. Other Assets

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 the DoD'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, the Air Force provides 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 payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisitions Regulations Supplement authorizes only for construction of real property, shipbuilding, and ship conversion,

alteration, or repair. Progress payments for real property and ships are reported as Construction in Progress. It is DoD policy to record certain contract financing payments as Other Assets.

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 loss contingencies arise as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, and vehicle accidents; medical malpractice, property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Air Force's assets. 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*.

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 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 without reimbursement.

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. This takes place after negotiations between the U.S. and the host country have determined the amount to be paid the U.S. for such capital investments.

1.W. Comparative Data

Not Applicable.

1.X. Unexpended Obligations

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

1.Y. Undistributed Disbursements and Collection

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

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

Note 2.	Nonentity Assets
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As of June 30	2007	2006
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 185,177,346.74	\$ 174,639,203.89
B. Accounts Receivable	1,207,967.30	2,322,646.93
C. Total Intragovernmental Assets	\$ 186,385,314.04	\$ 176,961,850.82
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 106,544,294.77	\$ 157,430,168.81
B. Accounts Receivable	620,159,177.35	574,876,275.41
C. Other Assets	193,825,000.00	203,825,000.00
D. Total Nonfederal Assets	\$ 920,528,472.12	\$ 936,131,444.22
3. Total Nonentity Assets	\$ 1,106,913,786.16	\$ 1,113,093,295.04
4. Total Entity Assets	\$ 312,379,104,779.71	\$ 301,908,628,305.96
5. Total Assets	\$ 313,486,018,565.87	\$ 303,021,721,601.00

Relevant Information for Comprehension

Nonentity Assets are assets held by an entity but are not available for use in the operations of the entity. Nonfederal Other Assets are advances to contractors. The Nonentity Fund Balance with Treasury asset class represents amounts in Air Force's deposit fund and two suspense fund accounts (Uniformed Services Thrift Savings Plan Suspense and Thrift Savings Plan Suspense) that are not available for Air Force use. Nonentity Accounts Receivable, when collected, goes to the U.S. Treasury as miscellaneous receipts. The Nonentity Nonfederal Accounts Receivable amount also includes interest receivables on aged debt. Nonentity Cash and Other Monetary Assets represent disbursing officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by the Air Force disbursing officers as agents of the U.S. Treasury.

Other Nonfederal Assets consist of advances to contractors as part of the advance payment pool agreements with the Massachusetts Institute of Technology and other nonprofit institutions. These agreements are used for the financing of cost-type contracts with nonprofit educational or research institutions for experimental or research and development work when several contracts or a series of contracts require financing by advance payments.

Note 3.	Fund Balance with Treasury
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As of June 30	2007	2006
1. Fund Balances		
A. Appropriated Funds	\$ 112,378,175,986.05	\$ 102,745,961,672.58
B. Revolving Funds	0.00	0.00
C. Trust Funds	4,885,938.54	4,097,844.23
D. Special Funds	951,089.37	953,220.78
E. Other Fund Types	185,177,346.74	174,639,203.89
F. Total Fund Balances	\$ 112,569,190,360.70	\$ 102,925,651,941.48
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 112,611,025,200.24	\$ 102,938,476,856.23
B. Fund Balance per Air Force	112,569,190,360.70	102,925,651,941.48
3. Reconciling Amount	\$ 41,834,839.54	\$ 12,824,914.75

Fund Balance with Treasury

Other Fund Types include balances in Deposit Funds , Receipt Accounts and Uniformed Services Thrift Savings Plan Suspense Account.

The Air Force shows a reconciling amount of \$41.8 million with the U.S. Treasury, which is comprised of:

- \$25.2 million in allocation transfers to Air Force from the Department of Agriculture and the Foreign Military Sales – Military Assistance Program (MAP). These funds are included in the fund balance with treasury (FBWT) at U.S. Treasury for the Air Force, but Air Force does not include in their FBWT because Department of Agriculture and MAP report these balances in their financial statements.
- \$9.2 million in allocation transfers from Air Force to the Department of Transportation. These funds are included in the FBWT at U.S. Treasury for Department of Transportation but Air Force includes in their FBWT because Department of Transportation does not report these funds in their financial statement.
- \$25.8 million in appropriation 578930.002, Governmental Receipts, Soldiers and Airmen’s Home is not in Air Force accounting records. This amount was erroneously recorded by Treasury under the Air Force Trust Fund Account. Treasury will transfer this balance to the proper account next quarter.

Status of Fund Balance with Treasury

As of June 30	2007	2006
1. Unobligated Balance		
A. Available	\$ 56,879,772,832.14	\$ 52,129,431,020.07
B. Unavailable	3,278,561,041.73	2,746,583,760.83
2. Obligated Balance not yet Disbursed	\$ 55,414,415,541.25	\$ 51,223,495,436.39
3. Nonbudgetary FBWT	\$ 378,119,767.14	\$ 448,429,320.95
4. NonFBWT Budgetary Accounts	\$ (3,381,678,821.56)	\$ (3,622,287,601.45)
5. Total	\$ 112,569,190,360.70	\$ 102,925,651,936.79

Relevant Information for Comprehension

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

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

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 yet paid.

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

NonFBWT budgetary accounts include budgetary accounts that do not affect FBWT and consist of reimbursements and other income, earned receivables, investments and discounts in U.S. Treasury securities, and unfilled customer orders without advances. This category reduces the Status of FBWT.

The unobligated balance unavailable of \$3.3 billion is not available for new obligations because the period for new obligations established by law has expired.

