

Department of Defense
Department of the Air Force
CONSOLIDATED BALANCE SHEET
As of June 30, 2009 and 2008

| | 2009 Consolidated | Restated 2008 Consolidated |
|---|------------------------------|---------------------------------------|
| 1. ASSETS (Note 2) | | |
| A. Intragovernmental: | | |
| 1. Fund Balance with Treasury (Note 3) | \$ 142,001,278,462.03 | \$ 129,374,046,205.11 |
| 2. Investments (Note 4) | 963,734.21 | 875,397.37 |
| 3. Accounts Receivable (Note 5) | 115,656,875.15 | 104,603,104.78 |
| 4. Other Assets (Note 6) | 302,889,109.11 | 244,839,568.06 |
| 5. Total Intragovernmental Assets | <u>\$ 142,420,788,180.50</u> | <u>\$ 129,724,364,275.32</u> |
| B. Cash and Other Monetary Assets (Note 7) | \$ 91,789,594.73 | \$ 103,709,884.97 |
| C. Accounts Receivable, Net (Note 5) | 495,944,417.32 | 514,120,229.83 |
| E. Inventory and Related Property, Net (Note 9) | 47,325,378,867.75 | 46,934,641,598.57 |
| F. General Property, Plant and Equipment, Net (Note 10) | 155,795,244,153.55 | 145,738,852,843.87 |
| H. Other Assets (Note 6) | 12,071,389,333.53 | 11,739,564,689.04 |
| 2. TOTAL ASSETS | <u>\$ 358,200,534,547.38</u> | <u>\$ 334,755,253,521.60</u> |
| 3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10) | | |
| 4. LIABILITIES (Note 11) | | |
| A. Intragovernmental: | | |
| 1. Accounts Payable (Note 12) | \$ 2,037,135,852.18 | \$ 2,157,820,507.70 |
| 3. Other Liabilities (Note 15 & 16) | 2,027,617,145.96 | 1,883,893,050.42 |
| 4. Total Intragovernmental Liabilities | <u>\$ 4,064,752,998.14</u> | <u>\$ 4,041,713,558.12</u> |
| B. Accounts Payable (Note 12) | \$ 4,300,460,819.35 | \$ 4,124,940,205.97 |
| C. Military Retirement and Other Federal Employment Benefits (Note 17) | 1,161,095,944.95 | 1,135,368,787.14 |
| D. Environmental and Disposal Liabilities (Note 14) | 7,914,254,808.75 | 6,526,750,729.50 |
| F. Other Liabilities (Note 15 & Note 16) | 6,403,172,049.87 | 5,811,237,062.79 |
| 5. TOTAL LIABILITIES | <u>\$ 23,843,736,621.06</u> | <u>\$ 21,640,010,343.52</u> |
| 6. COMMITMENTS AND CONTINGENCIES (NOTE 16) | | |
| 7. NET POSITION | | |
| B. Unexpended Appropriations - Other Funds | 143,724,456,659.20 | 128,953,424,450.67 |
| C. Cumulative Results of Operations - Earmarked Funds | 10,719,093.52 | 5,977,940.41 |
| D. Cumulative Results of Operations - Other Funds | 190,621,622,173.60 | 184,155,840,787.00 |
| 8. TOTAL NET POSITION | <u>\$ 334,356,797,926.32</u> | <u>\$ 313,115,243,178.08</u> |
| 9. TOTAL LIABILITIES AND NET POSITION | <u>\$ 358,200,534,547.38</u> | <u>\$ 334,755,253,521.60</u> |

Department of Defense
Department of the Air Force
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2009 and 2008

| | 2009 Consolidated | Restated 2008 Consolidated |
|----------------------------------|--------------------------|---------------------------------------|
| | | |
| 1. Program Costs | | |
| A. Gross Costs | \$ 106,552,348,647.41 | \$ 106,625,895,320.60 |
| B. (Less: Earned Revenue) | (4,018,589,020.15) | (3,745,866,852.93) |
| C. Net Program Costs | \$ 102,533,759,627.26 | \$ 102,880,028,467.67 |
| 4. Net Cost of Operations | \$ 102,533,759,627.26 | \$ 102,880,028,467.67 |

Department of Defense
Department of the Air Force
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2009 and 2008

| | <u>2009 Earmarked Funds</u> | <u>2009 All Other Funds</u> |
|--|-----------------------------|-----------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 5,354,879.21 | \$ 185,017,169,049.93 |
| 2. Prior Period Adjustments: | | |
| 2.B. Corrections of errors (+/-) | 0.00 | 523,052,576.00 |
| 3. Beginning balances, as adjusted | <u>5,354,879.21</u> | <u>185,540,221,625.93</u> |
| 4. Budgetary Financing Sources: | | |
| 4.B. Appropriations used | 0.00 | 110,132,423,134.85 |
| 4.C. Nonexchange revenue | 457,669.31 | 0.00 |
| 4.D. Donations and forfeitures of cash | 7,141,605.34 | 0.00 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 0.00 |
| 5. Other Financing Sources: | | |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | (183,365,634.51) |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 532,817,964.83 |
| 5.D. Other (+/-) | 0.00 | (2,868,950,350.58) |
| 6. Total Financing Sources | <u>7,599,274.65</u> | <u>107,612,925,114.59</u> |
| 7. Net Cost of Operations (+/-) | 2,235,060.34 | 102,531,524,566.92 |
| 8. Net Change | <u>5,364,214.31</u> | <u>5,081,400,547.67</u> |
| 9. Cumulative Results of Operations | 10,719,093.52 | 190,621,622,173.60 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 92,171,365,794.05 |
| 12. Beginning balances, as adjusted | <u>0.00</u> | <u>92,171,365,794.05</u> |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 163,967,087,000.00 |
| 13.B. Appropriations transferred-in/out | 0.00 | 353,200,000.00 |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (2,634,773,000.00) |
| 13.D. Appropriations used | 0.00 | (110,132,423,134.85) |
| 14. Total Budgetary Financing Sources | 0.00 | 51,553,090,865.15 |
| 15. Unexpended Appropriations | 0.00 | 143,724,456,659.20 |
| 16. Net Position | <u>10,719,093.52</u> | <u>334,346,078,832.80</u> |

Department of Defense
Department of the Air Force
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2009 and 2008

| | <u>2009 Eliminations</u> | <u>2009 Consolidated</u> |
|--|--------------------------|---------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 0.00 | \$ 185,022,523,929.14 |
| 2. Prior Period Adjustments: | | |
| 2.B. Corrections of errors (+/-) | 0.00 | 523,052,576.00 |
| 3. Beginning balances, as adjusted | <u>0.00</u> | <u>185,545,576,505.14</u> |
| 4. Budgetary Financing Sources: | | |
| 4.B. Appropriations used | 0.00 | 110,132,423,134.85 |
| 4.C. Nonexchange revenue | 0.00 | 457,669.31 |
| 4.D. Donations and forfeitures of cash | 0.00 | 7,141,605.34 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 0.00 |
| 5. Other Financing Sources: | | |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | (183,365,634.51) |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 532,817,964.83 |
| 5.D. Other (+/-) | 0.00 | (2,868,950,350.58) |
| 6. Total Financing Sources | <u>0.00</u> | <u>107,620,524,389.24</u> |
| 7. Net Cost of Operations (+/-) | 0.00 | 102,533,759,627.26 |
| 8. Net Change | <u>0.00</u> | <u>5,086,764,761.98</u> |
| 9. Cumulative Results of Operations | 0.00 | 190,632,341,267.12 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 92,171,365,794.05 |
| 12. Beginning balances, as adjusted | <u>0.00</u> | <u>92,171,365,794.05</u> |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 163,967,087,000.00 |
| 13.B. Appropriations transferred-in/out | 0.00 | 353,200,000.00 |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (2,634,773,000.00) |
| 13.D. Appropriations used | 0.00 | (110,132,423,134.85) |
| 14. Total Budgetary Financing Sources | 0.00 | 51,553,090,865.15 |
| 15. Unexpended Appropriations | 0.00 | 143,724,456,659.20 |
| 16. Net Position | <u>0.00</u> | <u>334,356,797,926.32</u> |

