

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

	<b>2007 Consolidated</b>	<b>2006 Consolidated</b>
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<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 160,377,268,620.89	\$ 73,189,710,913.71
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	100,544,416.97	89,199,802.96
2. Investments (Note 4)	722,907.42	716,676.76
3. Accounts Receivable (Note 5)	348,527,876.79	358,457,404.86
4. Other Assets (Note 6)	360,117,280.95	432,672,076.80
5. Total Intragovernmental Assets	<hr/> \$ 161,187,181,103.02	<hr/> \$ 74,070,756,875.09
B. Cash and Other Monetary Assets (Note 7)	\$ 301,585,439.79	\$ 126,643,263.39
C. Accounts Receivable, Net (Note 5)	1,072,730,648.22	1,041,537,870.19
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property, Net (Note 9)	46,204,262,470.30	48,617,976,292.52
F. General Property, Plant and Equipment, Net (Note 10)	143,568,144,068.35	124,227,647,123.36
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	10,543,583,749.18	10,703,277,482.58
<b>2. TOTAL ASSETS</b>	<hr/> <hr/> \$ 362,877,487,478.86	<hr/> <hr/> \$ 258,787,838,907.13
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 1,309,235,784.84	\$ 1,713,256,028.19
2. Debt (Note 13)	0.00	0.00
3. Other Liabilities (Note 15 & 16)	2,444,278,103.35	1,547,381,995.09
4. Total Intragovernmental Liabilities	<hr/> \$ 3,753,513,888.19	<hr/> \$ 3,260,638,023.28
B. Accounts Payable (Note 12)	\$ 4,306,131,121.09	\$ 5,577,209,599.77
C. Military Retirement and Other Federal Employment Benefits (Note 17)	1,124,046,792.27	1,147,437,480.00
D. Environmental and Disposal Liabilities (Note 14)	6,446,148,381.68	7,015,396,086.13
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	4,901,777,237.41	4,158,068,470.40
<b>4. TOTAL LIABILITIES</b>	<hr/> \$ 20,531,617,420.64	<hr/> \$ 21,158,749,659.58
<b>5. NET POSITION</b>		
A. Unexpended Appropriations - Earmarked Funds (Note 23)	\$ 0.00	\$ (1,251,498.55)
B. Unexpended Appropriations - Other Funds	161,470,282,152.08	73,737,115,222.09
C. Cumulative Results of Operations - Earmarked Funds	4,847,720.70	6,122,935.20
D. Cumulative Results of Operations - Other Funds	180,870,740,185.44	163,887,102,588.81
<b>6. TOTAL NET POSITION</b>	<hr/> \$ 342,345,870,058.22	<hr/> \$ 237,629,089,247.55
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<hr/> <hr/> \$ 362,877,487,478.86	<hr/> <hr/> \$ 258,787,838,907.13

Department of Defense  
 Department of the Air Force  
**CONSOLIDATED STATEMENT OF NET COST**  
 For the periods ended December 31, 2006 and 2005

	<b>2007 Consolidated</b>	<b>2006 Consolidated</b>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 38,497,936,710.25	\$ 33,276,674,888.10
B. (Less: Earned Revenue)	(844,419,216.81)	(1,857,610,431.23)
C. Net Program Costs	<u>\$ 37,653,517,493.44</u>	<u>\$ 31,419,064,456.87</u>
<b>2. Cost Not Assigned to Programs</b>	0.00	0.00
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0.00	0.00
<b>4. Net Cost of Operations</b>	<u><u>\$ 37,653,517,493.44</u></u>	<u><u>\$ 31,419,064,456.87</u></u>

Department of Defense

Department of the Air Force

**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended December 31, 2006 and 2005

	2007 Earmarked Funds	2007 All Other Funds
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 4,539,548.08	\$ 180,854,183,593.89
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	4,539,548.08	180,854,183,593.89
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	37,476,344,350.56
4.C. Nonexchange revenue	274,797.47	0.00
4.D. Donations and forfeitures of cash and cash equivalents	765,684.99 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
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	135,752,680.80
5.C. Imputed financing from costs absorbed by others	0.00	160,985,458.50
5.D. Other (+/-)	0.00	(103,740,714.71)
<b>6. Total Financing Sources</b>	1,040,482.46	37,669,341,775.15
<b>7. Net Cost of Operations (+/-)</b>	751,153.19	37,652,766,340.25
<b>8. Net Change</b>	289,329.27	16,575,434.90
<b>9. Cumulative Results of Operations</b>	4,828,877.35	180,870,759,028.79
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 70,186,333,502.64
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	0.00	70,186,333,502.64
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	129,258,234,000.00
13.B. Appropriations transferred-in/out	0.00	381,940,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(879,881,000.00)
13.D. Appropriations used	0.00	(37,476,344,350.56)
<b>14. Total Budgetary Financing Sources</b>	0.00	91,283,948,649.44
<b>15. Unexpended Appropriations</b>	0.00	161,470,282,152.08
<b>16. Net Position</b>	4,828,877.35	342,341,041,180.87

Department of Defense

Department of the Air Force

**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended December 31, 2006 and 2005

	2007 Eliminations	2007 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 180,858,723,141.97
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	0.00	180,858,723,141.97
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	37,476,344,350.56
4.C. Nonexchange revenue	0.00	274,797.47
4.D. Donations and forfeitures of cash and cash equivalents	0.00 0.00	765,684.99 0.00
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	135,752,680.80
5.C. Imputed financing from costs absorbed by others	0.00	160,985,458.50
5.D. Other (+/-)	0.00	(103,740,714.71)
<b>6. Total Financing Sources</b>	0.00	37,670,382,257.61
<b>7. Net Cost of Operations (+/-)</b>	0.00	37,653,517,493.44
<b>8. Net Change</b>	0.00	16,864,764.17
<b>9. Cumulative Results of Operations</b>	0.00	180,875,587,906.14
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 70,186,333,502.64
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	0.00	70,186,333,502.64
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	129,258,234,000.00
13.B. Appropriations transferred-in/out	0.00	381,940,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(879,881,000.00)
13.D. Appropriations used	0.00	(37,476,344,350.56)
<b>14. Total Budgetary Financing Sources</b>	0.00	91,283,948,649.44
<b>15. Unexpended Appropriations</b>	0.00	161,470,282,152.08
<b>16. Net Position</b>	0.00	342,345,870,058.22

Department of Defense

Department of the Air Force

**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended December 31, 2006 and 2005

	2006 Earmarked Funds	2006 All Other Funds
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 5,451,165.74	\$ 161,338,650,206.55
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	5,451,165.74	161,338,650,206.55
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	33,500,786,457.44
4.C. Nonexchange revenue	269,992.81	0.06
4.D. Donations and forfeitures of cash and cash equivalents	672,630.71 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
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	297,420,443.67
5.C. Imputed financing from costs absorbed by others	0.00	169,039,083.90
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	942,623.52	33,967,245,985.07
<b>7. Net Cost of Operations (+/-)</b>	270,854.06	31,418,793,602.81
<b>8. Net Change</b>	671,769.46	2,548,452,382.26
<b>9. Cumulative Results of Operations</b>	6,122,935.20	163,887,102,588.81
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ (1,251,498.55)	\$ 63,717,888,679.53
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	(1,251,498.55)	63,717,888,679.53
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	43,400,512,000.00
13.B. Appropriations transferred-in/out	0.00	266,516,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(147,015,000.00)
13.D. Appropriations used	0.00	(33,500,786,457.44)
<b>14. Total Budgetary Financing Sources</b>	0.00	10,019,226,542.56
<b>15. Unexpended Appropriations</b>	(1,251,498.55)	73,737,115,222.09
<b>16. Net Position</b>	4,871,436.65	237,624,217,810.90

Department of Defense

Department of the Air Force

**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended December 31, 2006 and 2005

	2006 Eliminations	2006 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 161,344,101,372.29
<b>2. Prior Period Adjustments:</b>		
2.A. Changes in accounting principles (+/-)	0.00	0.00
2.B. Corrections of errors (+/-)	0.00	0.00
<b>3. Beginning balances, as adjusted</b>	0.00	161,344,101,372.29
<b>4. Budgetary Financing Sources:</b>		
4.A. Other adjustments (rescissions, etc.)	0.00	0.00
4.B. Appropriations used	0.00	33,500,786,457.44
4.C. Nonexchange revenue	0.00	269,992.87
4.D. Donations and forfeitures of cash and cash equivalents	0.00	672,630.71
4.E. Transfers-in/out without reimbursement	0.00	0.00
4.F. Other budgetary financing sources	0.00	0.00
<b>5. Other Financing Sources:</b>		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	297,420,443.67
5.C. Imputed financing from costs absorbed by others	0.00	169,039,083.90
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	0.00	33,968,188,608.59
<b>7. Net Cost of Operations (+/-)</b>	0.00	31,419,064,456.87
<b>8. Net Change</b>	0.00	2,549,124,151.72
<b>9. Cumulative Results of Operations</b>	0.00	163,893,225,524.01
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 63,716,637,180.98
<b>11. Prior Period Adjustments:</b>		
11.A. Changes in accounting principles	0.00	0.00
11.B. Corrections of errors	0.00	0.00
<b>12. Beginning balances, as adjusted</b>	0.00	63,716,637,180.98
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	43,400,512,000.00
13.B. Appropriations transferred-in/out	0.00	266,516,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(147,015,000.00)
13.D. Appropriations used	0.00	(33,500,786,457.44)
<b>14. Total Budgetary Financing Sources</b>	0.00	10,019,226,542.56
<b>15. Unexpended Appropriations</b>	0.00	73,735,863,723.54
<b>16. Net Position</b>	0.00	237,629,089,247.55