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2005	2006	2007	(Decrease)/ Increase from FY 2006 - 2007
Account				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	297,794,504.62	330,492,181.74	328,831,207.84	(1,660,973.90)
F3880 – Lost or Cancelled Treasury Checks	781,972.20	501,279.67	334,757.68	(166,521.99)
F3882 – Uniformed Services Thrift Savings Plan Suspense	50,766,617.50	31,915,350.22	34,790,049.54	2,874,699.32
F3885 – Interfund/IPAC Suspense	(381,719,884.13)	(57,203,344.35)	(136,223,545.12)	(79,020,200.77)
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
Total	\$ (32,376,789.81)	\$ 305,705,467.28	\$ 227,732,469.94	(77,972,997.34)

Relevant Information for Comprehension

The F3845 suspense account represents the balance of proceeds from the sale of personal property.

The F3875 suspense account represents the Disbursing Officers suspense. Account F3885 represents the Interfund/IPAC suspense. Account F3886 represents the (payroll) Thrift Savings Plan suspense. These three suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

The F3880 suspense account represents the balance of U.S. Treasury checks that (1) have either been lost by the payee and need to be reissued, (2) have never been cashed by the payee, or (3) have been cancelled by the U.S. Treasury and need to be transferred to the original appropriation.

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

Disclosures Related to Problem Disbursements

As of June 30	2005	2006	2007	(Decrease)/ Increase from FY 2006 to 2007
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDs)	\$ 324,042,252.26	\$ 135,219,141.24	\$ 63,074,934.54	(72,144,206.70)
B. Negative Unliquidated Obligations (NULO)	17,798,848.80	5,363,208.15	7,613,692.64	2,250,484.49
C. In-Transit Disbursements	1,267,237,379.74	1,397,325,118.81	1,162,198,490.09	(235,126,628.72)
Total	\$ 1,609,078,480.80	\$ 1,537,907,468.20	\$ 1,232,887,117.27	(305,020,350.93)

Relevant Information for Comprehension

The amount of Unmatched Disbursements (UMDs) over 180 days is \$0, Negative Unliquidated Obligations (NULOs) is \$0, and in-transits is \$4.1 million. The amount of UMDs over 120 days old is \$0, NULOs is \$0, and in-transits is \$12.5 million. The current value of net in-transits is \$906.6 million.

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

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

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

The In-Transit Disbursements represent the absolute value of disbursements and collections made by a departmental disbursing activity on behalf of an accountable activity and have not been posted to the accounting system.

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

Note 4.	Investments and Related Interest
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As of June 30	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	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
2. Other Investments					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	710,000.00		2,997.90	712,997.90	703,409.69
5. Total Nonmarketable, Market-Based	710,000.00		2,997.90	712,997.90	703,409.69
B. Accrued Interest	6,975.11			6,975.11	6,975.11
C. Total Intragovernmental Securities	\$ 716,975.11		\$ 2,997.90	\$ 719,973.01	\$ 710,384.80
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 or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Federal Government purposes. U.S. Treasury securities are issued to the Air Force as evidence of its receipts. U.S. Treasury securities are an asset to the Air Force and a liability to the U.S. Treasury. Because the Air Force and the U.S. Treasury are both parts of the 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 U.S. Government wide financial statements. U.S. Treasury securities provide the Air Force with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Air Force requires redemption of these securities to make expenditures, the Federal Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Federal Government finances all other expenditures.

Note 5.	Accounts Receivable
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As of June 30	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	\$ 139,072,946.82	N/A	\$ 139,072,946.82	\$ 407,497,311.77
2. Nonfederal Receivables (From the Public)	\$ 1,169,535,729.77	\$ (122,493,359.89)	\$ 1,047,042,369.88	\$ 1,099,701,924.32
3. Total Accounts Receivable	\$ 1,308,608,676.59	\$ (122,493,359.89)	\$ 1,186,115,316.70	\$ 1,507,199,236.09

Relevant Information for Comprehension

As presented on the Consolidated Balance Sheet, accounts receivable includes reimbursement receivable and refund receivable such as out-of-service debts (amounts owed by former service members) and contractor debts. It also includes net interest receivables. Canceled accounts receivable are reported as nonentity receivables because these amounts are deposited into a U.S. Treasury miscellaneous receipt account when collected. Reconciliation between Treasury Report on Receivables (TROR) Due from the Public and the Balance Sheet was accomplished. This reconciliation is performed to ensure that the financial statements are in agreement with the receivable amount reported to the U.S. Treasury. The difference between accounts receivable on the Balance Sheet and TROR Due from the Public include the allowance for estimated uncollectible of \$122.5 million, unsupported collections in-transit in the amount of \$3.6 million and undistributed collections of \$29.6 million. Undistributed collections are prorated between public and intragovernmental receivables based on a percentage calculated from receivable amounts represented on the Balance Sheet.

Aged Accounts Receivable

As of June 30	2007		4th Quarter 2006	
CATEGORY	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
Nondelinquent				
Current	\$ 150,721,159.00	\$ 168,872,301.00	\$ 1,085,889,663.21	\$ 193,633,488.69
Noncurrent	0.00	0.00	5,724,685.96	0.00
Delinquent				
1 to 30 days	\$ 13,129,544.00	\$ 14,041,629.00	\$ 34,154,795.54	\$ 6,010,392.77
31 to 60 days	531,268.00	2,595,621.00	122,543,435.28	4,677,392.66
61 to 90 days	616,148.00	4,603,173.00	28,469,104.33	6,744,328.45
91 to 180 days	1,112,302.00	10,334,206.00	64,611,412.98	21,216,861.73
181 days to 1 year	1,404,289.00	19,924,180.00	55,201,368.66	41,512,769.68
Greater than 1 year and less than or equal to 2 years	1,222,657.00	19,181,209.00	7,144,790.21	12,564,981.64
Greater than 2 years and less than or equal to 6 years	9,214,676.00	728,466,736.00	6,436,570.41	705,483,269.36
Greater than 6 years and less than or equal to 10 years	0.00	186,287,097.00	0.00	179,819,383.78
Greater than 10 years	0.00	17,953,344.62	0.00	17,701,994.25
Subtotal	\$ 177,952,043.00	\$ 1,172,259,496.62	\$ 1,410,175,826.58	\$ 1,189,364,863.01
Less Supported Undistributed Collections	(858,222.11)	(2,723,766.85)	(664,847.09)	(93,863.61)
Less Eliminations	(38,020,874.07)	0.00	(743,840,224.26)	0.00
Less Other	0.00	0.00	0.00	0.00
Total	\$ 139,072,946.82	\$ 1,169,535,729.77	\$ 665,670,755.23	\$ 1,189,270,999.40