Department of Defense

Department of the Air Force

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2009 and 2008

| | 2008 Earmarked Funds | Restated 2008 All Other Funds |
|--|----------------------|----------------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 4,548,466.41 | \$ 180,315,321,345.31 |
| 2. Prior Period Adjustments: | | |
| 2.B. Corrections of errors (+/-) | 0.00 | 568,870,174.00 |
| 3. Beginning balances, as adjusted | 4,548,466.41 | 180,884,191,519.31 |
| 4. Budgetary Financing Sources: | | |
| 4.B. Appropriations used | 0.00 | 106,570,010,354.82 |
| 4.C. Nonexchange revenue | 833,285.73 | (1,631.69) |
| 4.D. Donations and forfeitures of cash | 2,357,969.43 | 0.00 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 88,000,000.00 |
| 5. Other Financing Sources: | | |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | 229,258,448.64 |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 486,573,745.10 |
| 5.D. Other (+/-) | 0.00 | (1,223,924,962.67) |
| 6. Total Financing Sources | 3,191,255.16 | 106,149,915,954.20 |
| 7. Net Cost of Operations (+/-) | 1,761,781.16 | 102,878,266,686.51 |
| 8. Net Change | 1,429,474.00 | 3,271,649,267.69 |
| 9. Cumulative Results of Operations | 5,977,940.41 | 184,155,840,787.00 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 80,465,486,805.49 |
| 12. Beginning balances, as adjusted | 0.00 | 80,465,486,805.49 |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 156,788,176,000.00 |
| 13.B. Appropriations transferred-in/out | 0.00 | (69,422,000.00) |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (1,660,806,000.00) |
| 13.D. Appropriations used | 0.00 | (106,570,010,354.82) |
| 14. Total Budgetary Financing Sources | 0.00 | 48,487,937,645.18 |
| 15. Unexpended Appropriations | 0.00 | 128,953,424,450.67 |
| 16. Net Position | 5,977,940.41 | 313,109,265,237.67 |

Department of Defense

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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended June 30, 2009 and 2008

| | <u>2008 Eliminations</u> | <u>Restated 2008 Consolidated</u> |
|--|--------------------------|---------------------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| 1. Beginning Balances | \$ 0.00 | \$ 180,319,869,811.72 |
| 2. Prior Period Adjustments: | | |
| 2.B. Corrections of errors (+/-) | 0.00 | 568,870,174.00 |
| 3. Beginning balances, as adjusted | <u>0.00</u> | <u>180,888,739,985.72</u> |
| 4. Budgetary Financing Sources: | | |
| 4.B. Appropriations used | 0.00 | 106,570,010,354.82 |
| 4.C. Nonexchange revenue | 0.00 | 831,654.04 |
| 4.D. Donations and forfeitures of cash | 0.00 | 2,357,969.43 |
| 4.E. Transfers-in/out without reimbursement | 0.00 | 88,000,000.00 |
| 5. Other Financing Sources: | | |
| 5.B. Transfers-in/out without reimbursement (+/-) | 0.00 | 229,258,448.64 |
| 5.C. Imputed financing from costs absorbed by others | 0.00 | 486,573,745.10 |
| 5.D. Other (+/-) | 0.00 | (1,223,924,962.67) |
| 6. Total Financing Sources | <u>0.00</u> | <u>106,153,107,209.36</u> |
| 7. Net Cost of Operations (+/-) | 0.00 | 102,880,028,467.67 |
| 8. Net Change | <u>0.00</u> | <u>3,273,078,741.69</u> |
| 9. Cumulative Results of Operations | 0.00 | 184,161,818,727.41 |
| UNEXPENDED APPROPRIATIONS | | |
| 10. Beginning Balances | \$ 0.00 | \$ 80,465,486,805.49 |
| 12. Beginning balances, as adjusted | <u>0.00</u> | <u>80,465,486,805.49</u> |
| 13. Budgetary Financing Sources: | | |
| 13.A. Appropriations received | 0.00 | 156,788,176,000.00 |
| 13.B. Appropriations transferred-in/out | 0.00 | (69,422,000.00) |
| 13.C. Other adjustments (rescissions, etc) | 0.00 | (1,660,806,000.00) |
| 13.D. Appropriations used | 0.00 | (106,570,010,354.82) |
| 14. Total Budgetary Financing Sources | 0.00 | 48,487,937,645.18 |
| 15. Unexpended Appropriations | 0.00 | 128,953,424,450.67 |
| 16. Net Position | <u>0.00</u> | <u>313,115,243,178.08</u> |

Department of Defense
 Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the periods ended June 30, 2009 and 2008

| | <u>2009 Combined</u> | <u>2008 Combined</u> |
|--|-------------------------------------|-------------------------------------|
| BUDGETARY FINANCING ACCOUNTS | | |
| BUDGETARY RESOURCES: | | |
| 1. Unobligated balance, brought forward, October 1 | \$ 26,676,890,262.94 | \$ 21,175,344,375.24 |
| 2. Recoveries of prior year unpaid obligations | 3,578,873,623.17 | 5,017,525,611.72 |
| 3. Budget authority | | |
| 3.A. Appropriation | 163,975,046,218.49 | 156,791,365,528.71 |
| 3.D. Spending authority from offsetting collections | | |
| 3.D.1 Earned | | |
| 3.D.1.a. Collected | 6,279,684,079.26 | 6,890,689,763.73 |
| 3.D.1.b. Change in receivables from Federal sources | (187,630,745.93) | (771,402,447.81) |
| 3.D.2 Change in unfilled customer orders | | |
| 3.D.2.a. Advance received | 130,724,652.74 | (95,723,220.07) |
| 3.D.2.b. Without advance from Federal sources | 1,648,492,999.48 | 1,989,120,758.71 |
| 3.D.3. Anticipated for rest of year, without advances | 1,914,459,639.40 | 762,530,813.82 |
| 3.E. Subtotal | <u>173,760,776,843.44</u> | <u>165,566,581,197.09</u> |
| 4. Nonexpenditure transfers, net, anticipated and actual | 353,200,000.00 | 18,578,000.00 |
| 6. Permanently not available | (2,634,773,000.00) | (1,660,806,000.00) |
| 7. Total Budgetary Resources | <u><u>\$ 201,734,967,729.55</u></u> | <u><u>\$ 190,117,223,184.05</u></u> |

Department of Defense
Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2009 and 2008

| | <u>2009 Combined</u> | <u>2008 Combined</u> |
|---|-------------------------------------|-------------------------------------|
| Status of Budgetary Resources: | | |
| 8. Obligations incurred: | | |
| 8.A. Direct | \$ 120,636,157,772.56 | \$ 117,223,157,197.32 |
| 8.B. Reimbursable | 6,450,353,501.56 | 6,598,997,663.54 |
| 8.C. Subtotal | <u>127,086,511,274.12</u> | <u>123,822,154,860.86</u> |
| 9. Unobligated balance: | | |
| 9.A. Apportioned | 71,024,850,711.75 | 62,890,948,974.50 |
| 9.B. Exempt from apportionment | 4,641,906.60 | 4,180,079.21 |
| 9.C. Subtotal | <u>71,029,492,618.35</u> | <u>62,895,129,053.71</u> |
| 10. Unobligated balance not available | 3,618,963,837.08 | 3,399,939,269.48 |
| 11. Total status of budgetary resources | <u><u>\$ 201,734,967,729.55</u></u> | <u><u>\$ 190,117,223,184.05</u></u> |
| Change in Obligated Balance: | | |
| 12. Obligated balance, net | | |
| 12.A. Unpaid obligations, brought forward, October 1 | 67,813,257,839.74 | 60,933,360,203.22 |
| 12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1 | \$ (2,051,639,069.15) | \$ (2,366,785,293.53) |
| 12.C. Total unpaid obligated balance | <u>65,761,618,770.59</u> | <u>58,566,574,909.69</u> |
| 13. Obligations incurred net (+/-) | \$ 127,086,511,274.12 | \$ 123,822,154,860.86 |
| 14. Less: Gross outlays | <u>(119,049,872,259.39)</u> | <u>(112,754,796,083.19)</u> |
| 16. Less: Recoveries of prior year unpaid obligations, actual | <u>(3,578,873,623.17)</u> | <u>(5,017,525,611.72)</u> |
| 17. Change in uncollected customer payments from Federal sources (+/-) | (1,460,862,253.55) | (1,217,718,310.90) |
| 18. Obligated balance, net, end of period | | |
| 18.A. Unpaid obligations | 72,271,023,231.30 | 66,983,193,369.17 |
| 18.B. Less: Uncollected customer payments from Federal sources (-) | (3,512,501,322.70) | (3,584,503,604.43) |
| 18.C. Total, unpaid obligated balance, net, end of period | <u>68,758,521,908.60</u> | <u>63,398,689,764.74</u> |
| Net Outlays | | |
| 19. Net Outlays: | | |
| 19.A. Gross outlays | 119,049,872,259.39 | 112,754,796,083.19 |
| 19.B. Less: Offsetting collections | (6,410,408,732.00) | (6,794,966,543.66) |
| 19.C. Less: Distributed Offsetting receipts | (63,617,165.88) | (71,386,398.89) |
| 19.D. Net Outlays | <u><u>\$ 112,575,846,361.51</u></u> | <u><u>\$ 105,888,443,140.64</u></u> |

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Air Force, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force in accordance with the Department of Defense (DoD), Financial Management Regulation (FMR), the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Air Force is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The Air Force is unable to fully implement all elements of GAAP and OMB Circular A-136, due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The Air Force derives its reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Air Force continues to implement process and system improvements addressing these limitations.