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

	<u>2007 Combined</u>	<u>2006 Combined</u>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 17,112,926,725.72	\$ 13,006,208,304.77
2. Recoveries of prior year unpaid obligations	2,143,747,695.26	395,966,940.39
3. Budget authority		
3.A. Appropriation	129,259,275,294.93	126,939,552,117.35
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	5,855,750,210.69	2,050,418,400.73
3.D.1.b. Change in receivables from Federal sources	(732,226,838.76)	(573,667,965.18)
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	227,190,378.15	(125,182,600.00)
3.D.2.b. Without advance from Federal sources	2,090,308,778.20	911,185,351.03
3.D.3. Anticipated for rest of year, without advances	3,522,186,567.50	9,559,431.58
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>140,222,484,390.71</u>	<u>129,211,864,735.51</u>
4. Nonexpenditure transfers, net, anticipated and actual	381,940,000.00	266,516,000.00
5. Temporarily not available pursuant to Public Law	0.00	(83,538,097,000.00)
6. Permanently not available	(879,881,000.00)	(147,015,000.00)
<b>7. Total Budgetary Resources</b>	<u><u>\$ 158,981,217,811.69</u></u>	<u><u>\$ 59,195,443,980.67</u></u>

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

	2007 Combined	2006 Combined
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.A. Direct	\$ 51,597,617,015.77	\$ 31,116,508,127.72
8.B. Reimbursable	2,105,320,112.31	1,472,112,858.23
8.C. Subtotal	<u>53,702,937,128.08</u>	<u>32,588,620,985.95</u>
9. Unobligated balance:		
9.A. Apportioned	100,514,270,281.13	22,958,432,704.12
9.B. Exempt from apportionment	3,622,466.36	3,674,170.37
9.C. Subtotal	<u>100,517,892,747.49</u>	<u>22,962,106,874.49</u>
10. Unobligated balance not available	4,760,387,936.12	3,644,716,120.23
<b>11. Total status of budgetary resources</b>	<u><u>\$ 158,981,217,811.69</u></u>	<u><u>\$ 59,195,443,980.67</u></u>
<b>Change in Obligated Balance:</b>		
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>\$ 53,702,937,128.08</u>	<u>\$ 32,588,620,985.95</u>
14. Less: Gross outlays	(43,165,129,444.15)	(34,381,134,153.47)
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>(2,143,747,695.26)</u>	<u>(395,966,940.39)</u>
17. Change in uncollected customer payments from Federal sources (+/-)	(1,358,081,939.44)	(337,517,385.85)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	62,383,160,725.29	49,652,300,471.23
18.B. Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(3,991,805,517.60)</u>	<u>(3,173,013,607.25)</u>
18.C. Total, unpaid obligated balance, net, end of period	<u>58,391,355,207.69</u>	<u>46,479,286,863.98</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	43,165,129,444.15	34,381,134,153.47
19.B. Less: Offsetting collections	(6,082,940,588.84)	(1,925,235,800.73)
19.C. Less: Distributed Offsetting receipts	41,009,308.90	(23,471,509.09)
<b>19.D. Net Outlays</b>	<u><u>\$ 37,123,198,164.21</u></u>	<u><u>\$ 32,432,426,843.65</u></u>



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

	<u>2007 Combined</u>	<u>2006 Combined</u>
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Unobligated balance, brought forward, October 1	\$ 0.00	\$ 0.00
2. Recoveries of prior year unpaid obligations	0.00	0.00
3. Budget authority		
3.A. Appropriation	0.00	0.00
3.B. Borrowing authority	0.00	0.00
3.C. Contract authority	0.00	0.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	0.00	0.00
3.D.1.b. Change in receivables from Federal sources	0.00	0.00
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	0.00	0.00
3.D.2.b. Without advance from Federal sources	0.00	0.00
3.D.3 Anticipated for rest of year, without advances	0.00	0.00
3.D.4 Previously unavailable	0.00	0.00
3.D.5 Expenditure transfers from trust funds	0.00	0.00
3.E. Subtotal	<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
<b>7. Total Budgetary Resources</b>	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>



Department of Defense  
Department of the Air Force  
**CONSOLIDATED STATEMENT OF FINANCING**  
For the periods ended December 31, 2006 and 2005

	<b>2007 Consolidated</b>	<b>2006 Consolidated</b>
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<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 53,702,937,128.08	\$ 32,588,620,985.95
2. Less: Spending authority from offsetting collections and recoveries (-)	(9,584,770,223.54)	(2,658,720,126.97)
3. Obligations net of offsetting collections and recoveries	44,118,166,904.54	29,929,900,858.98
4. Less: Offsetting receipts (-)	41,009,308.90	(23,471,509.09)
5. Net obligations	<hr/> 44,159,176,213.44	<hr/> 29,906,429,349.89
Other Resources		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	135,752,680.80	297,420,443.67
8. Imputed financing from costs absorbed by others	160,985,458.50	169,039,083.90
9. Other (+/-)	(103,740,714.71)	0.00
10. Net other resources used to finance activities	<hr/> 192,997,424.59	<hr/> 466,459,527.57
<b>11. Total resources used to finance activities</b>	<hr/> <b>\$ 44,352,173,638.03</b>	<hr/> <b>\$ 30,372,888,877.46</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(8,659,501,146.53)	2,783,833,664.56
12b. Unfilled Customer Orders	2,317,499,156.35	786,002,751.03
13. Resources that fund expenses recognized in prior periods	(970,628,290.30)	(431,209,035.11)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	(41,009,308.90)	23,471,509.09
15. Resources that finance the acquisition of assets	(5,297,156,717.05)	(4,582,489,536.08)
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 (+/-)	(32,011,966.09)	(297,420,443.67)
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<hr/> <b>\$ (12,682,808,272.52)</b>	<hr/> <b>\$ (1,717,811,090.18)</b>
<b>18. Total resources used to finance the net cost of operations</b>	<hr/> <b>\$ 31,669,365,365.51</b>	<hr/> <b>\$ 28,655,077,787.28</b>

Department of Defense

Department of the Air Force

**CONSOLIDATED STATEMENT OF FINANCING**

For the periods ended December 31, 2006 and 2005

	<b>2007 Consolidated</b>	<b>2006 Consolidated</b>
	<hr/>	<hr/>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	11,865,873.77	48,093,780.77
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will require or generate resources in future periods	<hr/> 11,865,873.77	<hr/> 48,093,780.77
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	3,626,291,848.52	3,579,974,667.95
26. Revaluation of assets or liabilities (+/-)	(77,848,066.75)	(572,668,466.08)
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	6,113,996,774.23	463,194,176.25
27d. Other	(3,690,154,301.84)	(754,607,489.30)
28. Total components of Net Cost of Operations that will not require or generate resources	<hr/> 5,972,286,254.16	<hr/> 2,715,892,888.82
<b>29. Total components of net cost of operations that will not require or generate resources in the current period</b>	<hr/> \$ 5,984,152,127.93	<hr/> \$ 2,763,986,669.59
<b>30. Net Cost of Operations</b>	<hr/> <hr/> \$ 37,653,517,493.44	<hr/> <hr/> \$ 31,419,064,456.87

<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the Air Force, as required by the “Chief Financial Officers Act of 1990,” expanded by the “Government Management Reform Act of 1994,” and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force in accordance with the “DoD Financial Management Regulation,” Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Air Force is responsible. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable.

The Air Force is unable to fully implement all elements of GAAP and the 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.

The Air Force currently has two auditor identified financial statement material weaknesses: (1) financial and nonfinancial feeder systems do not contain an adequate audit trail and other systems controls for the proprietary and budgetary accounts, and (2) intragovernmental transactions cannot be accurately identified by the customer, which is required for eliminations when preparing consolidated financial statements. In addition, with the implementation of the OMB Circular A-123, *Management’s Responsibility for Internal Controls*, Appendix A, *Internal Controls Over Financial Reporting (ICOFR)*, the Air Force identified two additional material weaknesses: (1) Military Equipment Valuation, the Air Force is unable to report the value of its current military equipment assets in a consistent and accurate manner on the financial statements, and (2) Real Property Valuation, the Air Force is unable to report the value of its current real property assets in a consistent and accurate manner on the financial statements. The Air Force also identified one reportable condition with the Environmental Liabilities reporting process. 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 the DoD and

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

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

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

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

The Air Force is a party to allocation transfers with other federal agencies as both 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 department. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. The Air Force allocates funds, as the parent, to the Department of Transportation, and receives allocation transfers, as the child, from the Department of Agriculture and the Executive Office of the President.

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

The accounts used to prepare the financial statements are categorized as either entity or nonentity. Entity accounts consist of resources that are available for use in the operations of the entity. The Air Force is authorized to decide how to use resources in entity accounts or may be legally obligated to use these resources to meet entity obligations. Nonentity accounts, on the other hand, consist of assets that are held by an entity but that are not available for use in the operations of the entity. The following is a list of Air Force account numbers and titles (all accounts are entity accounts unless otherwise noted):

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

#### **1.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.

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

In addition, the 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 or services provided to other Federal agencies and the public. Full cost pricing is the Air Force's standard policy for services provided as required by OMB Circular A-25. The Air Force recognizes revenue when earned within the constraints of current system capabilities. In other instances, revenue is recognized when bills are issued.