Relevant Information for Comprehension

During the 1st Quarter, FY 2007, intragovernmental and nonfederal receivables in all aging categories were adjusted to bring the DFAS-Dayton accounting information into compliance with DoD Financial Management Regulation policy on posting and aging of receivables. These adjustments were part of a comprehensive clean-up effort by the Air Force and DFAS. This eliminates any capability to compare aging categories to FY 2006 year end.

For delinquent intragovernmental and nonfederal receivables without valid supporting documentation, DFAS is working with the Air Force to obtain documentation to support an Intragovernmental Paying and Collection. If supporting documentation is not available, the original entry will be reversed.

DFAS has a new initiative to develop a front end edit in the accounting system to help validate reimbursable data before it is loaded. This concept will be costed to determine, if feasible, as a legacy system effort. DFAS and the Air Force released additional information in December 2006, strengthening guidance and controls relative to the elimination of unsupported reimbursable transactions and supporting documentation required to record future reimbursable transactions.

Demand letters are sent to nonfederal debtors once the payment becomes 30 days delinquent in accordance with the procedures outlined in the Concept of Operations for Managing Accounts Receivables. The delinquencies

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

The accounts receivable aging schedule prior year column represents 4th Quarter, FY 2006, ending balances, rather than the ending balances as 3rd Quarter, FY 2006. Therefore, the prior year accounts receivable balance on the aging schedule will not agree with the prior year balance on the Balance Sheet nor the prior year balance in the first schedule in this note.

The Intragovernmental Delinquent Receivables (1 to 30 days old) (\$13 million) consist primarily of internal Air Force billings and will be collected in the next 30 days.

The majority of Nonfederal Delinquent Receivables (From the Public) (\$1 billion) consist of \$918 million of delinquent contractor debts and interest penalties associated with those debts. The Debt Management Office is actively pursuing collection of these debts.

Note 6.	Other Assets
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As of June 30	2007	2006
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 345,500,437.78	\$ 436,904,638.02
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 345,500,437.78	\$ 436,904,638.02
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 10,566,356,171.34	\$ 10,255,132,254.29
B. Other Assets (With the Public)	273,770,309.81	282,363,923.36
C. Total Nonfederal Other Assets	\$ 10,840,126,481.15	\$ 10,537,496,177.65
3. Total Other Assets	\$ 11,185,626,918.93	\$ 10,974,400,815.67

Relevant Information for Comprehension

Other Assets (With the Public) is comprised primarily of advances to contractors as part of advance payment pool agreements with the Massachusetts Institute of Technology and other nonprofit institutions and travel advances. The advance payment pool agreements are used for the financing of cost type contracts with nonprofit educational or research institutions for experimental or research and development work when several contracts or a series of contracts require financing by advance payments.

Contract terms and conditions for certain types of contract financing payments convey certain rights to DoD 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 Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and DoD is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The Contract Financing Payment balance of \$10.6 billion is comprised of \$9.8 billion in contract financing payments and an additional \$720.3 million in estimated future funded payments that will be paid to the contractor upon future delivery and government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7.	Cash and Other Monetary Assets
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As of June 30	2007	2006
1. Cash	\$ 103,101,692.76	\$ 151,659,564.57
2. Foreign Currency	3,442,602.01	5,770,604.24
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 106,544,294.77	\$ 157,430,168.81

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 disbursements in foreign countries and exchange U.S. dollars to foreign currency for U.S. military personnel.

Cash and foreign currency are nonentity assets and, as such, are considered restricted assets that are held by the Air Force but not available 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 \$106.5 million is restricted.

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

Direct Loan and/or Loan Guarantee Programs

Not Applicable

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

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

Direct Loans Obligated

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

Total Amount of Direct Loans Disbursed

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

Subsidy Expense for Post FY 1991 Direct Loan

As of June 30

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

Subsidy Rate for Direct Loans by Program

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

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

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

Defaulted Guaranteed Loans

As of June 30

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

Guaranteed Loans Outstanding

As of June 30	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00
2007		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00
2006		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Foreign Military Liquidating Account	0.00	0.00
4. Total	\$ 0.00	\$ 0.00

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

Subsidy Expense for Loan Guarantees by Program

As of June 30

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

Subsidy Rates for Loan Guarantees by Program

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

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

As of June 30	2007	2006
Beginning Balance, Changes, and Ending Balance:		
1. Beginning Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	\$ 0.00	\$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	\$ 0.00	\$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	\$ 0.00	\$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	\$ 0.00	\$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Reestimates	\$ 0.00	\$ 0.00
5. Add or Subtract Subsidy Reestimates by Component		
A. Interest Rate Reestimate	0.00	0.00
B. Technical/default Reestimate	0.00	0.00
C. Total of the above Reestimate Components	\$ 0.00	\$ 0.00
6. Ending Balance of the Loan Guarantee Liability	\$ 0.00	\$ 0.00