The DoD currently has several auditor identified financial statement material weaknesses. Of these the Air Force has the following: (1) Financial Management Systems, (2) Intragovernmental Eliminations, (3) Unsupported Accounting Entries, (4) Fund Balance with Treasury, (5) Environmental Liabilities, (6) General Property, Plant, and Equipment, (7) Governmental Property and Material in Possession of Contractors, (8) Operating Materials and Supplies, (9) Statement of Net Cost, (10) Reconciliation of Net Cost of Operations to Budget, (11) Accounts Payable, and (12) Accounts Receivable. 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 and operates under the direction, authority, and control of the Secretary of the Air Force. The Air Force's overall mission is to deliver sovereign options for the Defense of the United States of America and its global interests to fly, fight, and win in air, space, and cyberspace. The Air Force carries out its mission by adhering to a strategic framework of Core Values consisting of Integrity First, Service Before Self, and Excellence in All That We Do. In addition, the Air Force is committed to provide Global

Vigilance, Global Reach, and Global Power, while defending and protecting the United States.

1.C. Appropriations and Funds

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

- General funds are used for financial transactions funded by congressional appropriations, including personnel, operations and maintenance, research and development, procurement, and military construction accounts.
- Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.
- Special fund accounts are used to record government receipts reserved for a specific purpose.
- Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The Air Force is acting as an agent or custodian for funds awaiting distribution.

The Air Force is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds for another agency. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. The Air Force allocates funds, as the parent, to the Department of Transportation.

Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. Exceptions include all U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Air Force is a party to allocation transfers as the child for EOP (Foreign Military Sales – Military Assistance Program) meeting OMB exception; however, activities for this fund are reported separately from DoD financial statements. In addition, the Air Force is a party to allocation transfers as the child for the Department of Agriculture.

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

| Air Force Account Number | Title |
|--------------------------|---|
| 57 * 0704 | Military Family Housing, Operations and Maintenance (O&M) and Construction, Air Force |
| 57 * 0740 | Military Family Housing (Construction), Air Force |
| 57 * 0743 | Military Family Housing (Construction), Air Force, Recovery Act |
| 57 * 0745 | Military Family Housing, Operations and Maintenance (O&M), Air Force |
| 57 * 0748 | Military Family Housing, Operations and Maintenance (O&M), Air Force, Recovery Act |
| 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 * 3307 | Military Construction, Air Force, Recovery Act |
| 57 * 3400 | Operations and Maintenance (O&M), Air Force |
| 57 * 3404 | Operations and Maintenance (O&M), Air Force, Recovery Act |
| 57 * 3500 | Military Personnel, Air Force |
| 57 * 3600 | Research, Development, Testing, and Evaluation (RDT&E), Air Force |
| 57 * 3605 | Research, Development, Testing, and Evaluation (RDT&E), Air Force, Recovery Act |
| 57 * 3700 | Personnel, Air Force Reserve |
| 57 * 3730 | Military Construction, Air Force Reserve |
| 57 * 3740 | Operations and Maintenance (O&M), Air Force Reserve |
| 57 * 3744 | Operations and Maintenance (O&M), Air Force Reserve, Recovery Act |
| 57 * 3830 | Military Construction, Air National Guard |
| 57 * 3834 | Military Construction, Air National Guard, Recovery Act |

| | |
|----------------------------|---|
| 57 * 3840 | Operations and Maintenance (O&M), Air National Guard |
| 57 * 3844 | Operations and Maintenance (O&M), Air National Guard, Recovery Act |
| 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 2009, the Air Force's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Air Force's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of the Air Force's (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis. However, some accounts such as civilian pay, military pay and accounts payable are presented on the accrual basis of accounting on the financial statements, as required by federal accounting standards.

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

1.E. Revenues and Other Financing Sources

The Air Force receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Air Force recognizes revenue as a result of costs incurred for goods or services provided to other federal agencies and the public. Full cost pricing is the Air Force's standard policy for services provided as required by OMB Circular A-25, Transmittal Memorandum #1, User Charges. The Air Force recognizes revenue when earned within the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

The Air Force does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with other countries. Example includes countries where there is a mutual or reciprocal defense agreement where U.S. troops are stationed.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Air Force's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition towards the consumption method for recognizing OM&S expenses.

1.G. Accounting for Intragovernmental Activities

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

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government,” and the U.S. Treasury's “Federal Intragovernmental Transactions Accounting Policy Guide” provide guidance for reporting and reconciling intragovernmental balances. While the Air Force is unable to fully reconcile intragovernmental transactions with all federal partners, the Air Force is able to reconcile balances pertaining to investments in federal securities, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The DoD's proportionate share of public debt and related expenses of the federal government is not included. The federal government does not apportion debt and its

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

The Air Force's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, 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 to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. The Air Force's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts must balance monthly.

1.J. Foreign Currency

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

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

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

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable include three categories: accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible amounts due from the public are computed based on the average annual write off over a five year period. 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.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The Air Force manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes all items (including self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment, but excluding real property, installations, and utilities) necessary to equip, operate, maintain, and support military activities without distinction as to its application for administrative or combat purposes. Items commonly used in and available from the commercial sector are not managed in the Air Force materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Air Force holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for “inventory held for sale” and “inventory held in reserve for future sale” with a completion date of year-end FY 2010 reporting.

Related property includes OM&S and stockpile materiel. The majority of OM&S, with the exception of munitions not held for sale, are valued using the moving average cost method. Munitions not held for sale are valued at standard purchase price. The Air Force uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines,

are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Air Force uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2009, the Air Force expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

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

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

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

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

The Air Force invests in nonmarketable market-based U.S. Treasury securities. These are U.S. Treasury securities that are issued by the Bureau of Public Debt to federal agencies. Nonmarketable, market-based intragovernmental securities mirror marketable securities, but are not publicly traded.

1.O. General Property, Plant and Equipment

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

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is \$100 thousand except for real property, which is \$20 thousand. The DoD has not fully implemented the threshold for real property due to system and process limitations.

General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DoD capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed DoD capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Air Force depreciates all General PP&E, other than land, on a straight-line basis.

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

When it is in the best interest of the government, the Air Force provides government property to contractors to complete contract work. The Air Force either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on the Air Force's Balance Sheet.

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

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances and prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The Air Force has not fully implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), Air Force records the applicable asset and liability if the value

equals or exceeds the current capitalization threshold. The Air Force records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Air Force as the lessee receives the use and possession of leased property, for example real estate, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

Office space and leases entered into by Air Force in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Services Administration (GSA) bills, and Interservice Support Agreements. Future year projections use the Consumer Price Index (CPI) rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.

1.R. Other Assets

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

The Air Force conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, Air Force may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as Other Assets.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisition Regulation Supplement authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stages of completion are reported as Construction in Progress.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the federal government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that

involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Air Force recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending, or threatened litigation, and possible claims and assessments. The Air Force's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for Air Force assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of federal government." The Air Force does not recognize contingent liabilities associated with nonenvironmental disposals due to immateriality.