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

#### **1.F. Recognition of Expenses**

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Air Force's financial and



nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. The Air Force's expenditures for capital and other long-term assets are recognized as operating expenses based on depreciation. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. 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 material 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 the DoD or between two or more federal agencies. However, the Air Force cannot accurately identify most of its intragovernmental transactions by customer because the Air Force's systems do not track buyer and seller data needed to match related transactions. Seller entities within the DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. Intra-DoD intragovernmental balances are then eliminated. The Air Force properly eliminates the revenue results from intra-DoD sales of capitalized assets. The DoD is developing long-term system improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished effectively with existing or foreseeable resources.

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

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of

public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

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

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

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

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

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

#### **1.J. Foreign Currency**

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

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

The Air Force conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operations and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction). The gains and losses are computed as the variance between the

exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Air Force does not separately identify currency fluctuations.

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

As presented in the Balance Sheet, accounts receivable include accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

The allowance for 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**

Most of the Air Force's Operating Materials and Supplies (OM&S) are currently reported at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over OM&S items, they do not maintain historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, the Air Force has transitioned, and is continuing to transition, OM&S to the moving average cost method. Approximately 40% of the Air Force OM&S value is now being reported from systems that have transitioned to moving average cost functionality. However, since the on-hand balances which transitioned were not, for the most part, baselined to auditable historical cost, the reported values remain noncompliant with SFFAS No. 3 and GAAP.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The DoD uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunitions and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S.

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

#### **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. Related earnings are allocated to appropriate Air Force activities to be used in accordance with the directions of the donor.

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

#### **1.O. General Property, Plant and Equipment**

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

In FY 2006, the capitalization threshold was revised from \$100,000 to \$20,000 for real property. The current \$100,000 capitalization threshold remains unchanged for the remaining General PP&E categories.

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

acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of \$100,000 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 \$15,000, \$25,000, and \$50,000 for fiscal years 1993, 1994, and 1995, respectively, and an estimated useful life of two or more years. General PP&E previously capitalized at amounts below \$100,000 were written off 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 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 Air Force components to maintain, in their property systems, information on all property furnished to contractors. This action, which should be implemented by the end of FY 2009, is structured to capture and report the information necessary for compliance with Federal accounting standards.

#### **1.P. Advances and Prepayments**

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

#### **1.Q. Leases**

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is 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 governmental's incremental borrowing rate at the inception of the lease. The Air Force, as the lessee of real estate or

equipment, will receive the use and possession of leased property from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by the Air Force in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Service Administration (GSA) bills, and 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**

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

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

Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisitions Regulations Supplement (DFARS) 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 in Note 10.

### **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 that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The Air Force's loss contingencies 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 the 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 not obligated 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 between expenses and losses and financing sources (including appropriations, revenue, and gains) since the inception of an activity. Beginning with FY 1998, the cumulative results also include donations and transfer in and out of assets without reimbursement.

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

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

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

Financial statement fluctuations greater than two percent of total assets on the Balance Sheet or ten percent from the previous period presented, but no less than \$100 thousand, are explained within the notes to the financial statements.

#### **1.X. Unexpended Obligations**

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

#### **1.Y. Undistributed Disbursements and 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 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.





<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of December 31	2007	2006
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 100,544,416.97	\$ 89,199,802.96
B. Accounts Receivable	2,227,367.92	3,133,721.90
C. Total Intragovernmental Assets	\$ 102,771,784.89	\$ 92,333,524.86
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 301,585,439.79	\$ 126,643,263.39
B. Accounts Receivable	560,525,218.06	176,551,517.86
C. Other Assets	196,825,000.00	156,907,524.61
D. Total Nonfederal Assets	\$ 1,058,935,657.85	\$ 460,102,305.86
<b>3. Total Nonentity Assets</b>	\$ 1,161,707,442.74	\$ 552,435,830.72
<b>4. Total Entity Assets</b>	\$ 361,715,780,036.12	\$ 258,235,403,076.41
<b>5. Total Assets</b>	\$ 362,877,487,478.86	\$ 258,787,838,907.13

Fluctuations

Total Nonentity Assets increased \$609.3 million (110%) primarily due to a \$384.0 million increase in Accounts Receivable (Nonfederal Assets). In the past, DFAS-DE erroneously reported public accounts receivable in receipt and deposit accounts as entity. DFAS-DE corrected the error during 3<sup>rd</sup> Quarter, FY 2006. These receivables are now correctly recorded as nonentity in accordance with the classification of accounts as entity versus nonentity in DoDFMR, Volume 6B, Attachment 18A.

In addition, Cash and Other Monetary Assets (Nonfederal Assets) increased \$174.9 million primarily due to a \$167.8 million increase in cash. The increase is attributed to Foreign Military Sales (FMS) wire transfers received in 1<sup>st</sup> Quarter, FY 2007. If the collections had been processed, they would have been reported as collections on the Statement of Custodial Activity for Foreign Military Sales.

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 Department of the Treasury as miscellaneous receipts. The Nonentity Nonfederal Accounts Receivable amount also includes interest receivables on aged debt. Nonentity Cash and Other Monetary Assets represent disbursing officers' cash and un-deposited collections as reported on the Statement of Accountability. These assets are held by the Air Force disbursing officers as agents of the Treasury.

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

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of December 31	2007	2006
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 160,372,176,009.39	\$ 73,209,448,677.27
B. Revolving Funds	0.00	0.00
C. Trust Funds	4,055,740.16	4,606,705.84
D. Special Funds	1,036,871.34	939,736.47
E. Other Fund Types	100,544,416.97	63,915,597.09
F. Total Fund Balances	\$ 160,477,813,037.86	\$ 73,278,910,716.67
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 157,289,569,112.51	\$ 36,138,303,969.66
B. Fund Balance per Agency	160,477,813,037.86	73,278,910,716.67
<b>3. Reconciling Amount</b>	\$ (3,188,243,925.35)	\$ (37,140,606,747.01)

Fluctuations

Total Fund Balance increased \$87.2 billion (119%). The increase is primarily due to the receipt of Air Force's appropriated funds. In FY 2006, the Air Force's appropriated funding was under a continuing resolution and was received after 1<sup>st</sup> Quarter, FY 2006.

Reconciling Amount

The Air Force shows \$3.2 billion reconciliation amount with the Department of the Treasury which is comprised of:

- \$3.2 billion in Continuing Resolution Authority (CRA) included in Fund Balance with Treasury (FBWT) per Air Force but not included in FBWT per Treasury.
- \$16.7 million in allocation transfers from the Department of Agriculture and the Foreign Military Sales - Military Assistance Program. An allocation transfer occurs when the Treasury appropriates funds to one federal entity, which then transfers the authority to execute its funds to another federal entity. These funds are included in the FBWT per Treasury, but are not included in the FBWT per Air Force.
- \$8.6 million in allocation transfers to the Department of Transportation. These funds are included in FBWT per Air Force but are not included in FBWT per Treasury.

<b>Status of Fund Balance with Treasury</b>
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As of December 31	2007	2006
<b>1. Unobligated Balance</b>		
A. Available	\$ 96,995,706,179.99	\$ 22,952,547,442.91
B. Unavailable	4,760,387,936.12	3,644,716,120.23
<b>2. Obligated Balance not yet Disbursed</b>	\$ 62,383,160,725.29	\$ 49,652,300,471.23
<b>3. Nonbudgetary FBWT</b>	\$ 331,072,632.00	\$ 203,067,105.97
<b>4. NonFBWT Budgetary Accounts</b>	\$ (3,992,514,435.54)	\$ (3,173,720,423.67)
<b>5. Total</b>	<b>\$ 160,477,813,037.86</b>	<b>\$ 73,278,910,716.67</b>

Fluctuations

Total Status of Fund Balance with Treasury increased \$87.2 billion (119%). The increase is primarily due to the receipt of Air Force's appropriated funds which increased the unobligated balance available. In FY 2006, the Air Force's appropriated funding was under a continuing resolution and was received after 1<sup>st</sup> Quarter, FY 2006.

Relevant Information for Comprehension

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

Nonbudgetary FBWT includes entity and nonentity fund balance with treasury accounts which do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

NonFBWT budgetary accounts include budgetary accounts that do not affect FBWT, such as contract authority, borrowing authority, and investment accounts. This category reduces the status of FBWT.

The unobligated balance unavailable is \$4.8 billion. Appropriated funds of \$2.8 billion are not available for new obligations because the period for new obligations established by law has expired. Unapportioned authority of \$2.0 billion is the result of the Continuing Resolution Authority (CRA) for Basic Allowance for Housing (BAH) and Facilities Sustainment, Restoration & Modernization.

Nonbudgetary FBWT consists of the FBWT for suspense, deposit, and receipt accounts.

NonFBWT Budgetary Accounts consists of reimbursements and other income earned receivable, investments and discounts in U.S. Treasury securities, and unfilled customer orders without advances.