Administrative Expenses

Note 9.	Inventory and Related Property
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As of June 30	2007	2006
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	46,429,639,760.94	49,227,872,840.82
3. Stockpile Materials, Net	0.00	0.00
4. Total	\$ 46,429,639,760.94	\$ 49,227,872,840.82

Inventory, Net

As of June 30	2007			2006		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
1. Inventory Categories						
A. Available and Purchased for Resale	\$ 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
F. Total	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	

Legend for Valuation Methods:

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

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

Operating Materials and Supplies, Net

As of June 30	2007			2006		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
1. OM&S Categories						
A. Held for Use	\$ 35,997,560,177.63	\$ 0.00	\$ 35,997,560,177.63	\$ 37,705,592,034.17		SP, LAC
B. Held for Repair	10,432,079,583.31	0.00	10,432,079,583.31	11,522,280,806.65		SP, LAC
C. Excess, Obsolete, and Unserviceable	1,731,720,225.23	(1,731,720,225.23)	0.00	0.00		NRV
D. Total	\$ 48,161,359,986.17	\$ (1,731,720,225.23)	\$ 46,429,639,760.94	\$ 49,227,872,840.82		

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

Operating Materials and Supplies (OM&S), Net

General Composition of OM&S

The Operating Materials and Supplies (OM&S) include weapon systems spares, ammunition, tactical missiles, 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.

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

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

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

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

The category Held for Repair includes all economically repairable materials.

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

Before FY 2002, the Department of Defense (DoD) categorized potentially redistributable materiel, regardless of condition, as Excess, Obsolete, and Unserviceable.

The DoD's approved methodology for determining historical cost is the Moving Average Cost (MAC). As of 3rd Quarter, FY 2007, Air Force has fully implemented MAC in three of the six systems used to report OM&S values into the accounting system. In two of the three remaining systems, the beginning inventory balances have been established, but the cost for the quantities on hand for each national stock number have not been validated. It is anticipated that a majority of the cost associated with the inventory balances in these two systems will be validated using MAC standards in FY 2008. Validation of the beginning balance in the Combat Ammunitions System (CAS), which manages approximately 50% of all OM&S, is not scheduled to be completed until the end of FY 2008.

Under current DoD policy, no allowance is made for serviceable, ready-to-issue, items (category Held for Use). An allowance equal to 100% of MAC or standard price, however, is made for the category Excess, Obsolete, and Unserviceable. This allowance results in a net book value of zero for items that have no intrinsic value to the Air Force. The category Held for Repair represents suspended, unserviceable (but repairable) items. Air Force will continue to report Held for Repair at MAC or standard price until Office of the Secretary of Defense guidance is provided on how to compute an allowance for repair.

Contractor Supported Weapon Systems (CSWS)

Currently the OM&S values included on the financial statements for CSWS are manually reported to Defense Finance and Accounting Service (DFAS). The Air Force is currently working with these contractors to develop the information systems capability that will compute MAC, accumulate and report the Air Force's financial data to DFAS using a standard system to system interface. Once completed by 1st Quarter FY 2009, this module and interface will be used as a prototype for implementation for most of the CSWS.

Operating Materiel and Supplies (OM&S) Value

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

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

In general, the Air Force uses the consumption method of accounting for OM&S, since OM&S is defined in SFFAS No. 3 as materiel that has not yet been issued to the end user. Once issued, the materiel is expensed. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost beneficial to expense OM&S when purchased (purchase method).

Other Air Force Disclosures

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

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

Stockpile Materials, Net

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

Legend for Valuation Methods:

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

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

Note 10. General PP&E, Net

As of June 30	2007					2006
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	\$ 438,270,513.25	N/A	\$ 438,270,513.25	\$ 434,795,808.12
B. Buildings, Structures, and Facilities	S/L	20 Or 40	47,274,074,089.73	\$ (27,020,032,896.32)	20,254,041,193.41	20,063,134,158.27
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	884,792,662.43	(260,811,250.30)	623,981,412.13	486,985,200.40
E. General Equipment	S/L	5 or 10	31,587,829,400.50	(25,290,233,467.44)	6,297,595,933.06	7,875,810,715.68
F. Military Equipment	S/L	Various	240,935,444,146.78	(129,993,983,178.33)	110,941,460,968.45	105,730,000,000.00
G. Assets Under Capital Lease	S/L	lease term	405,987,908.22	(297,711,730.05)	108,276,178.17	130,338,213.15
H. Construction-in- Progress	N/A	N/A	3,344,452,352.37	N/A	3,344,452,352.37	3,507,382,529.50
I. Other			0.00	0.00	0.00	0.00
J. Total General PP&E			<u>\$ 324,870,851,073.28</u>	<u>\$ (182,862,772,522.44)</u>	<u>\$ 142,008,078,550.84</u>	<u>\$ 138,228,446,625.12</u>

¹ 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.

Military Equipment

In accordance with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," beginning in FY 2003, the DoD capitalized military equipment into General PP&E at estimated historical cost using information obtained from the Bureau of Economic Analysis (BEA). The DoD changed its method of valuing military equipment in 3rd Quarter, FY 2006. Previously, military equipment was valued using the BEA data. Beginning with the 3rd Quarter, FY 2006, military equipment is valued based on internal records.

Other Air Force Disclosures

In 3rd Quarter, FY 2007, the Air Force used some FY 2002 ending data for Special Tools and Special Test Equipment (ST/STE) and actual data for the B2 aircraft. Air Force Equipment Management System (AFEMS) has automated the reporting process for this information. Beginning in FY 2007, ST/STE will be inventoried, costed, and loaded into AFEMS. All ST/STE should be reported by the end of FY 2009. The net book value of

ST/STE for the 3rd Quarter, FY 2007, remains unchanged at \$170.3 million, which is immaterial to the balance of general equipment.