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.V. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Air Force purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the Air Force continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Unexpended Obligations

The Air Force obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations includes both obligations for which goods and services have been delivered (title passed) and a liability recognized, and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources, and is referred to as “Total, unpaid obligated balances, net, end of period.”

1.X. Undistributed Disbursements and Collections

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

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

1.Y. Significant Events

Not applicable.

1.Z. Fiduciary Activities

Fiduciary cash and other assets are not assets of the Air Force and are not recognized on the balance sheet. Fiduciary activities are reported on the financial statement note schedules.

| | |
|----------------|-------------------------|
| Note 2. | Nonentity Assets |
|----------------|-------------------------|

| As of June 30 | 2009 | Restated 2008 |
|------------------------------------|-----------------------|-----------------------|
| 1. Intragovernmental Assets | | |
| A. Fund Balance with Treasury | \$ 181,985,150.93 | \$ 185,193,340.16 |
| B. Accounts Receivable | 1,282,451.22 | 162,514.21 |
| C. Total Intragovernmental Assets | \$ 183,267,602.15 | \$ 185,355,854.37 |
| 2. Nonfederal Assets | | |
| A. Cash and Other Monetary Assets | \$ 91,789,594.73 | \$ 103,709,884.97 |
| B. Accounts Receivable | 142,000,366.44 | 118,872,334.65 |
| C. Other Assets | 186,225,000.00 | 184,475,000.00 |
| D. Total Nonfederal Assets | \$ 420,014,961.17 | \$ 407,057,219.62 |
| 3. Total Nonentity Assets | \$ 603,282,563.32 | \$ 592,413,073.99 |
| 4. Total Entity Assets | \$ 357,597,251,984.06 | \$ 334,162,840,447.61 |
| 5. Total Assets | \$ 358,200,534,547.38 | \$ 334,755,253,521.60 |

Relevant Information for Comprehension

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

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

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

Nonfederal Cash and Other Monetary Assets represent disbursing officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by the Air Force disbursing officers as agents of the U.S. Treasury. The nonfederal cash and other monetary assets represent a fiduciary capacity held by Air Force disbursing officers as agents for U.S. Treasury and are not available for use in operations.

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

contractors as part of the advance payment pool agreements. These funds are not available for use in Air Force operations.

| | |
|----------------|-----------------------------------|
| Note 3. | Fund Balance with Treasury |
|----------------|-----------------------------------|

| As of June 30 | 2009 | 2008 |
|--|-----------------------|------------------------|
| 1. Fund Balances | | |
| A. Appropriated Funds | \$ 141,809,360,220.99 | \$ 129,182,998,335.39 |
| B. Revolving Funds | 0.00 | 0.00 |
| C. Trust Funds | 8,740,019.73 | 4,409,102.96 |
| D. Special Funds | 1,193,070.38 | 1,445,426.60 |
| E. Other Fund Types | 181,985,150.93 | 185,193,340.16 |
| F. Total Fund Balances | \$ 142,001,278,462.03 | \$ 129,374,046,205.11 |
| 2. Fund Balances Per Treasury Versus Agency | | |
| A. Fund Balance per Treasury | \$ 142,003,439,180.08 | \$ 112,226,795,456.80 |
| B. Fund Balance per | 142,001,278,462.03 | 129,374,046,205.11 |
| 3. Reconciling Amount | \$ 2,160,718.05 | \$ (17,147,250,748.31) |

Fund Balance with Treasury

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

The Air Force shows a reconciling amount of \$2.2 million with U.S. Treasury, which is comprised of the net value of the following:

\$24.0 million in allocation transfer from Air Force to the Department of Transportation. These funds are reported in the Fund Balance with Treasury (FBWT), but are not included in the U.S. Treasury FBWT. U.S. Treasury reports these balances under Department of Transportation.

\$23.8 million in allocation transfer to Air Force from the Department of Agriculture and the Foreign Military Sales-Military Assistance Program (MAP). The U.S. Treasury reported these funds as Air Force in FBWT, but Air Force did not include the funds in its FBWT because the Department of Agriculture and MAP reported these balances in their financial statements.

\$2.4 million of unavailable receipt accounts due to fiduciary activity consisting of the Savings Deposit Program (SDP). The U.S. Treasury reported these funds as Air Force in FBWT, but activity recorded within the SDP must be excluded from the Air Force FBWT.

Status of Fund Balance with Treasury

| As of June 30 | 2009 | | 2008 | |
|---|------|--------------------|------|--------------------|
| 1. Unobligated Balance | | | | |
| A. Available | \$ | 69,114,670,648.26 | \$ | 62,132,598,239.89 |
| B. Unavailable | | 3,618,963,837.08 | | 3,399,939,269.48 |
| 2. Obligated Balance not yet Disbursed | \$ | 72,271,023,231.30 | \$ | 66,983,193,369.17 |
| 3. Nonbudgetary FBWT | \$ | 510,069,087.46 | \$ | 443,678,304.97 |
| 4. NonFBWT Budgetary Accounts | \$ | (3,513,448,342.07) | \$ | (3,585,362,978.40) |
| 5. Total | \$ | 142,001,278,462.03 | \$ | 129,374,046,205.11 |

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

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

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received, services that have not been performed, and goods and services that have been delivered/received but not yet paid.

Nonbudgetary FBWT includes entity and nonentity FBWT accounts which represents adjustments that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. The items reported as Nonbudgetary FBWT account comprises the FBWT for suspense, deposit and receipt accounts.

NonFBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. The items that comprise the amount reported as NonFBWT receipts are from nonentity receivables, investments and discounts in U.S. Treasury securities, and unfilled customer orders without advances. This category reduces the Status of FBWT.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The Unobligated Balance unavailable of \$3.6 billion is not available for new obligations since the period for new obligations established by law has expired.

Note 4. Investments and Related Interest

| As of June 30 | 2009 | | | | |
|---|---------------|---------------------|--------------------------------|------------------|-------------------------|
| | Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
| 1. Intragovernmental Securities | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | \$ 0.00 | | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2. Medicare Eligible Retiree Health Care Fund | 0.00 | | 0.00 | 0.00 | 0.00 |
| 3. US Army Corps of Engineers | 0.00 | | 0.00 | 0.00 | 0.00 |
| 4. Other Funds | 960,574.36 | | (7,154.88) | 953,419.48 | 977,656.94 |
| 5. Total Nonmarketable, Market-Based | 960,574.36 | | (7,154.88) | 953,419.48 | 977,656.94 |
| B. Accrued Interest | 10,314.73 | | | 10,314.73 | 10,314.73 |
| C. Total Intragovernmental Securities | \$ 970,889.09 | | \$ (7,154.88) | \$ 963,734.21 | \$ 987,971.67 |
| 2. Other Investments | | | | | |
| A. Total Other Investments | \$ 0.00 | | \$ 0.00 | \$ 0.00 | N/A |

| As of June 30 | 2008 | | | | |
|---|---------------|---------------------|--------------------------------|------------------|-------------------------|
| | Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
| 3. Intragovernmental Securities | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | \$ 0.00 | | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| 2. Medicare Eligible Retiree Health Care Fund | 0.00 | | 0.00 | 0.00 | 0.00 |
| 3. US Army Corps of Engineers | 0.00 | | 0.00 | 0.00 | 0.00 |
| 4. Other Funds | 867,928.83 | | (3,381.10) | 864,547.73 | 882,978.44 |
| 5. Total Nonmarketable, Market-Based | 867,928.83 | | (3,381.10) | 864,547.73 | 882,978.44 |
| B. Accrued Interest | 10,849.64 | | | 10,849.64 | 10,849.64 |
| C. Total Intragovernmental Securities | \$ 878,778.47 | | \$ (3,381.10) | \$ 875,397.37 | \$ 893,828.08 |
| 4. Other Investments | | | | | |
| A. Total Other Investments | \$ 0.00 | | \$ 0.00 | \$ 0.00 | N/A |

Relevant Information for Comprehension

The federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash generated from earmarked funds are deposited in the U.S. Treasury, which uses the cash for general government purposes. U.S. Treasury securities are issued to the earmarked funds as evidence of its receipts. The U.S. Treasury securities are an asset to the Air Force and a liability to the U.S. Treasury. Because the Air Force and the U.S. Treasury are both parts of the 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. The 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 the securities out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