<b>Disclosures Related to Suspense/Budget Clearing Accounts</b>
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As of December 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 - 2007
<b>Account</b>				
F3845 – Personal Property Proceeds	\$ 0.00	\$ 0.00	\$ 0.00	0.00
F3875 – Disbursing Officer Suspense	317,089,520.68	309,609,853.34	335,071,419.41	25,461,566.07
F3880 – Lost or Cancelled Treasury Checks	1,422,825.23	263,748.00	1,402,968.27	1,139,220.27
F3882 – Uniformed Services Thrift Savings Plan Suspense	22,334,845.76	25,284,205.87	32,341,040.54	7,056,834.67
F3885 – Interfund/IPAC Suspense	(26,226,114.10)	(196,006,298.33)	(105,946,172.65)	90,060,125.68
F3886 – Thrift Savings Plan Suspense	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 314,621,077.57</b>	<b>\$ 139,151,508.88</b>	<b>\$ 262,869,255.57</b>	<b>123,717,746.69</b>

Fluctuations

Total suspense/budget clearing accounts increased \$123.7 million (89%) due to a \$25.5 million increase in Disbursing Officer (DO) suspense account and a \$90.1 million increase in Interfund/IPAC suspense account. The increase in the DO suspense account was due to an increase in federal income tax being withheld and not yet disbursed for civilian and military due to increases in Internal Revenue Service withholding rates during calendar year 2006. The change in the Interfund/IPAC suspense account can be attributed to a decrease in the amount of intragovernmental payments and collections in suspense. In April 2006, the DFAS Transaction Interface Module (DTIM-IPAC) was implemented. DTIM-IPAC has greatly reduced the time transactions remain in suspense thereby reducing the amount and dollar value of transactions that are in the Interfund/IPAC suspense account.

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 DO 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 Treasury checks that (1) have either been lost by the payee and need to be reissued, (2) have never been cashed by the payee, or (3) have been cancelled by the Treasury and need to be transferred to the original appropriation.

The F3882 suspense account was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the Thrift Savings Plan deductions by

the National Finance Center and the posting of these amounts in the military accounting systems in the following month.



<b>Disclosures Related to Problem Disbursements and In-Transit Disbursements</b>
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As of December 31	2005	2006	2007	(Decrease)/ Increase from FY 2006 to 2007
<b>1. Total Problem Disbursements, Absolute Value</b>				
A. Unmatched Disbursements (UMDs)	\$ 248,802,852.01	\$ 133,761,226.45	\$ 239,892,691.55	106,131,465.10
B. Negative Unliquidated Obligations (NULO)	10,668,680.60	10,918,826.09	6,470,865.35	(4,447,960.74)
<b>2. Total In-transit Disbursements, Net</b>				
	\$ 5,320,034,080.37	\$ 904,736,919.50	\$ 4,464,816,193.88	3,560,079,274.38

Fluctuations

The Air Force had a \$101.7 million (70%) increase in problem disbursements and a \$3.6 billion (393%) increase in in-transits. The amount of Unmatched Disbursements (UMDs) over 180 days is \$115.3 thousand, Negative Unliquidated Obligations (NULOs) is \$0, and in-transits is \$6.5 million. The amount of UMDs over 120 days old is \$115.3 thousand, NULOs is \$2.0 thousand and in-transits is \$10.6 million. The current absolute value of in-transits is \$5.0 billion.

The \$106.1 million (79%) increase in UMDs can be attributed to the one-time workload movement from Dayton to Columbus in December 2006 due to Base Realignment and Closure (BRAC). DFAS anticipates UMDs will be reduced during 2<sup>nd</sup> Quarter, FY 2007. The decrease in NULOs of \$4.4 million (41%) can be attributed to increased processing efforts to decrease overall unmatched disbursements.

The \$3.6 billion (393%) increase of in-transit disbursements is largely attributable to the \$2.8 billion in TriCare vouchers posted in January 2007. Due to inclement weather during the last week of December 2006, the DFAS-DE site was closed and personnel were unable to post the vouchers before the end of 1<sup>st</sup> Quarter, FY 2007.

Relevant Information for Comprehension

There are no discrepancies between amounts reported in the problem disbursement metric furnished to DFAS Arlington and the schedule above.

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

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

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

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

<b>Note 4.</b>	<b>Investments and Related Interest</b>
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As of December 31	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>1. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	714,722.64		(317.96)	714,404.68	708,202.56
5. Total Nonmarketable, Market-Based	714,722.64		( 317.96)	714,404.68	708,202.56
B. Accrued Interest	8,502.74			8,502.74	8,502.74
C. Total Intragovernmental Securities	\$ 723,225.38		\$ ( 317.96)	\$ 722,907.42	\$ 716,705.30
<b>2. Other Investments</b>					
A. Total Other Investments	\$ 0.00		\$ 0.00	\$ 0.00	N/A
As of December 31	2006				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
<b>3. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0.00		0.00	0.00	0.00
3. US Army Corps of Engineers	0.00		0.00	0.00	0.00
4. Other Funds	710,257.68		(58.93)	710,198.75	704,636.25
5. Total Nonmarketable, Market-Based	710,257.68		( 58.93)	710,198.75	704,636.25
B. Accrued Interest	6,478.01			6,478.01	6,478.01
C. Total Intragovernmental Securities	\$ 716,735.69		\$ ( 58.93)	\$ 716,676.76	\$ 711,114.26
<b>4. Other Investments</b>					
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 Government purposes. Treasury securities are issued to the Air Force as evidence of its receipts. Treasury securities are an asset to the Air Force and a liability to the U.S. Treasury. Because the Air Force and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements. U.S. Treasury securities provide the Air Force with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Air Force requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of December 31	2007			2006
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 348,527,876.79	N/A	\$ 348,527,876.79	\$ 358,457,404.86
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 1,217,002,665.90	\$ (144,272,017.68)	\$ 1,072,730,648.22	\$ 1,041,537,870.19
<b>3. Total Accounts Receivable</b>	\$ 1,565,530,542.69	\$ (144,272,017.68)	\$ 1,421,258,525.01	\$ 1,399,995,275.05

Relevant Information for Comprehension

As presented on the Consolidated Balance Sheet, accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts (amounts owed by former service members) and contractor debts. It also includes net interest receivables. Canceled accounts receivable are reported as nonentity receivables because these amounts are deposited into a Treasury Department miscellaneous receipt account when collected. Reconciliation between Treasury Report on Receivables (TROR) Due from the Public and the Balance Sheet was accomplished. This reconciliation is performed to ensure that the financial statements are in agreement with the receivable amount reported to the Department of the Treasury. The difference between accounts receivable on the Balance Sheet and TROR Due from the Public include the allowance for estimated uncollectible of \$144.3 million, unsupported collections in-transit in the amount of \$110.6 thousand, and undistributed collections of \$590.0 thousand. 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 December 31	2007		4th Quarter 2006	
	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
<b>CATEGORY</b>				
<b>Nondelinquent</b>				
Current	\$ 405,534,915.47	\$ 159,636,490.40	\$ 1,085,889,663.21	\$ 193,633,488.69
Noncurrent	2,018,569.23	0.00	5,724,685.96	0.00
<b>Delinquent</b>				
1 to 30 days	\$ 19,077,790.87	\$ 45,251,398.90	\$ 34,154,795.54	\$ 6,010,392.77
31 to 60 days	16,759,226.65	5,106,464.93	122,543,435.28	4,677,392.66
61 to 90 days	124,095,960.26	33,121,604.98	28,469,104.33	6,744,328.45
91 to 180 days	11,592,009.99	8,752,970.54	64,611,412.98	21,216,861.73
181 days to 1 year	30,797,285.12	37,483,620.20	55,201,368.66	41,512,769.68
Greater than 1 year and less than or equal to 2 years	30,570,683.89	13,904,346.96	7,144,790.21	12,564,981.64
Greater than 2 years and less than or equal to 6 years	8,122,302.85	714,493,909.43	6,436,570.41	705,483,269.36
Greater than 6 years and less than or equal to 10 years	0.00	181,542,674.06	0.00	179,819,383.78
Greater than 10 years	0.00	17,845,866.54	0.00	17,701,994.25
<b>Subtotal</b>	<b>\$ 648,568,744.33</b>	<b>\$ 1,217,139,346.94</b>	<b>\$ 1,410,175,826.58</b>	<b>\$ 1,189,364,863.01</b>
Less Supported Undistributed Collections	(453,287.10)	(136,681.04)	(664,847.09)	(93,863.61)
Less Eliminations	(299,587,580.44)	0.00	(743,840,224.26)	0.00
Less Other	0.00	0.00	0.00	0.00
<b>Total</b>	<b>\$ 348,527,876.79</b>	<b>\$ 1,217,002,665.90</b>	<b>\$ 665,670,755.23</b>	<b>\$ 1,189,270,999.40</b>

### Relevant Information for Comprehension

During the 1<sup>st</sup> Quarter, FY 2007, intragovernmental and nonfederal receivables in all aging categories were adjusted to bring the DFAS-Dayton accounting information into compliance with DoDFMR policy on posting and aging of receivables. These adjustments were a part of the Base Realignment and Closure and the clean-up effort associated with the transfer of DFAS-Dayton workload to DFAS-Limestone in December 2006.

For nondelinquent, noncurrent accounts receivables, the Air Force currently has 17 claims in the amount of \$2.0 million, which are currently being negotiated. These amounts are reported by the Air Force in the Operation and Maintenance appropriation classified program. As a result, additional information on these cases is not available. Throughout the year, follow-up is made by the Air Force on these cases.

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

DFAS-DE 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-DE 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 4<sup>th</sup> Quarter, FY 2006 ending balances, rather than the ending balances as 1<sup>st</sup> 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.