The value of the Air Force's General PP&E real property in the possession of contractors is included in the values reported above for the major asset classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property major asset class of Software and Equipment does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. The Government Accountability Office, the Inspector General, DoD, and the Air Force are developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes in compliance with generally accepted accounting principles.

Heritage Assets

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

Heritage Assets 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 4,548 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 14 museums with the major museum located at Wright-Patterson Air Force Base, Ohio. It houses the main collection of historical artifacts. Thirteen 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 14th museum belongs to the Air National Guard. 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 1,514 archeological sites listed on or eligible for the National Register.

Assets Under Capital Lease

As of June 30	2007	2006
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 405,987,908.22	\$ 453,481,227.52
B. Equipment	0.00	0.00
C. Accumulated Amortization	(297,711,730.05)	(323,143,014.37)
D. Total Capital Leases	\$ 108,276,178.17	\$ 130,338,213.15

Relevant Information for Comprehension

The Air Force is the lessee in nine capital leases for military family housing acquired through the Section 801 Family Housing Program. Four of the nine leases are funded on a fiscal year basis because they originated prior to FY 1992. The leases are capitalized and reported as an asset since their costs exceed the capitalization threshold of \$100 thousand. The net value of assets under capital lease will continue to decrease through amortization and all capital leases are scheduled to expire by 4th Quarter, FY 2015. The Air Force is not acquiring any new capital leases.

The lease for a 300 unit family housing project at Eielson AFB was scheduled to expire in August 2006. When the Air Force and the owner could not come to an agreement of termination, a declaration of taking was filed with the court. The court extended the lease twice, initially to January 2007 and a second time to August 2007. The issue was resolved in 3rd Quarter, FY 2007, and the Eielson AFB capital lease was removed.

Note 11.	Liabilities Not Covered by Budgetary Resources
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As of June 30	2007	2006
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	1,073,029,270.99	1,015,330,621.79
D. Total Intragovernmental Liabilities	\$ 1,073,029,270.99	\$ 1,015,330,621.79
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 140,763,144.38	\$ 49,555,896.06
B. Military Retirement and Other Federal Employment Benefits	1,123,322,100.00	1,147,437,480.00
C. Environmental Liabilities	5,621,046,704.19	6,160,296,580.76
D. Other Liabilities	2,944,734,114.26	2,607,344,429.96
E. Total Nonfederal Liabilities	\$ 9,829,866,062.83	\$ 9,964,634,386.78
3. Total Liabilities Not Covered by Budgetary Resources	\$ 10,902,895,333.82	\$ 10,979,965,008.57
4. Total Liabilities Covered by Budgetary Resources	\$ 10,381,381,951.85	\$ 10,272,131,710.46
5. Total Liabilities	\$ 21,284,277,285.67	\$ 21,252,096,719.03

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

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

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

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

Note 12.	Accounts Payable
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As of June 30	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 1,499,541,843.40	\$ N/A	\$ 1,499,541,843.40	\$ 1,759,529,747.24
2. Nonfederal Payables (to the Public)	4,588,130,533.29	464,696.58	4,588,595,229.87	5,015,581,155.24
3. Total	\$ 6,087,672,376.69	\$ 464,696.58	\$ 6,088,137,073.27	\$ 6,775,110,902.48

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

Not Applicable

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of June 30	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities-- Nonfederal				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 397,341,000.00	\$ 2,978,959,990.14	\$ 3,376,300,990.14	\$ 3,748,351,050.99
2. Active Installations—Military Munitions Response Program (MMRP)	15,544,845.00	1,378,160,359.49	1,393,705,204.49	1,344,856,000.00
3. Formerly Used Defense Sites—IRP and BD/DR	0.00	0.00	0.00	0.00
4. Formerly Used Defense Sites--MMRP	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Liabilities—Active Installations				
1. Environmental Corrective Action	0.00	129,286,161.93	129,286,161.93	130,215,158.50
2. Environmental Closure Requirements	4,429,000.00	95,052,000.00	99,481,000.00	51,655,000.00
3. Environmental Response at Operational Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. Installation Restoration Program	124,812,000.00	1,001,067,229.32	1,125,879,229.32	1,114,676,389.88
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	8,432,000.00	67,634,127.27	76,066,127.27	141,371,490.96
4. Other	0.00	0.00	0.00	214,170,720.56
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities	\$ 550,558,845.00	\$ 5,650,159,868.15	\$ 6,200,718,713.15	\$ 6,745,295,810.89

Others Category Disclosure Comparative Table		
(Amounts in thousands)	2007	2006
Other Accrued Environmental Costs - Other		
Total	\$0.0	\$0.0
Base Realignment and Closure - Other		
Manpower services at BRAC installations and headquarters offices.	\$0.0	\$214,171
Total	\$0.0	\$214,171
Environmental Disposal for Weapons Systems Programs - Other		
Total	\$0.0	\$0.0

The amount reported for Base Realignment and Closure (BRAC) – Other in FY 2006 was reclassified into the Installation Restoration Program (IRP) line in 4th Quarter, FY 2006, to better reflect the distribution of management and manpower estimates and to be consistent with DoD policy. All future management and manpower estimates will be reported in the IRP and Environmental Corrective Action/Closure Requirements lines.

Environmental Disclosures

As of June 30	2007	2006
A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	103,690,000.00	0.00
B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

Other Information Related to Environmental Liabilities

The Air Force provides annual estimates and does not provide quarterly updates. The liability reported in the 3rd Quarter, FY 2007, financial statements is the estimate for end of FY 2006. Each quarter, the Air Force updates the liability amount with expenditure data. For the 4th Quarter, FY 2007, financial statements, the Air Force plans to develop a methodology to estimate the cleanup costs, due to changes in laws, regulations, and technology that are related to prior periods. The cleanup costs, due to changes in laws, regulations, and/or technology will be reported in the 4th Quarter, FY 2007, financial statements.