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

| | |
|----------------|----------------------------|
| Note 5. | Accounts Receivable |
|----------------|----------------------------|

| As of June 30 | 2009 | | |
|--|-------------------|--|--------------------------|
| | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| 1. Intragovernmental Receivables | \$ 115,656,875.15 | N/A | \$ 115,656,875.15 |
| 2. Nonfederal Receivables (From the Public) | \$ 561,591,705.36 | \$ (65,647,288.04) | \$ 495,944,417.32 |
| 3. Total Accounts Receivable | \$ 677,248,580.51 | \$ (65,647,288.04) | \$ 611,601,292.47 |

| As of June 30 | 2008 | | |
|--|-------------------|--|--------------------------|
| | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| 1. Intragovernmental Receivables | \$ 104,603,104.78 | N/A | \$ 104,603,104.78 |
| 2. Nonfederal Receivables (From the Public) | \$ 582,930,122.97 | \$ (68,809,893.14) | \$ 514,120,229.83 |
| 3. Total Accounts Receivable | \$ 687,533,227.75 | \$ (68,809,893.14) | \$ 618,723,334.61 |

| | |
|----------------|---------------------|
| Note 6. | Other Assets |
|----------------|---------------------|

| As of June 30 | 2009 | 2008 |
|--|----------------------|----------------------|
| 1. Intragovernmental Other Assets | | |
| A. Advances and Prepayments | \$ 302,889,109.11 | \$ 244,839,568.06 |
| B. Other Assets | 0.00 | 0.00 |
| C. Total Intragovernmental Other Assets | \$ 302,889,109.11 | \$ 244,839,568.06 |
| 2. Nonfederal Other Assets | | |
| A. Outstanding Contract Financing Payments | \$ 11,800,005,824.30 | \$ 11,475,007,289.09 |
| B. Advances and Prepayments | 85,158,509.23 | 80,082,399.95 |
| C. Other Assets (With the Public) | 186,225,000.00 | 184,475,000.00 |
| D. Total Nonfederal Other Assets | \$ 12,071,389,333.53 | \$ 11,739,564,689.04 |
| 3. Total Other Assets | \$ 12,374,278,442.64 | \$ 11,984,404,257.10 |

Relevant Information for Comprehension

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

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

The Contract Financing Payment balance of \$11.8 billion is comprised of \$11.2 billion in contract financing payments and an additional \$534 million in estimated future payments that will be paid to the contractor upon future delivery and government acceptance of satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7. Cash and Other Monetary Assets

| As of June 30 | 2009 | 2008 |
|--|------------------|-------------------|
| 1. Cash | \$ 79,357,051.96 | \$ 84,374,093.67 |
| 2. Foreign Currency | 12,432,542.77 | 19,335,791.30 |
| 3. Other Monetary Assets | 0.00 | 0.00 |
| 4. Total Cash, Foreign Currency, & Other Monetary Assets | \$ 91,789,594.73 | \$ 103,709,884.97 |

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 U.S. Treasury's prevailing exchange rate, which is the most favorable rate available to the Government for foreign exchange transactions. Foreign currency is primarily used to make vendor disbursements and to exchange U.S. dollars for military personnel.

Cash and foreign currency are nonentity assets and, as such, considered restricted assets that are held by the Air Force but are not available for use in its operations. These assets are held by the Air Force's Disbursing Officers as agents of U.S. Treasury. The total balance of \$91.8 million is restricted.

Note 9. Inventory and Related Property

| As of June 30 | 2009 | 2008 |
|---------------------------------------|-----------------------------|-----------------------------|
| 1. Inventory, Net | \$ 0.00 | \$ 0.00 |
| 2. Operating Materiel & Supplies, Net | 47,325,378,867.75 | 46,934,641,598.57 |
| 3. Stockpile Materiel, Net | 0.00 | 0.00 |
| 4. Total | \$ 47,325,378,867.75 | \$ 46,934,641,598.57 |

General Composition of OM&S

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

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

Restrictions on the Use of OM&S

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

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

The category Held for Use includes all materiel available for issuance. OM&S classified as such is marked within each supply or inventory system.

The category Held for Repair generally includes all economically repairable materiel as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DoD 4000.25-2-M).

The category Held as Excess, Obsolete, and Unserviceable includes all materiel 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." These items are held until proper disposal can be made. Excess, Obsolete, and Unserviceable OM&S must be valued at their estimated net realizable value (NRV). The difference between the value before identification as Excess, Obsolete, or Unserviceable and the estimated net realizable value must be recognized as a loss or gain when a determination that it is Excess, Obsolete or Unserviceable is made even though disposition of the inventory may not occur until a later period. At the time of actual disposal, recognize any subsequent changes to the net realizable value.

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

Under current DoD policy, no allowance is made for serviceable, ready-to-issue, items (category Held for Use). An allowance equal to 100% of Moving Average Cost (MAC) or standard price, however, is made for the category Excess, Obsolete, and Unserviceable. This allowance results in a net realizable value for

items that have no intrinsic value to the Air Force. The category Held for Repair represents suspended, unserviceable (but reparable) items recorded at MAC or standard price.

Operating Materiel and Supplies (OM&S) Value

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

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

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

Other Air Force Disclosures

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

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

The Air Force is working on an estimation process for determining net realized value for Excess, Obsolete, and Unserviceable OM&S.

Inventory, Net

| As of June 30 | 2009 | | | Valuation Method |
|--|------------------------|-----------------------|----------------|------------------|
| | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | |
| 1. Inventory Categories | | | | |
| A. Available and Purchased for Resale | \$ 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 Materiel | 0.00 | 0.00 | 0.00 | MAC,SP,LA |
| E. Work in Process | 0.00 | 0.00 | 0.00 | AC |
| F. Total | \$ 0.00 | \$ 0.00 | 0.00 | |

| As of June 30 | 2008 | | | Valuation Method |
|--|------------------------|-----------------------|----------------|------------------|
| | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | |
| 1. Inventory Categories | | | | |
| A. Available and Purchased for Resale | \$ 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 Materiel | 0.00 | 0.00 | 0.00 | MAC,SP,LA |
| E. Work in Process | 0.00 | 0.00 | 0.00 | AC |
| F. Total | \$ 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

MAC = Moving Average Cost

Operating Materiel and Supplies, Net

| As of June 30 | 2009 | | | Valuation Method |
|--|-----------------------------|------------------------------|-----------------------------|------------------|
| | OM&S Gross Value | Revaluation Allowance | OM&S, Net | |
| 1. OM&S Categories | | | | |
| A. Held for Use | \$ 36,037,622,893.53 | \$ 0.00 | \$ 36,037,622,893.53 | SP, LAC, MAC |
| B. Held for Repair | 11,287,755,974.22 | 0.00 | 11,287,755,974.22 | SP, LAC, MAC |
| C. Excess, Obsolete, and Unserviceable | 1,776,841,481.01 | (1,776,841,481.01) | 0.00 | NRV |
| D. Total | \$ 49,102,220,348.76 | \$ (1,776,841,481.01) | \$ 47,325,378,867.75 | |

| As of June 30 | 2008 | | | Valuation Method |
|--|-----------------------------|------------------------------|-----------------------------|------------------|
| | OM&S Gross Value | Revaluation Allowance | OM&S, Net | |
| 1. OM&S Categories | | | | |
| A. Held for Use | \$ 35,619,398,491.80 | \$ 0.00 | \$ 35,619,398,491.80 | SP, LAC, MAC |
| B. Held for Repair | 11,315,243,106.77 | 0.00 | 11,315,243,106.77 | SP, LAC, MAC |
| C. Excess, Obsolete, and Unserviceable | 2,053,407,872.11 | (2,053,407,872.11) | 0.00 | NRV |
| D. Total | \$ 48,988,049,470.68 | \$ (2,053,407,872.11) | \$ 46,934,641,598.57 | |