<b>Note 6.</b>	<b>Other Assets</b>
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As of December 31	2007	2006
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 360,117,280.95	\$ 432,672,076.80
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 360,117,280.95	\$ 432,672,076.80
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 10,329,111,102.90	\$ 10,451,600,256.01
B. Other Assets (With the Public)	214,472,646.28	251,677,226.57
C. Total Nonfederal Other Assets	\$ 10,543,583,749.18	\$ 10,703,277,482.58
<b>3. Total Other Assets</b>	\$ 10,903,701,030.13	\$ 11,135,949,559.38

Fluctuations

Total Intragovernmental Other Assets decreased \$72.6 million (17%) primarily due to the reduction in advances to the National Aeronautics and Space Administration. The reduction is part of the Air Force's effort to return to normal production operation levels for missile and Research, Development, Testing & Evaluation in FY 2007.

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 the Department that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Department is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The Contract Financing Payment balance of \$10.3 billion is comprised of \$9.7 billion in contract financing payments and an additional \$629.2 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).



<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of December 31	2007	2006
<b>1. Cash</b>	\$ 290,170,985.20	\$ 122,390,963.66
<b>2. Foreign Currency</b>	11,414,454.59	4,252,299.73
<b>3. Other Monetary Assets</b>	0.00	0.00
<b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$ 301,585,439.79	\$ 126,643,263.39

Fluctuations

Overall Total Cash, Foreign Currency, & Other Monetary Assets increased by \$174.9 million (138%) primarily due to a \$167.8 million increase in Cash. The increase is attributed to Foreign Military Sales (FMS) wire transfers received in 1<sup>st</sup> Quarter, FY 2007. If the collections had been processed, they would have been reported as collections on the Statement of Custodial Activity for Foreign Military Sales.

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 Department of 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 Treasury. The total balance of \$301.6 million is restricted.

<b>Note 8.</b>	<b>Direct Loan and/or Loan Guarantee Programs</b>
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As of December 31

**Direct Loan and/or Loan Guarantee Programs**

Not applicable

<b>Direct Loans Obligated After FY 1991</b>
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As of December 31	2007	2006
<b>Loan Programs</b>		
<b>1. Military Housing Privatization Initiative</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>2. Foreign Military Financing Account</b>		
A. Loans Receivable Gross	\$ 0.00	\$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	\$ 0.00	\$ 0.00
<b>3. Total Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

**Total Amount of Direct Loans Disbursed**

As of December 31	2007	2006
<b>Direct Loan Programs</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Foreign Military Financing Account	0.00	0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post FY 1991 Direct Loan

As of December 31

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

**Subsidy Rate for Direct Loans**

As of December 31	Interest Differential	Defaults	Fees and other Collections	Other	Total
<b>Direct Loan Programs</b>					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Foreign Military Financing Account	0.00%	0.00%	0.00%	0.00%	0.00%

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

As of December 31	2007		2006	
<b>1. Beginning Balance of the Subsidy Cost Allowance</b>	\$	0.00	\$	0.00
<b>2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component</b>				
A. Interest Rate Differential Costs	\$	0.00	\$	0.00
B. Default Costs (Net of Recoveries)		0.00		0.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$	0.00	\$	0.00
<b>3. Adjustments</b>				
A. Loan Modifications	\$	0.00	\$	0.00
B. Fees Received		0.00		0.00
C. Foreclosed Property Acquired		0.00		0.00
D. Loans Written Off		0.00		0.00
E. Subsidy Allowance Amortization		0.00		0.00
F. Other		0.00		0.00
<b>G. Total of the above Adjustment Components</b>	\$	0.00	\$	0.00
<b>4. Ending Balance of the Subsidy Cost Allowance before Re-estimates</b>	\$	0.00	\$	0.00
<b>5. Add or Subtract Subsidy Re-estimates by Component</b>				
A. Interest Rate Re-estimate	\$	0.00	\$	0.00
B. Technical/Default Reestimate		0.00		0.00
<b>C. Total of the above Reestimate Components</b>	\$	0.00	\$	0.00
<b>6. Ending Balance of the Subsidy Cost Allowance</b>	\$	0.00	\$	0.00

<b>Defaulted Guaranteed Loans from Post FY 1991 Guarantees</b>
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As of December 31

	2007		2006
<b>Loan Guarantee Program(s)</b>			
<b>1. Military Housing Privatization Initiative</b>			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$	0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Subsidy Cost (Present Value)	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$	0.00
<b>2. Armament Retooling &amp; Manufacturing Support Initiative</b>			
A. Defaulted Guaranteed Loans Receivable, Gross	\$ 0.00	\$	0.00
B. Interest Receivable	0.00		0.00
C. Foreclosed Property	0.00		0.00
D. Allowance for Subsidy Cost (Present Value)	0.00		0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	\$ 0.00	\$	0.00
<b>3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable</b>	<b>\$ 0.00</b>	<b>\$</b>	<b>0.00</b>



<b>Guaranteed Loans Outstanding</b>
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As of December 31	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2007</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2006</b>		
<b>New Guaranteed Loans Disbursed</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	\$ 0.00	\$ 0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

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

As of December 31	2007	2006
<b>Loan Guarantee Program(s)</b>		
1. Military Housing Privatization Initiative	\$ 0.00	\$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
<b>3. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

## Subsidy Expense for Post FY 1991 Loan Guarantees

As of December 31

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

## Subsidy Rates for Loan Guarantees

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

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

As of December 31	2007		2006	
<b>1. Beginning Balance of the Loan Guarantee Liability</b>	\$	0.00	\$	0.00
<b>2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component</b>				
A. Interest Supplement Costs	\$	0.00	\$	0.00
B. Default Costs (Net of Recoveries)		0.00		0.00
C. Fees and Other Collections		0.00		0.00
D. Other Subsidy Costs		0.00		0.00
<b>E. Total of the above Subsidy Expense Components</b>	\$	0.00	\$	0.00
<b>3. Adjustments</b>				
A. Loan Guarantee Modifications	\$	0.00	\$	0.00
B. Fees Received		0.00		0.00
C. Interest Supplements Paid		0.00		0.00
D. Foreclosed Property and Loans Acquired		0.00		0.00
E. Claim Payments to Lenders		0.00		0.00
F. Interest Accumulation on the Liability Balance		0.00		0.00
G. Other		0.00		0.00
<b>H. Total of the above Adjustments</b>	\$	0.00	\$	0.00
<b>4. Ending Balance of the Loan Guarantee Liability before Reestimates</b>	\$	0.00	\$	0.00
<b>5. Add or Subtract Subsidy Reestimates by Component</b>				
A. Interest Rate Reestimate		0.00		0.00
B. Technical/default Reestimate		0.00		0.00
<b>C. Total of the above Reestimate Components</b>	\$	0.00	\$	0.00
<b>6. Ending Balance of the Loan Guarantee Liability</b>	\$	0.00	\$	0.00

**Administrative Expenses**

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of December 31	2007	2006
1. Inventory, Net	\$ 0.00	\$ 0.00
2. Operating Materials & Supplies, Net	46,204,262,470.30	48,617,976,292.52
3. Stockpile Materials, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 46,204,262,470.30</b>	<b>\$ 48,617,976,292.52</b>

## Inventory, Net

As of December 31	2007			2006		Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net		
<b>1. Inventory Categories</b>						
A. Available and Purchased for Resale	\$ 0.00	\$ 0.00	0.00	\$ 0.00	0.00	LAC,MAC
B. Held for Repair			0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable			0.00	0.00	0.00	NRV
D. Raw Materials			0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process			0.00	0.00	0.00	AC
<b>F. Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	<b>\$ 0.00</b>	<b>0.00</b>	

**Legend for Valuation Methods:**

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

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



## Operating Materials and Supplies, Net

As of December 31	2007			2006		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
<b>1. OM&amp;S Categories</b>						
A. Held for Use	\$ 35,814,767,325.42	\$ 0.00	\$ 35,814,767,325.42	\$ 37,040,452,324.44		SP, LAC
B. Held for Repair	10,389,495,144.88	0.00	10,389,495,144.88	11,577,523,968.08		SP, LAC
C. Excess, Obsolete, and Unserviceable	1,058,248,463.34	(1,058,248,463.34)	0.00	0.00		NRV
<b>D. Total</b>	<b>\$ 47,262,510,933.64</b>	<b>\$ (1,058,248,463.34)</b>	<b>\$ 46,204,262,470.30</b>	<b>\$ 48,617,976,292.52</b>		

### Legend for Valuation Methods:

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

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other

### General Composition of OM&S

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

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

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

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

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

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

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

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

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

The DoD's approved costing methodology is the Moving Average Cost (MAC). As of 1<sup>st</sup> Quarter, FY 2007, Air Force partially implemented the MAC valuation process in four reporting systems. Air Force was able to validate the beginning balances in three systems. However, most OM&S assets are in systems not yet converted to MAC and therefore are still valued at standard price with an allowance for Excess, Obsolete, and Unserviceable.

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

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

The value of some of the Air Force's GFM and CAM in the hands of contractors is not included in the OM&S values reported above. The Air Force is working with its contractors to use a system interface in order to update the Air Force's financial information. Once completed by 4<sup>th</sup> Quarter, FY 2007, this interface will be used as the prototype for implementation into other areas.

## Operating Materials and Supplies (OM&S) Value

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

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

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

## Other Air Force Disclosures

In the past, the Air Force provided only minimal OM&S accounting data that 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.), the Defense Finance and Accounting Service (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 to the General Accounting and Finance System - Rehost.