Applicable Laws and Regulations of Cleanup Requirements

The Air Force is required to clean-up contamination resulting from past waste disposal practices, leaks, spills and other past activity, which has created a public human health or environmental risk. The Air Force does this in coordination with regulatory agencies, and if applicable, with other responsible parties, and current property owners. The Air Force is also required to recognize closure and post closure costs for its 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 the Defense Environmental Restoration Program (DERP) at active installations, BRAC installations, and cleanup requirements at active installations that are not covered by the 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 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 (RACER) 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 the 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, the Air Force complies with accounting standards to assign costs to current operating periods. Because the Accrued Environmental Restoration Liabilities is accounted for as a totally self-contained program, all direct and indirect costs of the program are captured and reported.

The 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 PP&E placed into service after September 30, 1997, the Air Force expenses the associated environmental costs systematically over the life of the asset. The Air Force expenses the full cost to cleanup contamination for Stewardship PP&E at the time the asset is placed into service. The Air Force uses the physical capacity for operating landfills method for systematic recognition.

The Air Force operating program provides funding for the direct costs of Environmental Corrective Action, which must compete for funding with other operating program requirements. Because of uncertainty in commitment for funding of Environmental Corrective Action, the Air Force has not recognized a current liability for Environmental Corrective Action. The Air Force plans to develop a methodology for estimating the current liability for the 4th Quarter, FY 2007, financial statements.

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

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

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

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 to at the time of the 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 more contamination.

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.

Closure liabilities recognized by the Air Force cover only direct costs. No Air Force cost accounting system exists to determine indirect closure costs. Reporting of landfill closure liability is not in conformance with the accounting standard. In order to bring Air Force compliant with DoD policy, the Secretary of the Air Force, Financial Management (SAF/FM), released policy to Air Force Logistics, Installation and Mission Support (AF/A47) in June, 2007. This policy provides specific guidance for reporting all estimated clean-up costs. Implementation of this guidance should be completed by 2nd Quarter, FY 2008.

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.

Note 15.	Other Liabilities
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As of June 30	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental				
A. Advances from Others	\$ 749,150,891.43	\$ 0.00	\$ 749,150,891.43	\$ 557,045,574.50
B. Deposit Funds and Suspense Account Liabilities	192,942,420.40	0.00	192,942,420.40	273,790,117.06
C. Disbursing Officer Cash	300,369,294.80	0.00	300,369,294.80	361,255,168.81
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	126,663,190.37	135,434,657.27	262,097,847.64	256,514,261.22
F. Other Liabilities	838,145,829.49	0.00	838,145,829.49	787,400,854.69
G. Total Intragovernmental Other Liabilities	\$ 2,207,271,626.49	\$ 135,434,657.27	\$ 2,342,706,283.76	\$ 2,236,005,976.28
2. Nonfederal				
A. Accrued Funded Payroll and Benefits	\$ 1,302,432,324.20	\$ 0.00	\$ 1,302,432,324.20	\$ 1,132,850,532.98
B. Advances from Others	11,539,358.76	0.00	11,539,358.76	41,859,000.95
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	82,360,182.64	0.00	82,360,182.64	79,735,877.45
E. Temporary Early Retirement Authority	0.00	0.00	0.00	132,921.05
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	2,360,575,826.98	0.00	2,360,575,826.98	2,310,957,553.55
H. Capital Lease Liability	6,763,776.23	154,651,838.80	161,415,615.03	195,056,877.47
I. Other Liabilities	1,052,872,645.15	558,197,162.73	1,611,069,807.88	587,653,785.93
J. Total Nonfederal Other Liabilities	\$ 4,816,544,113.96	\$ 712,849,001.53	\$ 5,529,393,115.49	\$ 4,348,246,549.38
3. Total Other Liabilities	\$ 7,023,815,740.45	\$ 848,283,658.80	\$ 7,872,099,399.25	\$ 6,584,252,525.66

Relevant Information for Comprehension

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

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

Contingent liabilities balance includes \$720.3 million in estimated future contract financing payments that will be paid to the contractor upon delivery and government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the government when a specific type of contract financing payments is made, thereby, protecting taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The DoD is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and government acceptance of a satisfactory product. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the DoD and the amount of potential future payments are estimable; the DoD has recognized a contingent liability for estimated future payments, which are conditional pending delivery and government acceptance of a satisfactory product.

The recorded estimated probable liability amount of \$25.0 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 \$47.9 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 June 30, 2007, was valued at \$378.9 million and is included in other liabilities nonfederal. As of June 30, 2007, the Air Force was party to 13,099 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 \$225.6 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 comes from a judgment fund administered by the Treasury, it is uncertain that claims will become a liability to the Air Force. There are only two types of cases; where the Treasury will seek reimbursements from the affected agency; the Contract Dispute Act cases and select government personnel disciplinary matters.

As of June 30, 2007, the Air Force was party to 77 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). The probable amount of loss from contractor claims of \$154.2 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 \$486.6 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 the 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.