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

MAC = Moving Average Cost

Note 10. General PP&E, Net

| As of June 30 | 2009 | | | | |
|---|---|-----------------|----------------------|--|-------------------|
| | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value |
| (Amounts in thousands) | | | | | |
| 1. Major Asset Classes | | | | | |
| A. Land | N/A | N/A | \$ 448,951 | N/A | \$ 448,951 |
| B. Buildings, Structures, and Facilities | S/L | 20 Or 40 | 51,860,101 | \$(29,046,008) | 22,814,093 |
| C. Leasehold Improvements | S/L | lease term | 0 | 0 | 0 |
| D. Software | S/L | 2-5 Or 10 | 520,508 | (301,305) | 219,203 |
| E. General Equipment | S/L | 5 or 10 | 38,797,586 | (30,815,051) | 7,982,535 |
| F. Military Equipment | S/L | Various | 263,470,406 | (143,426,752) | 120,043,654 |
| G. Shipbuilding (Construction-in- Progress) | N/A | N/A | 0 | 0 | 0 |
| H. Assets Under Capital Lease | S/L | lease term | 393,002 | (317,352) | 75,650 |
| I. Construction-in- Progress (Excludes Military Equipment) | N/A | N/A | 4,211,157 | N/A | 4,211,157 |
| J. Other | | | 0 | 0 | 0 |
| K. Total General PP&E | | | \$ 359,701,711 | \$(203,906,468) | \$ 155,795,243 |

| As of June 30 | Restated 2008 | | | | |
|--|---|-----------------|----------------------|--|-------------------|
| | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value |
| (Amounts in thousands) | | | | | |
| 1. Major Asset Classes | | | | | |
| A. Land | N/A | N/A | \$ 442,808 | N/A | \$ 442,808 |
| B. Buildings, Structures, and Facilities | S/L | 20 Or 40 | 49,067,704 | \$(28,031,549) | 21,036,155 |
| C. Leasehold Improvements | S/L | lease term | 0 | 0 | 0 |
| D. Software | S/L | 2-5 Or 10 | 725,536 | (238,341) | 487,195 |
| E. General Equipment | S/L | 5 or 10 | 35,060,089 | (27,641,668) | 7,418,421 |
| F. Military Equipment | S/L | Various | 255,324,765 | (142,926,871) | 112,397,894 |
| G. Shipbuilding (Construction-in- Progress) | N/A | N/A | 0 | 0 | 0 |
| H. Assets Under Capital Lease | S/L | lease term | 393,002 | (298,364) | 94,638 |
| I. Construction-in- Progress (Excludes Military Equipment) | N/A | N/A | 3,861,742 | N/A | 3,861,742 |
| J. Other | | | 0 | 0 | 0 |
| K. Total General PP&E | | | \$ 344,875,646 | \$(199,136,793) | \$ 145,738,853 |

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Relevant Information for Comprehension

General Property, Plant and Equipment (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.

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

Effective 1st Quarter, FY 2009, an overall adjustment of \$568.9 million representing total book value, net of accumulated depreciation, was recorded, reflecting the transfer of Air Force purchased airframes, previously reported by USSOCOM (Air Force Special Operations Command). See Note 26 for additional information.

Heritage Assets and Stewardship Land

The overall mission of Air Force is to fly, fight and win in air, space and cyberspace, influence events, and advance U.S. interests across the full spectrum of military operations. As this mission has been executed, Air Force has become a large-scale owner of historic buildings, structures, archaeological sites and artifacts, aircraft, other cultural resources, and stewardship land. The protection of the nation's heritage assets and stewardship land is an important aspect of the Air Force's mission.

Heritage Assets are PP&E of historical, natural, cultural, educational or artistic significance (e.g. aesthetic); or with significant architectural characteristics. Air Force policy is to promote and preserve indefinitely the identifiable human, environmental or civic value of these assets.

Stewardship Land comprises land and land rights other than that acquired for or in connection with General PP&E, land acquired via the public domain, or land acquired at no cost. Air Force policy is to promote and preserve indefinitely the identifiable human, environmental or civic value of such land.

Heritage Assets and Stewardship Land are resources that protect, restore, enhance, modernize, preserve and sustain mission capability within the Air Force through effective planning and management of natural and cultural resources to guarantee access to air, land, and water. 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, policies, final governing standards, and other binding agreements.

Heritage Assets consist of buildings and structures, archaeological sites, museum collection items (objects, not including fine arts), and museum collection items (fine art). Stewardship Land consist of government owned land, state owned land, withdrawn public land, license and permitted land, public land, land easement, in-leased land, and foreign land. The Air Force reported 7,592,000 acres of mission essential land under their administration at the end of fiscal year (FY) 2008. Stewardship Land decreased 108,000 acres in FY 2008 because of a change in category reporting requirement. Specifically, certain category codes are now reported as government owned land rather than withdrawn public land. Land purchased by the Air Force with the intent to construct buildings or facilities is considered General PP&E and is reported on the balance sheet. All Stewardship Land, as reported, is in acceptable condition, based on designated use.

Buildings and Structures: The Air Force reported 4,959 buildings and structures on Air Force bases and sites to be heritage assets at the end of FY 2008. 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.

Archaeological Sites: The Air Force listed 1,930 archeological sites on or eligible for the National Register at the end of FY 2008.

Museum Collection Items, Objects Not Including Fine Art: The Air Force reported 117,134 museum collection items (not including fine arts). During FY 2008, 4,009 objects were added to the collections, primarily as a result of private donations or by being found on base. We expect the FY 2009 donations to be comparable to FY 2008.

Museum Collection Items, Fine Art: The Air Force has 9,370 fine art museum collections, which 111 paintings were received through donations in FY 2008. We expect the FY 2009 donations to be comparable to FY 2008.

| |
|-----------------------------------|
| Assets Under Capital Lease |
|-----------------------------------|

| As of June 30 | 2009 | 2008 |
|--|------------------|------------------|
| (Amounts in thousands) | | |
| 1. Entity as Lessee, Assets Under Capital Lease | | |
| A. Land and Buildings | \$ 393,002 | \$ 393,002 |
| B. Equipment | 0 | 0 |
| C. Accumulated Amortization | (317,352) | (298,364) |
| D. Total Capital Leases | <u>\$ 75,650</u> | <u>\$ 94,638</u> |

| | |
|-----------------|---|
| Note 11. | Liabilities Not Covered by Budgetary Resources |
|-----------------|---|

| As of June 30 | 2009 | 2008 |
|---|-----------------------------|-----------------------------|
| 1. Intragovernmental Liabilities | | |
| A. Accounts Payable | \$ 0.00 | \$ 0.00 |
| B. Debt | 0.00 | 0.00 |
| C. Other | 301,373,070.25 | 773,915,856.53 |
| D. Total Intragovernmental Liabilities | \$ 301,373,070.25 | \$ 773,915,856.53 |
| 2. Nonfederal Liabilities | | |
| A. Accounts Payable | \$ 398,327,530.49 | \$ 202,165,790.12 |
| B. Military Retirement and Other Federal Employment Benefits | 1,158,231,550.30 | 1,132,558,273.01 |
| C. Environmental Liabilities | 7,065,156,195.24 | 5,873,335,305.93 |
| D. Other Liabilities | 3,077,165,305.78 | 2,617,239,683.84 |
| E. Total Nonfederal Liabilities | \$ 11,698,880,581.81 | \$ 9,825,299,052.90 |
| 3. Total Liabilities Not Covered by Budgetary Resources | \$ 12,000,253,652.06 | \$ 10,599,214,909.43 |
| 4. Total Liabilities Covered by Budgetary Resources | \$ 11,843,482,969.00 | \$ 11,040,795,434.09 |
| 5. Total Liabilities | \$ 23,843,736,621.06 | \$ 21,640,010,343.52 |

Information Related to Liabilities Not Covered by Budgetary Resources

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

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

Other Intragovernmental Liabilities are primarily comprised of liabilities representing the amount of nonentity assets held in a general receipt account or other U.S. Treasury account symbol for transfers to other entities, and the amount of the Federal Employees' Compensation Act (FECA) liability billed to the agency by Department of Labor for FECA payments made on the agency's behalf.

Other Nonfederal Liabilities are primarily comprised of the amounts recorded for unpaid leave earned to which an employee is entitled upon separation and for contingent liabilities which are probable and measurable and will require resources funded from future years' appropriations.