## Stockpile Materials, Net

As of December 31	2007			2006		
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method	
<b>1. Stockpile Materials Categories</b>						
A. Held for Sale	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	AC, LCM	
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM	
C. Total	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00		

**Legend for Valuation Methods:**

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

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

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

As of December 31	2007					2006
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes</b>						
A. Land	N/A	N/A	\$ 441,585,584.35	N/A	\$ 441,585,584.35	\$ 433,451,574.11
B. Buildings, Structures, and Facilities	S/L	20 Or 40	46,424,018,215.98	\$ (26,502,325,685.58)	19,921,692,530.40	19,061,754,579.94
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	800,220,310.48	(310,842,087.00)	489,378,223.48	344,560,800.40
E. General Equipment	S/L	5 or 10	30,611,462,660.60	(24,245,968,856.63)	6,365,493,803.97	6,701,854,760.73
F. Military Equipment	S/L	Various	239,776,928,552.84	(126,791,220,023.24)	112,985,708,529.60	93,280,000,000.00
G. Assets Under Capital Lease	S/L	lease term	453,481,227.52	(333,218,217.97)	120,263,009.55	146,283,367.05
H. Construction-in- Progress	N/A	N/A	3,243,972,361.07	N/A	3,243,972,361.07	4,259,246,123.82
I. Other			50,025.93	0.00	50,025.93	495,917.31
J. Total General PP&E			<u>\$ 321,751,718,938.77</u>	<u>\$ (178,183,574,870.42)</u>	<u>\$ 143,568,144,068.35</u>	<u>\$ 124,227,647,123.36</u>

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

Legend for Valuation Methods:

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

Fluctuations

General property plant and equipment increased \$19.3 billion (16%) from 1<sup>st</sup> Quarter, FY 2006 to 1<sup>st</sup> Quarter, FY 2007 primarily due to the change in valuation method for military equipment that occurred in 3<sup>rd</sup> Quarter, FY 2006.

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 SFFAS No. 23, "Eliminating the category National Defense Property, Plant, and Equipment," beginning in FY 2003, the Air Force capitalized military equipment into General PP&E at estimated historical cost using information obtained from the BEA. In FY 2006, the Air Force began valuing these assets using actual expenditure data and moved away from the BEA cost estimation methodology. The move from the BEA model was made at 3<sup>rd</sup> quarter, FY 2006, thus FY 2007 values for military equipment above are based on actual data, however, FY 2006 comparative balances for Quarters 1 and 2 were not restated.

The Department changed its method of valuing military equipment in 3<sup>rd</sup> Quarter, FY 2006. Previously, military equipment was valued using BEA data. Beginning with the 3<sup>rd</sup> Quarter, FY 2006, military equipment is valued based on internal records.

### Other Air Force Disclosures

In 1<sup>st</sup> 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 1<sup>st</sup> 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 Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. The Government Accountability Office, the Inspector General, DoD, and the Air Force are developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes in compliance with GAAP.

### Heritage Assets

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

Heritage Assets 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 14<sup>th</sup> 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.

<b>Assets Under Capital Lease</b>
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As of December 31	2007	2006
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 453,481,227.52	\$ 453,481,227.52
B. Equipment	0.00	0.00
C. Accumulated Amortization	(333,218,217.97)	(307,197,860.47)
D. Total Capital Leases	\$ 120,263,009.55	\$ 146,283,367.05

Fluctuations

The Total Capital Leases decrease of \$26.0 million (18%) is due to the current year increase in accumulated amortization. The Air Force is not acquiring any new capital leases; therefore, the change in amortization will continue to decrease the net value of assets under capital lease.

Relevant Information for Comprehension

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



<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of December 31	2007	2006
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	894,260,407.51	504,052,333.77
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 894,260,407.51</b>	<b>\$ 504,052,333.77</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 175,342,474.45	\$ 229,860,207.93
B. Military Retirement and Other Federal Employment Benefits	1,123,322,100.00	1,147,437,480.00
C. Environmental Liabilities	5,868,319,074.01	6,472,467,017.88
D. Other Liabilities	2,736,277,597.30	2,666,927,081.60
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 9,903,261,245.76</b>	<b>\$ 10,516,691,787.41</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 10,797,521,653.27</b>	<b>\$ 11,020,744,121.18</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 9,734,095,767.37</b>	<b>\$ 10,138,005,538.40</b>
<b>5. Total Liabilities</b>	<b>\$ 20,531,617,420.64</b>	<b>\$ 21,158,749,659.58</b>

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

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

Military Retirement and Other Federal Employment Benefits consist of actuarial FECA liability.

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

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of December 31	2007			2006
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	\$ 1,309,235,784.84	\$ N/A	\$ 1,309,235,784.84	\$ 1,713,256,028.19
2. Nonfederal Payables (to the Public)	4,306,131,121.09	0.00	4,306,131,121.09	5,577,209,599.77
<b>3. Total</b>	<b>\$ 5,615,366,905.93</b>	<b>\$ 0.00</b>	<b>\$ 5,615,366,905.93</b>	<b>\$ 7,290,465,627.96</b>

Fluctuations

Intragovernmental Accounts Payable decreased \$404.0 million (24%) primarily due to a U.S. Transportation Command (USTRANSCOM), Supply Management Activity Group (SMAG), and Depot Maintenance Activity Group (DMAG) initiative during 1<sup>st</sup> Quarter, FY 2007 to bill and collect outstanding working capital fund receivables thus reducing general fund accounts payable.

Nonfederal Payables decreased \$1.3 billion (23%) primarily due to less purchases in procurement, and Research, Development, Testing, and Evaluation (RDT&E), and the return to normal aircraft production operating levels in FY 2007.

<b>Note 13.</b>	<b>Debt</b>
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As of December 31	2007			2006	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
<b>1. Agency Debt (Intragovernmental)</b>					
A. Debt to the Treasury	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Debt to the Federal Financing Bank	0.00	0.00	0.00	0.00	0.00
C. Total Agency Debt	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Total Debt</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of December 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Environmental Liabilities-- Nonfederal</b>				
A. Accrued Environmental Restoration Liabilities				
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 397,341,000.00	\$ 3,158,134,410.83	\$ 3,555,475,410.83	\$ 3,928,711,803.60
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	134,713,913.42	134,713,913.42	135,793,512.78
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	1,058,045,206.17	1,182,857,206.17	1,178,484,905.98
2. Military Munitions Response Program	0.00	0.00	0.00	0.00
3. Environmental Corrective Action / Closure Requirements	8,432,000.00	71,483,646.77	79,915,646.77	149,464,158.16
4. Other	0.00	0.00	0.00	226,430,705.61
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
<b>2. Total Environmental Liabilities</b>	<b>\$ 550,558,845.00</b>	<b>\$ 5,895,589,536.68</b>	<b>\$ 6,446,148,381.68</b>	<b>\$ 7,015,396,086.13</b>

## Other Categories Disclosure

<b>Others Category Disclosure Comparative Table</b>		
<b>(Amounts in thousands)</b>	<b>2007</b>	<b>2006</b>
<b>Other Accrued Environmental Costs - Other</b>		
<b>Total</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Base Realignment and Closure - Other</b>		
<b>Manpower services at BRAC installations and headquarters offices.</b>	<b>\$0.0</b>	<b>\$226,430.7</b>
<b>Total</b>	<b>\$0.0</b>	<b>\$226,430.7</b>
<b>Environmental Disposal for Weapons Systems Programs - Other</b>		
<b>Total</b>	<b>\$0.0</b>	<b>\$0.0</b>

The amount reported for Base Realignment and Closure (BRAC) – Other in FY 2006 was reclassified into the Installation Restoration Program (IRP) line in 4<sup>th</sup> 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.

<b>Environmental Disclosures</b>
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As of December 31	2007	2006
A. Amount of operating and capital expenditures used to remediate legacy waste. Legacy wastes are the remediation efforts covered by IRP, MMRP, and BD/DR regardless of funding source.	83,105,589.17	77,915,196.40
B. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment.	103,690,000.00	152,145,000.00
C. The estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year.	0.00	0.00
D. Changes in total cleanup costs due to changes in laws, regulations, and/or technology.	0.00	0.00
E. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods.	0.00	0.00

The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment decreased by \$48.5 million (32%) due to the normal management lifecycle of landfills maintained by the Air Force. Closure liabilities are recognized by multiplying the percentage used of the total capacity of the landfills. Since Air Force has not placed any new landfills into service 1<sup>st</sup> Quarter, FY 2007, the percentage and dollar amount of used and recognized increases and the percentage and dollar amount of unused and unrecognized decreases.

There are no values for the estimated cleanup costs associated with general property, plant, and equipment placed into service during each fiscal year since the Air Force has not placed any new assets with environmental closure requirements (i.e., landfills) into service in FY 2006 and FY 2007. As of FY 2005, the Air Force no longer recognizes the costs of closure for Underground Storage Tanks (USTs) and Treatment, Storage, and Disposal Facilities (TSDFs) as environmental liabilities. The Air Force does not plan to abandon these facilities and therefore has no liability to be recognized in the financial statements. The Resource Conservation and Recovery Act (RCRA) states that the cleanup of a UST facility takes place only when the tank is abandoned for 12 consecutive months.