Capital Lease Liability

As of June 30	2007				2006
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2007	\$ 6,763,776.23	\$ 0.00	\$ 0.00	\$ 6,763,776.23	\$ 10,532,229.50
B. 2008	38,594,449.78	0.00	0.00	38,594,449.78	39,877,786.80
C. 2009	38,477,782.80	0.00	0.00	38,477,782.80	38,594,449.78
D. 2010	38,477,782.80	0.00	0.00	38,477,782.80	38,477,782.80
E. 2011	36,785,618.84	0.00	0.00	36,785,618.84	38,477,782.80
F. 2012	13,087,621.97	0.00	0.00	13,087,621.97	0.00
G. After 5 Years	26,838,554.00	0.00	0.00	26,838,554.00	39,926,175.99
H. Total Future Lease Payments Due	\$ 199,025,586.42	\$ 0.00	\$ 0.00	\$ 199,025,586.42	\$ 205,886,207.67
I. Less: Imputed Interest Executory Costs	37,609,971.39	0.00	0.00	37,609,971.39	47,614,949.04
J. Net Capital Lease Liability	\$ 161,415,615.03	\$ 0.00	\$ 0.00	\$ 161,415,615.03	\$ 158,271,258.63
2. Capital Lease Liabilities Covered by Budgetary Resources				\$ 137,573,742.69	\$ 163,370,711.79
3. Capital Lease Liabilities Not Covered by Budgetary Resources				\$ 23,841,872.34	\$ 31,686,165.68

Note 16.	Commitments and Contingencies
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Relevant Information for Comprehension

The Air Force is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The Air Force has accrued contingent liabilities for legal actions where the Air Force Office of the General Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the government, some of the liabilities may be payable from the Judgment Fund. The Air Force records Judgment Fund liabilities in Note 12 "Accounts Payable." (See Note 15 for relevant information for comprehension).

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

	<u>(In Millions)</u>
Contractual Actions:	
Contractor Claims	\$ 47.9
Appeals before Armed Services Board of Contract Appeals (ASBCA)	486.6
Claims and Litigation from Civil Law	<u>225.6</u>
Total	\$ 760.1

The amounts disclosed for litigations 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 \$ 939.5 million.

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

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of June 30	2007				2006
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
1. Pension and Health Actuarial Benefits					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Other Actuarial Benefits					
A. FECA	\$ 1,123,322,100.00		\$ 0.00	\$ 1,123,322,100.00	\$ 1,147,437,480.00
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	\$ 1,123,322,100.00		\$ 0.00	\$ 1,123,322,100.00	\$ 1,147,437,480.00
3. Other Federal Employment Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,123,322,100.00		\$ 0.00	\$ 1,123,322,100.00	\$ 1,147,437,480.00

Actuarial Cost Method Used:

Assumptions:

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

Relevant Information for ComprehensionFederal Employees' Compensation Act (FECA)

The 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. The total liability for 3rd Quarter, FY 2007, is \$1.1 billion, which is a change of \$24.1 million (2%) in comparison to 3rd Quarter, FY 2006, and includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims.

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

Interest rate assumptions utilized for discounting are as follows:

2006

5.170% in Year 1

5.313% in Year 2 and thereafter

To adjust more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (Cost of Living Adjustments or COLAs) and medical inflation factors (Consumer Price Index Medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2006 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 +</u>
COLA	3.50%	3.13%	2.40%	2.40%	2.43%
CPIM	4.00%	4.01%	4.01%	4.01%	4.09%

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

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

As of June 30	2007	2006
1. Intragovernmental Costs	\$ 23,372,732,232.86	\$ 23,439,832,497.62
2. Public Costs	86,360,826,488.12	79,645,612,229.64
3. Total Costs	\$ 109,733,558,720.98	\$ 103,085,444,727.26
4. Intragovernmental Earned Revenue	\$ (3,049,682,624.72)	\$ (2,895,799,291.47)
5. Public Earned Revenue	(652,081,646.71)	(570,500,375.96)
6. Total Earned Revenue	\$ (3,701,764,271.43)	\$ (3,466,299,667.43)
7. Net Cost of Operations	\$ 106,031,794,449.55	\$ 99,619,145,059.83

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

The amounts presented in this statement are based on obligations and disbursements and, thus, may not 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 accounting system does 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 \$1.1 million for the fiscal year.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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As of June 30	2007		2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
1. Prior Period Adjustments				
Increases (Decreases) to Net Position Beginning Balance				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	11,929,000,000.00	0.00
C. Total Prior Period Adjustments	\$ 0.00	\$ 0.00	\$ 11,929,000,000.00	\$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	\$ 148,949,226.89	\$ 0.00	\$ 169,815,438.93	\$ 0.00
B. Civilian Health	355,676,958.00	0.00	339,066,648.00	0.00
C. Civilian Life Insurance	1,051,151.94	0.00	1,076,550.21	0.00
D. Judgment Fund	19,304,205.18	0.00	8,040,245.05	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	\$ 524,981,542.01	\$ 0.00	\$ 517,998,882.19	\$ 0.00

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 the 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 difference totals \$2.1 million.

The eliminations column on the 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 (nonearmarked) funds. In the SCNP, all offsetting balances (i.e. transfers-in and transfers-out, revenues and expenses) for intraDoD activity between earmarked and other (nonearmarked) 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.

The amounts remitted to the Office of Personnel Management (OPM) by and for employees covered by the Civil Service Retirement System, the Federal Employees' Retirement System, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program do not fully cover the U.S. Government's cost to provide these benefits. The financial statements recognized an imputed cost as the difference between the government's cost of providing these benefits to the employees and contributions made by and for them. OPM provides the cost factors to Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. DFAS provides the costs to the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD [P&R]) for validation. After validation, OUSD (P&R) provides the imputed costs to the reporting components for inclusion in their financial statements.

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

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

Earmarked Cumulative Results of Operations ending balance on the SCNPN does not agree with the Earmarked Cumulative Results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of June 30	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 58,623,508,922.34	\$ 53,603,197,018.49
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 amount of direct obligations incurred and apportioned under category A is \$59.9 billion, category B is \$49.2 billion, and exempt is \$1.3 million. For reimbursable obligations incurred and apportioned, category A is \$4.0 billion, category B is \$2.8 billion, and exempt is \$6.0 million.