Military Retirement and Other Federal Employment Benefits not covered by budgetary resources are comprised of various employee actuarial liabilities not due and payable during the current fiscal year. These

liabilities, totaling \$1.2 billion, are primarily comprised of the amount recorded by employer agencies for the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work related deaths, disability, or occupational disease. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

| As of June 30 | 2009 | | |
|--|----------------------------|--|----------------------------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total |
| 1. Intragovernmental Payables | \$ 2,037,135,852.18 | \$ N/A | \$ 2,037,135,852.18 |
| 2. Nonfederal Payables (to the Public) | 4,300,458,702.08 | 2,117.27 | 4,300,460,819.35 |
| 3. Total | \$ 6,337,594,554.26 | \$ 2,117.27 | \$ 6,337,596,671.53 |

| As of June 30 | 2008 | | |
|--|----------------------------|--|----------------------------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total |
| 1. Intragovernmental Payables | \$ 2,157,820,507.70 | \$ N/A | \$ 2,157,820,507.70 |
| 2. Nonfederal Payables (to the Public) | 4,124,382,145.94 | 558,060.03 | 4,124,940,205.97 |
| 3. Total | \$ 6,282,202,653.64 | \$ 558,060.03 | \$ 6,282,760,713.67 |

Relevant Information for Comprehension

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

Note 14.**Environmental Liabilities and Disposal Liabilities**

As of June 30

2009

2008

1. Environmental Liabilities--Nonfederal**A. Accrued Environmental Restoration Liabilities**

| | | | | |
|---|----|------------------|----|------------------|
| 1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) | \$ | 3,348,532,007.21 | \$ | 3,517,825,421.09 |
| 2. Active Installations—Military Munitions Response Program (MMRP) | | 1,392,442,500.00 | | 1,397,048,900.00 |
| 3. Formerly Used Defense Sites—IRP and BD/DR | | 0.00 | | 0.00 |
| 4. Formerly Used Defense Sites--MMRP | | 0.00 | | 0.00 |

B. Other Accrued Environmental Liabilities—Non-BRAC

| | | | | |
|---|--|------------------|--|----------------|
| 1. Environmental Corrective Action | | 171,039,578.36 | | 157,369,188.41 |
| 2. Environmental Closure Requirements | | 1,129,888,400.00 | | 87,363,000.00 |
| 3. Environmental Response at Operational Ranges | | 0.00 | | 0.00 |
| 4. Asbestos | | 428,602,400.00 | | 0.00 |
| 5. Non-Military Equipment | | 28,716,500.00 | | 0.00 |
| 6. Other | | 0.00 | | 0.00 |

C. Base Realignment and Closure Installations

| | | | | |
|---|--|------------------|--|------------------|
| 1. Installation Restoration Program | | 1,337,873,815.34 | | 1,354,316,002.99 |
| 2. Military Munitions Response Program | | 2,398,000.00 | | 3,520,000.00 |
| 3. Environmental Corrective Action / Closure Requirements | | 35,686,807.84 | | 9,308,217.01 |
| 4. Asbestos | | 0.00 | | 0.00 |
| 5. Non-Military Equipment | | 0.00 | | 0.00 |
| 6. Other | | 0.00 | | 0.00 |

D. Environmental Disposal for Military Equipment / Weapons Programs

| | | | | |
|--|--|---------------|--|------|
| 1. Nuclear Powered Military Equipment / Spent Nuclear Fuel | | 0.00 | | 0.00 |
| 2. Non-Nuclear Powered Military Equipment | | 39,074,800.00 | | 0.00 |
| 3. Other National Defense Weapons Systems | | 0.00 | | 0.00 |
| 4. Other | | 0.00 | | 0.00 |

E. Chemical Weapons Disposal Program

| | | | | |
|--|--|------|--|------|
| 1. Chemical Agents and Munitions Destruction (CAMD) | | 0.00 | | 0.00 |
| 2. CAMD Assembled Chemical Weapons Assessment (ACWA) | | 0.00 | | 0.00 |
| 3. Other | | 0.00 | | 0.00 |

2. Total Environmental Liabilities

| | | | | |
|--|----|------------------|----|------------------|
| | \$ | 7,914,254,808.75 | \$ | 6,526,750,729.50 |
|--|----|------------------|----|------------------|

Environmental Disclosures

| As of June 30 | 2009 | 2008 |
|--|----------------|------|
| A. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment. | 277,044,092.79 | 0.00 |
| B. Changes in total cleanup costs due to changes in laws, regulations, and/or technology. | 0.00 | 0.00 |
| C. Portion of the changes in estimated costs due to changes in laws and technology that is related to prior periods. | 0.00 | 0.00 |

Other Information Related to Environmental Liabilities

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

Applicable Laws and Regulations for Cleanup Requirements

The Air Force is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other past activity, which has created a public human health or environmental risk. Air Force does this in coordination with regulatory agencies, and if applicable, with other responsible parties. The Air Force is also required to recognize closure, post closure and disposal costs for its Property, Plant and Equipment (PP&E) and environmental corrective action costs for current operations. The Air Force is responsible for tracking and reporting all required environmental information related to environmental restoration and corrective action, closure and disposal costs of PP&E, and environmental costs related to BRAC actions that have taken place in prior years. Applicable laws and regulations for cleanup requirements:

- (a) Comprehensive Environmental Response, Compensation, and Liability Act
- (b) Superfund Amendments and Reauthorization Act
- (c) Clean Water Act
- (d) Safe Drinking Water Act
- (e) Clean Air Act
- (f) Resource Conservation and Recovery Act
- (g) Toxic Substances Control Act
- (h) Medical Waste Tracking Act

- (i) Atomic Energy Act
- (j) Nuclear Waste Policy Act
- (k) Low Level Radioactive Waste Policy Amendment Act

Types of Environmental Liabilities Identified

The Air Force has environmental liabilities to cover cleanup requirements for active installations: Installation Restoration Program, Building Demolition and Debris Removal, Military Munitions Response Program, and Environmental Corrective Action. The Air Force also has environmental liabilities to cover cleanup requirements at BRAC installations. Finally, the Air Force has identified environmental liabilities for closure and disposal of PP&E to include facilities, general equipment, asbestos, and weapon systems. All clean-up is done in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

Air Force uses engineering estimates and independently validated models to estimate environmental cleanup costs. The models are either developed within the Remedial Action Cost Engineering Requirements application, or a historic comparable project, a specific bid, or an independent government cost estimate is referenced for the current project. Air Force validates the models in accordance with DoD Instruction 5000.61 and primarily uses the models to estimate environmental cleanup costs based on data received during a preliminary assessment and initial site investigation. The Air Force primarily uses engineering estimates after obtaining data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cleanup cost estimates are complete, Air Force will comply with accounting standards to assign costs to current operating periods. The Air Force Accrued Environmental Restoration Liabilities is accounted for as a totally self contained program. All direct and indirect costs of the program are captured and reported.

The Air Force has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the Air Force expenses the associated environmental cost systematically over the life of the assets.

The accounting standards also require environmental liabilities recognized for closure and disposal requirements. Air Force has closure requirements or disposal liabilities at active installations. Closure and disposal liabilities for facilities (including landfills), asbestos, general equipment and weapon systems are estimated for the applicable inventory of real property, general equipment and weapon systems. Air Force uses a set of historical disposal factors to estimate the environmental disposal liability for each asset and the estimated closure and monitoring cost for landfills. The current liability for these classes of assets is determined from the related disposal programs including the resources expected to be expended in the next year from prior and future budgets.

For General PP&E placed into service after September 30, 1997, the Air Force expenses the associated environmental costs systematically over the life of the asset. The Air Force expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

The Air Force uses two methods for systematic recognition: physical capacity for operating landfills, and life expectancy in years for all other assets.