Due to the fact that the environmental liability data call is a manual process and is only reported annually, the cleanup costs due to changes in laws, regulations, and/or technology will not be reported until the 4<sup>th</sup> Quarter, FY 2007 financial statements.

## Other Information Related to Environmental Liabilities

### 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 General Property, Plant and Equipment (PP&E) and environmental corrective action costs for current operations. The Air Force is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC actions that have taken place in prior years. Examples of relevant laws and regulations that are considered for discussion, as applicable, include, but are not limited to:

- (a) Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- (b) Clean Water Act
- (c) Clean Air Act
- (d) Resource Conservation and Recovery Act (RCRA)
- (e) Toxic Substances Control Act (TSCA)
- (f) Other

The two laws with the vast majority of cost estimates for active environmental cleanup are CERCLA and RCRA. The “Other” classification is reserved to capture all other laws and regulations that are considered for discussion. For example, when environmental cleanup requirements are subject to individual state and/or local laws and regulations, the “Other” classification is used in the Air Force management system as an attribute of the cleanup.

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

## Types of Environmental Liabilities Identified

The Air Force has 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 266.201. Environmental cleanup on ranges refer to munitions related activities. Environmental cleanup areas within a closed range are referred to as Munitions Response Areas (MRAs). As studies are done to find munitions-related contamination on closed ranges, the number of 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.

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 total liability for FY 2007 is \$202.0 million which includes \$99.5 million recognized in the FY 2007 financial statements. 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.

## 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 their calculation. Actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation discovers contamination different than known at the time of the current estimates.

Air Force financial statements would be affected to the extent there are material differences between these estimates and actual results. There are areas in which management judgment in selecting any available alternative could produce a materially different result.

## Other Disclosures

### Other Accrued Environmental Liabilities - Environmental Corrective Actions

Because the Other Accrued, non-BRAC environmental cleanup activity is part of general funding achieved using Air Force Operation and Maintenance appropriated funds, there is no special accounting for the costs of the



cleanup program. Therefore, the costs captured for the Other Accrued, non-BRAC environmental cleanup reflect only direct costs. Because this program was not tracked and appropriated specifically, there was no accounting specific to this program. It is believed that the current portion of the environmental cleanup liability in this area is relatively small and not material in the classification of liabilities.

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

Closure liabilities recognized by the Air Force cover only direct costs. No cost accounting exists to determine indirect closure costs. Costs incurred in periods greater than 30 years into the future are considered immaterial. The present value of such costs would be negligible in recognition of closure liabilities if such recognition were not on a current cost basis.

Reporting of landfill closure liability is not in conformance with the accounting standard. The standard would recognize all future costs regardless of timing. The Air Force recognizes only the initial closure. A landfill cap typically requires replacement every 30 to 40 years. An estimation of current costs based on all future costs, regardless of timing, would result in an infinite liability. The Air Force, therefore, reports only the cost of the initial cap required to close a landfill.

#### Environmental Restoration for Overseas Bases

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

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of December 31	2007			2006
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental</b>				
A. Advances from Others	\$ 669,992,462.83	\$ 0.00	\$ 669,992,462.83	\$ 490,305,443.74
B. Deposit Funds and Suspense Account Liabilities	230,528,215.03	0.00	230,528,215.03	113,867,303.01
C. Disbursing Officer Cash	498,410,439.79	0.00	498,410,439.79	283,368,263.39
D. Judgment Fund Liabilities	0.00	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	251,179,098.00	80,686,069.71	331,865,167.71	318,705,184.06
F. Other Liabilities	713,481,817.99	0.00	713,481,817.99	341,135,800.89
<b>G. Total Intragovernmental Other Liabilities</b>	<b>\$ 2,363,592,033.64</b>	<b>\$ 80,686,069.71</b>	<b>\$ 2,444,278,103.35</b>	<b>\$ 1,547,381,995.09</b>
<b>2. Nonfederal</b>				
A. Accrued Funded Payroll and Benefits	\$ 957,086,037.15	\$ 0.00	\$ 957,086,037.15	\$ 872,757,119.24
B. Advances from Others	33,153,949.30	0.00	33,153,949.30	82,551,902.27
C. Deferred Credits	0.00	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	71,536,443.63	0.00	71,536,443.63	65,837,639.98
E. Temporary Early Retirement Authority	0.00	0.00	0.00	335,363.11
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	2,195,235,799.71	0.00	2,195,235,799.71	2,381,416,279.24
H. Capital Lease Liability	26,444,865.51	161,188,251.57	187,633,117.08	211,055,420.78
I. Other Liabilities	947,300,397.81	509,831,492.73	1,457,131,890.54	544,114,745.78
<b>J. Total Nonfederal Other Liabilities</b>	<b>\$ 4,230,757,493.11</b>	<b>\$ 671,019,744.30</b>	<b>\$ 4,901,777,237.41</b>	<b>\$ 4,158,068,470.40</b>
<b>3. Total Other Liabilities</b>	<b>\$ 6,594,349,526.75</b>	<b>\$ 751,705,814.01</b>	<b>\$ 7,346,055,340.76</b>	<b>\$ 5,705,450,465.49</b>

## Fluctuations

Total Intragovernmental Other Liabilities increased \$896.9 million (58%) primarily due to a \$372.3 million increase in other liabilities. Of this amount, \$384.0 million is a result of an increase in custodial liabilities. In the past, DFAS-DE erroneously reported public accounts receivables in receipt and deposit accounts as entity. DFAS-DE corrected the error during 3<sup>rd</sup> Quarter, FY 2006, in accordance with the classification of accounts as entity versus nonentity in DoDFMR, Volume 6B, Attachment 18A. The correct classification of a nonentity receivable for interest, penalties, and fees results in the recognition of a corresponding custodial liability because these funds, once collected, are posted to the Treasury miscellaneous receipt account.

In addition, Disbursing Officers Cash increased \$215.0 million primarily due to a \$167.8 million increase in cash that is attributed to Foreign Military Sales (FMS) wire transfers received in 1<sup>st</sup> Quarter, FY 2007. If collections had been processed, they would have been reported as collections on the Statement of Custodial Activity for Foreign Military Sales.

Also, Advances from Others increased \$179.7 million primarily due to information reported by the Air Force classified programs in the Research, Development, Testing, and Evaluation and Operations and Maintenance appropriations for 1<sup>st</sup> Quarter, FY 2007. As a result, additional information is not available.

Total Nonfederal Other Liabilities increased \$743.7 million (18%) primarily due to a \$629.2 million increase in estimated future contract financing payment that will be paid to contractors upon delivery and Government acceptance of a satisfactory product. This new requirement was implemented in the 4th Quarter, FY 2006.

## 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.

The Air Force has delinquent amounts due to Department of Labor for Federal Employees' Compensation Act (FECA) in the amount \$124.5 million.

Contingent liabilities balance includes \$629.2 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 Department 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 Department and the amount of potential future payments are estimable; the Department 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 junction, 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 and 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 December 31, 2006, was valued at \$330.6 million and is included in other liabilities nonfederal. As of December 31, 2006, the Air Force was party to 3,541 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 \$461.1 million and is not included in the reported amount and disclosed in Note 16. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. It is uncertain that claims will ever become a liability to the Air Force. In addition, many claims and lawsuits, even if successful, will not be paid out of Air Force funds.

As of December 31, 2006, 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 to report.

#### Estimation Methodology

The Air Force General Counsel through legal determination assesses and categorizes all contingent legal liability cases that equal to 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 3 year prior case analysis spreadsheet which was developed by the Air Force Audit Agency to calculate and estimate the amount of contingent liabilities (probable and reasonably possible) for reporting or disclosing in the quarterly financial statements. In cases where Air Force General Counsel discloses that a judgment has been awarded against the Air Force, these amounts will be reported on the Balance Sheet and within this note. Amounts for reasonably possible cases are disclosed in Note 16.

<b>Capital Lease Liability</b>
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As of December 31	2007				2006
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
<b>1. Future Payments Due</b>					
A. 2007	\$ 29,908,340.10	\$ 0.00	\$ 0.00	\$ 29,908,340.10	\$ 72,037,258.12
B. 2008	38,594,449.78	0.00	0.00	38,594,449.78	38,594,449.78
C. 2009	38,477,782.80	0.00	0.00	38,477,782.80	38,477,782.80
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	36,785,618.84
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	33,216,537.50
H. Total Future Lease Payments Due	\$ 222,170,150.29	\$ 0.00	\$ 0.00	\$ 222,170,150.29	\$ 257,589,429.84
I. Less: Imputed Interest Executory Costs	34,537,033.21	0.00	0.00	34,537,033.21	46,534,009.06
J. Net Capital Lease Liability	\$ 187,633,117.08	\$ 0.00	\$ 0.00	\$ 187,633,117.08	\$ 211,055,420.78
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 158,542,064.43	\$ 160,114,379.15
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 29,091,052.65	\$ 50,941,041.63

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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Relevant Information for Comprehension

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

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

	<u>(In Millions)</u>
Contractual Actions:	
Contractor Claims	\$ 47.9
Appeals before Armed Services Board of Contract Appeals (ASBCA)	486.6
Claims and Litigation from Civil Law	<u>461.1</u>
Total	\$ 995.6

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 \$984.3 million.

The Air Force is not aware of any amounts for contractual arrangements such as fixed price contracts with escalation, price redetermination, or incentive clauses; contract authorizing variations in quantities; and contracts where allowable interest may become payable based on contractors claims under "Dispute" clause contained in contracts.