Relevant Information for Comprehension

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

Permanent indefinite appropriations are 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)]

Appropriations Received

The Appropriation Received line item on the Statement of Changes in Net Position differs from that reported on the Statement of Budgetary Resources because Appropriations Received on the Statement of Changes in Net Position do not include dedicated appropriations and earmarked receipts. Dedicated and earmarked receipts are accounted for as either nonexchange revenue or donations and forfeitures of cash and cash equivalent. This difference totals \$2.1 million.

Air Force has no material differences between amounts reported on the SBR and the SF133, Report on Budget Execution.

Note 21.	Disclosures Related to the Statement of Financing
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The objective of the Statement of Financing is to reconcile the difference between budgetary obligations and the net cost of operations reported.

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

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

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

Other resources or adjustments to net obligated resources that do not affect net cost of operations, Other consists of net transfers in and transfers out without reimbursement and other gains and losses to adjust intragovernmental transfers in.

Components not Requiring or Generating Resources, Other consists of cost capitalization offset and other expenses not requiring budgetary resources.

Components requiring or generating resources in future periods are costs not funded in the period the costs are incurred. The expense and the corresponding liability are recognized in the current period but the budgetary resource will not be provided until a subsequent period. The amount of liabilities not covered by budgetary resources for 3rd Quarter, FY 2007, is \$11 billion. In general, the changes in liabilities not covered by budgetary resources as shown on the Balance Sheet are reflected on the Statement of Financing. Differences are a result of custodial liabilities, unfunded capital lease liabilities, and environmental liabilities covered by unobligated budgetary resources.

Liabilities not covered by budgetary resources on the Balance Sheet and the amount reported as components requiring or generating resources in future periods on the Statement of Financing differs by \$312 million. Custodial Lease Liabilities of \$130 million are offset by a nonentity asset account, not an expense. Current year increases in unfunded in environmental liabilities of \$188 million are offset by the unfunded expenses, which were previously estimated and recorded as unfunded. Also, the current year decrease of \$5.8 million in unfunded capital leases is offset by a funded expense account.

Note 22.

Disclosures Related to the Statement of Custodial Activity

Not applicable

Note 23.**Earmarked Funds****BALANCE SHEET**
As of June 30, 2007

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with					
Treasury	\$ 0.00	\$ 0.00	\$ 5,837,027.91	\$ 0.00	\$ 5,837,027.91
Investments	0.00	0.00	823,362.99	0.00	823,362.99
Accounts and Interest Receivable	0.00	0.00	998.00	0.00	998.00
Other Assets	0.00	0.00	4,712.70	0.00	4,712.70
Total Assets	\$ 0.00	\$ 0.00	\$ 6,666,101.60	\$ 0.00	\$ 6,666,101.60

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	1,994,559.32	(1,927,325.26)	67,234.06
Total Liabilities	\$ 0.00	\$ 0.00	\$ 1,994,559.32	\$ (1,927,325.26)	\$ 67,234.06
Unexpended Appropriations	0.00	0.00	0.00	0.00	0.00
Cumulative Results of Operations	0.00	0.00	4,671,542.28	6,194,959.57	10,866,501.85
Total Liabilities and Net Position	\$ 0.00	\$ 0.00	\$ 6,666,101.60	\$ 4,267,634.31	\$ 10,933,735.91

STATEMENT OF NET COST

For the period ended June 30, 2007

Program Costs	\$ 0.00	\$ 0.00	\$ 7,921,052.61	\$ (6,194,959.57)	\$ 1,726,093.04
Less Earned Revenue	0.00	0.00	(6,002,990.74)	0.00	(6,002,990.74)
Net Program Costs	\$ 0.00	\$ 0.00	\$ 1,918,061.87	\$ (6,194,959.57)	\$ (4,276,897.70)
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
Net Cost of Operations	\$ 0.00	\$ 0.00	\$ 1,918,061.87	\$ (6,194,959.57)	\$ (4,276,897.70)

Air Force General Fund

STATEMENT OF CHANGES IN NET POSITION For the period ended June 30, 2007	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0.00	\$ 0.00	\$ 4,539,548.08	\$ 0.00	\$ 4,539,548.08
Net Cost of Operations	0.00	0.00	1,918,061.87	(6,194,959.57)	(4,276,897.70)
Budgetary Financing Sources	0.00	0.00	2,050,056.07	0.00	2,050,056.07
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
Change in Net Position	\$ 0.00	\$ 0.00	\$ 131,994.20	\$ 6,194,959.57	\$ 6,326,953.77
Net Position End of Period	\$ 0.00	\$ 0.00	\$ 4,671,542.28	\$ 6,194,959.57	\$ 10,866,501.85

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.

Note 24.	Other Disclosures
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As of June 30	2007			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
1. ENTITY AS LESSEE-				
Operating Leases				
Future Payments Due				
Fiscal Year				
2007	\$ 56,992,000.00	\$ 0.00	\$ 134,583,335.00	\$ 191,575,335.00
2008	54,367,000.00	0.00	138,620,835.00	192,987,835.00
2009	55,125,000.00	0.00	142,779,460.00	197,904,460.00
2010	56,283,000.00	0.00	147,062,844.00	203,345,844.00
2011	57,465,000.00	0.00	151,474,729.00	208,939,729.00
2012	58,671,000.00	0.00	156,018,971.00	214,689,971.00
After 5 Years	59,903,000.00	0.00	160,699,540.00	220,602,540.00
Total Future Lease				
Payments Due	\$ 398,806,000.00	\$ 0.00	\$ 1,031,239,714.00	\$ 1,430,045,714.00

Relevant Information for Comprehension

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

The Air Force has no leases in the equipment category and does not anticipate any in the future. Other leases consist of vehicle leases.

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

Note 25.	Restatements
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Not Applicable