<b>Note 17.</b>	<b>Military Retirement and Other Federal Employment Benefits</b>
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As of December 31	2007				2006
	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability	Present Value of Benefits
<b>1. Pension and Health Actuarial Benefits</b>					
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00	\$ 0.00
<b>2. Other Actuarial Benefits</b>					
A. FECA	\$ 1,123,322,100.00		\$ 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
<b>3. Other Federal Employment Benefits</b>	\$ 724,692.27		\$ (724,692.27)	\$ 0.00	\$ 0.00
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>	\$ 1,124,046,792.27		\$ (724,692.27)	\$ 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 (DOL) at the end of each fiscal year. There is no change on a quarterly basis. The total liability for 1<sup>st</sup> Quarter, FY 2007, is \$1.1 billion, which is a change of \$24.1 million (2%) in comparison to 1<sup>st</sup> 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 (OMB'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>
<b>COLA</b>	3.50%	3.13%	2.40%	2.40%	2.43%
<b>CPIM</b>	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.

Other Federal Employment Benefits

Other Federal Employment Benefits represent liabilities for death gratuities payable to the beneficiaries of military members.



<b>Note 18.</b>	<b>General Disclosures Related to the Statement of Net Cost</b>
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Intragovernmental Costs and Exchange Revenue		
As of December 31	2007	2006

As of December 31	2007	2006
1. Intragovernmental Costs	\$ 9,857,047,010.34	\$ 9,638,972,532.33
2. Public Costs	28,640,889,699.91	23,637,702,355.77
<b>3. Total Costs</b>	<b>\$ 38,497,936,710.25</b>	<b>\$ 33,276,674,888.10</b>
4. Intragovernmental Earned Revenue	\$ (696,609,971.62)	\$ (673,956,542.81)
5. Public Earned Revenue	(147,809,245.19)	(1,183,653,888.42)
<b>6. Total Earned Revenue</b>	<b>\$ (844,419,216.81)</b>	<b>\$ (1,857,610,431.23)</b>
<b>7. Net Cost of Operations</b>	<b>\$ 37,653,517,493.44</b>	<b>\$ 31,419,064,456.87</b>

Fluctuations

Total Costs increased \$5.2 billion (16%) primarily due to a \$5.0 billion increase in public costs. The increase resulted from the additional expenses to address the hurricanes in the Gulf of Mexico, and Global War on Terror.

Total Earned Revenue decreased \$1.0 billion (55%) primarily due to a \$1.0 billion decrease in public earned revenue. The buyer and the seller both record the transfer entries on their records. If the transfer amounts do not reconcile, the buyer is forced to post the unsupported amount in other gains. In 1<sup>st</sup> Quarter, FY 2006, Air Force incorrectly reported other gains on the Statement of Net Cost. As of 2<sup>nd</sup> Quarter, FY 2006, Air Force reported other gains on the Statement of Changes in Net Position as Other Financing Sources - Other in accordance with Department of Defense Financial Management Regulation (DoDFMR), Volume 6, Attachment 6.

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 cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets is \$750.2 thousand in FY 2007.

<b>Note 19. Disclosures Related to the Statement of Changes in Net Position</b>
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As of December 31	2007		2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>1. Prior Period Adjustments</b>				
<b>Increases (Decreases) to Net Position Beginning Balance</b>				
A. Changes in Accounting Standards	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
<b>C. Total Prior Period Adjustments</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Imputed Financing</b>				
A. Civilian CSRS/FERS Retirement	\$ 42,358,113.13	\$ 0.00	\$ 54,190,669.89	\$ 0.00
B. Civilian Health	115,977,876.00	0.00	111,803,692.00	0.00
C. Civilian Life Insurance	289,730.57	0.00	334,105.48	0.00
D. Judgment Fund	2,359,738.80	0.00	2,710,616.53	0.00
E. IntraEntity	0.00	0.00	0.00	0.00
<b>F. Total Imputed Financing</b>	<b>\$ 160,985,458.50</b>	<b>\$ 0.00</b>	<b>\$ 169,039,083.90</b>	<b>\$ 0.00</b>

Relevant Information for Comprehension

Appropriations Received on the Statement of Change in Net Position does not agree with Appropriations Received on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. This difference totals \$1.0 million and is caused by appropriated trust and special fund receipts being included on the appropriations received line on the SBR but not on the Statement of Changes in Net Position. Upon receipt of funds for trust and special funds, Treasury guidance requires posting to the appropriated trust or special funds receipts account which updates appropriations received on the SBR. The contra entry requires the collection to be posted to other revenue accounts which update the nonexchange revenue and donation and forfeitures of cash and cash equivalents lines on the Statement of Changes in Net Position. This results in the two financial statements not being in agreement.

The eliminations column on the Statement of Changes in Net Position 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 Statement of Changes in Net Position. 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 Statement of Changes in Net Position, 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.

### Imputed Financing

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

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

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of December 31	2007	2006
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 65,633,799,148.30	\$ 51,803,667,602.86
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 at the quarterly level, (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 \$23.1 billion, category B is \$28.5 billion, and exempt is \$369.6 thousand. For reimbursable obligations incurred and apportioned, category A is \$1.1 billion, category B is \$1.0 billion, and exempt is \$2.7 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(b)]

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

No capital infusion was received during 1<sup>st</sup> Quarter, FY 2007.

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

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

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

The following Statement of Financing lines are presented as combined instead of consolidated due to 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.

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

Components requiring or generating resources in future periods are costs not funded in the period the costs are incurred. The expense and the corresponding liability are recognized in the current period but the budgetary resource will not be provided until a subsequent period. The amount of liabilities not covered by budgetary resources for 1<sup>st</sup> Quarter, FY 2007 is \$10.8 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.

**Note 22.**

**Disclosures Related to the Statement of Custodial Activity**

Not applicable

**Note 23.****Earmarked Funds****BALANCE SHEET**As of December 31,  
2006

	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
<b>ASSETS</b>					
Fund balance with Treasury	\$ 0.00	\$ 0.00	\$ 5,092,611.50	\$ 0.00	\$ 5,092,611.50
Investments	0.00	0.00	722,907.42	0.00	722,907.42
Accounts and Interest Receivable	0.00	0.00	871.68	0.00	871.68
Other Assets	0.00	0.00	5,812.70	0.00	5,812.70
<b>Total Assets</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 5,822,203.30</b>	<b>\$ 0.00</b>	<b>\$ 5,822,203.30</b>

**LIABILITIES and NET  
POSITION**

Military Retirement Benefits and Other Federal Employment Benefits	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Liabilities Unexpended Appropriations	0.00	0.00	993,325.95	(967,353.88)	25,972.07
Cumulative Results of Operations	0.00	0.00	0.00	0.00	0.00
<b>Total Liabilities and Net Position</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 5,822,203.30</b>	<b>\$ (948,510.53)</b>	<b>\$ 4,873,692.77</b>

**STATEMENT OF NET  
COST**For the period ended  
December 31, 2006

Program Costs	\$ 0.00	\$ 0.00	\$ 3,296,406.86	\$ (18,843.35)	\$ 3,277,563.51
Less Earned Revenue	0.00	0.00	(2,545,253.67)	0.00	(2,545,253.67)
<b>Net Program Costs</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 751,153.19</b>	<b>\$ (18,843.35)</b>	<b>\$ 732,309.84</b>
Less Earned Revenues Not Attributable to Programs	0.00	0.00	0.00	0.00	0.00
<b>Net Cost of Operations</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 751,153.19</b>	<b>\$ (18,843.35)</b>	<b>\$ 732,309.84</b>

**STATEMENT OF  
CHANGES IN NET  
POSITION**For the period ended  
December 31, 2006

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	751,153.19	(18,843.35)	732,309.84
Budgetary Financing Sources	0.00	0.00	1,040,482.46	0.00	1,040,482.46
Other Financing Sources	0.00	0.00	0.00	0.00	0.00
<b>Change in Net Position</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 289,329.27</b>	<b>\$ 18,843.35</b>	<b>\$ 308,172.62</b>
<b>Net Position End of Period</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 4,828,877.35</b>	<b>\$ 18,843.35</b>	<b>\$ 4,847,720.70</b>



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

The Department of the Air Force General Gift Fund accepts, holds, and administers any gift, 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 (b))

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

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

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

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

### Relevant Information for Comprehension

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

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

<b>Note 24.</b>	<b>Other Disclosures</b>
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As of December 31	2007			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
<b>1. ENTITY AS LESSEE- Operating Leases</b>				
Future Payments Due				
Fiscal Year				
2007	\$ 55,757,000.00	\$ 0.00	\$ 118,791,775.00	\$ 174,548,775.00
2008	54,955,000.00	0.00	123,543,446.00	178,498,446.00
2009	55,749,000.00	0.00	128,485,184.00	184,234,184.00
2010	43,827,000.00	0.00	133,624,591.00	177,451,591.00
2011	44,704,000.00	0.00	138,969,575.00	183,673,575.00
2012	45,598,000.00	0.00	144,528,358.00	190,126,358.00
After 5 Years	46,510,000.00	0.00	150,309,492.00	196,819,492.00
<b>Total Future Lease Payments Due</b>	<b>\$ 347,100,000.00</b>	<b>\$ 0.00</b>	<b>\$ 938,252,421.00</b>	<b>\$ 1,285,352,421.00</b>

Relevant Information for Comprehension

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

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

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

**Note 25.**

**Restatements**