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

The Air Force is not aware of any pending changes to reported values of Environmental Liabilities but recognizes that changes may occur in the future due to changes in laws, regulations, changes in agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities

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

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

Note 15.**Other Liabilities**

As of June 30

2009

Current
LiabilityNoncurrent
Liability

Total

1. Intragovernmental

| | | | | | | |
|---|----|------------------|----|----------------|----|------------------|
| A. Advances from Others | \$ | 829,228,184.82 | \$ | 0.00 | \$ | 829,228,184.82 |
| B. Deposit Funds and Suspense Account Liabilities | | 328,083,936.53 | | 0.00 | | 328,083,936.53 |
| C. Disbursing Officer Cash | | 0.00 | | 0.00 | | 0.00 |
| D. Judgment Fund Liabilities | | 0.00 | | 0.00 | | 0.00 |
| E. FECA Reimbursement to the Department of Labor | | 130,959,298.69 | | 138,195,874.31 | | 269,155,173.00 |
| F. Custodial Liabilities | | 278,944,959.99 | | 249,917,129.36 | | 528,862,089.35 |
| G. Employer Contribution and Payroll Taxes Payable | | 39,689,006.48 | | 0.00 | | 39,689,006.48 |
| H. Other Liabilities | | 32,598,755.78 | | 0.00 | | 32,598,755.78 |
| I. Total Intragovernmental Other Liabilities | \$ | 1,639,504,142.29 | \$ | 388,113,003.67 | \$ | 2,027,617,145.96 |

2. Nonfederal

| | | | | | | |
|---|----|------------------|----|----------------|----|------------------|
| A. Accrued Funded Payroll and Benefits | \$ | 2,064,795,922.41 | \$ | 0.00 | \$ | 2,064,795,922.41 |
| B. Advances from Others | | 145,246,076.92 | | 0.00 | | 145,246,076.92 |
| C. Deferred Credits | | 0.00 | | 0.00 | | 0.00 |
| D. Deposit Funds and Suspense Accounts | | 74,912,890.22 | | 0.00 | | 74,912,890.22 |
| E. Temporary Early Retirement Authority | | 0.00 | | 0.00 | | 0.00 |
| F. Nonenvironmental Disposal Liabilities | | | | | | |
| (1) Military Equipment (Nonnuclear) | | 0.00 | | 0.00 | | 0.00 |
| (2) Excess/Obsolete Structures | | 0.00 | | 0.00 | | 0.00 |
| (3) Conventional Munitions Disposal | | 0.00 | | 0.00 | | 0.00 |
| G. Accrued Unfunded Annual Leave | | 2,521,211,041.63 | | 0.00 | | 2,521,211,041.63 |
| H. Capital Lease Liability | | 7,358,385.73 | | 100,654,360.54 | | 108,012,746.27 |
| I. Contract Holdbacks | | 127,604,382.67 | | 0.00 | | 127,604,382.67 |
| J. Employer Contribution and Payroll Taxes Payable | | 283,593,094.47 | | 0.00 | | 283,593,094.47 |
| K. Contingent Liabilities | | 534,812,924.59 | | 542,678,123.00 | | 1,077,491,047.59 |
| L. Other Liabilities | | 304,847.69 | | 0.00 | | 304,847.69 |
| M. Total Nonfederal Other Liabilities | \$ | 5,759,839,566.33 | \$ | 643,332,483.54 | \$ | 6,403,172,049.87 |

3. Total Other Liabilities

| | | | | | | |
|--|----|------------------|----|------------------|----|------------------|
| | \$ | 7,399,343,708.62 | \$ | 1,031,445,487.21 | \$ | 8,430,789,195.83 |
|--|----|------------------|----|------------------|----|------------------|

As of June 30

2008

Current
LiabilityNoncurrent
Liability

Total

1. Intragovernmental

| | | | | | | |
|---|----|------------------|----|----------------|----|------------------|
| A. Advances from Others | \$ | 804,061,667.23 | \$ | 0.00 | \$ | 804,061,667.23 |
| B. Deposit Funds and Suspense Account Liabilities | | 258,484,964.81 | | 0.00 | | 258,484,964.81 |
| C. Disbursing Officer Cash | | 290,081,782.20 | | 0.00 | | 290,081,782.20 |
| D. Judgment Fund Liabilities | | 0.00 | | 0.00 | | 0.00 |
| E. FECA Reimbursement to the Department of Labor | | 130,059,003.64 | | 135,980,646.38 | | 266,039,650.02 |
| F. Custodial Liabilities | | 0.00 | | 188,982,437.95 | | 188,982,437.95 |
| G. Employer Contribution and Payroll Taxes Payable | | 31,474,485.20 | | 0.00 | | 31,474,485.20 |
| H. Other Liabilities | | 44,768,063.01 | | 0.00 | | 44,768,063.01 |
| I. Total Intragovernmental Other Liabilities | \$ | 1,558,929,966.09 | \$ | 324,963,084.33 | \$ | 1,883,893,050.42 |

2. Nonfederal

| | | | | | | |
|---|----|------------------|----|----------------|----|------------------|
| A. Accrued Funded Payroll and Benefits | \$ | 1,945,008,890.45 | \$ | 0.00 | \$ | 1,945,008,890.45 |
| B. Advances from Others | | 12,210,564.24 | | 0.00 | | 12,210,564.24 |
| C. Deferred Credits | | 0.00 | | 0.00 | | 0.00 |
| D. Deposit Funds and Suspense Accounts | | 78,669,945.24 | | 0.00 | | 78,669,945.24 |
| E. Temporary Early Retirement Authority | | 0.00 | | 0.00 | | 0.00 |
| F. Nonenvironmental Disposal Liabilities | | | | | | |
| (1) Military Equipment (Nonnuclear) | | 0.00 | | 0.00 | | 0.00 |
| (2) Excess/Obsolete Structures | | 0.00 | | 0.00 | | 0.00 |
| (3) Conventional Munitions Disposal | | 0.00 | | 0.00 | | 0.00 |
| G. Accrued Unfunded Annual Leave | | 2,338,156,110.86 | | 0.00 | | 2,338,156,110.86 |
| H. Capital Lease Liability | | 7,079,877.48 | | 130,090,657.38 | | 137,170,534.86 |
| I. Contract Holdbacks | | 146,593,010.56 | | 0.00 | | 146,593,010.56 |
| J. Employer Contribution and Payroll Taxes Payable | | 305,211,810.12 | | 0.00 | | 305,211,810.12 |
| K. Contingent Liabilities | | 587,802,612.66 | | 253,709,415.32 | | 841,512,027.98 |
| L. Other Liabilities | | 6,704,168.48 | | 0.00 | | 6,704,168.48 |
| M. Total Nonfederal Other Liabilities | \$ | 5,427,436,990.09 | \$ | 383,800,072.70 | \$ | 5,811,237,062.79 |

3. Total Other Liabilities

| | | | | | | |
|--|----|------------------|----|----------------|----|------------------|
| | \$ | 6,986,366,956.18 | \$ | 708,763,157.03 | \$ | 7,695,130,113.21 |
|--|----|------------------|----|----------------|----|------------------|

Relevant Information for Comprehension

Intragovernmental Other Liabilities represent government contributions for employee benefits, and unemployment compensation.

Nonfederal Other Liabilities reflects accrued interest liability for Air Force contract payments.

Contingent Liabilities includes \$534.8 million related to contracts authorizing Progress Payments Based on Cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the federal government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Air Force is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and the amount of potential future payments are estimable, the Air Force has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

Total Contingent Liabilities for Progress Payments Based on Cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under Progress Payments Based on Cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated Progress Payments Based on Cost by the contract-authorized progress payment rate. The balance of unliquidated Progress Payments Based on Cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

Estimation Methodology

The Air Force General Counsel, through legal determination assesses and categorizes all contingent legal liability cases that equal or exceed the materiality threshold set by Department of Defense Inspector General (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 (Judge Advocate Civil Lawsuits and Litigation Directorate). Air Force financial management personnel use the solicited case data which includes the current reporting year and each of the prior two years to estimate the amounts of probable and reasonably possible contingent liabilities.

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

Capital Lease Liability

| As of June 30 | 2009 | | | | | |
|---|--------------------|-----------|---------|-------|----|----------------|
| | Asset Category | | | | | |
| | Land and Buildings | Equipment | Other | Total | | |
| 1. Future Payments Due | | | | | | |
| A. 2009 | \$ 9,619,445.70 | \$ 0.00 | \$ 0.00 | \$ | \$ | 9,619,445.70 |
| B. 2010 | 38,477,782.80 | 0.00 | 0.00 | | | 38,477,782.80 |
| C. 2011 | 36,785,618.84 | 0.00 | 0.00 | | | 36,785,618.84 |
| D. 2012 | 13,087,621.97 | 0.00 | 0.00 | | | 13,087,621.97 |
| E. 2013 | 9,462,253.99 | 0.00 | 0.00 | | | 9,462,253.99 |
| F. 2014 | 8,688,150.00 | 0.00 | 0.00 | | | 8,688,150.00 |
| G. After 5 Years | 8,688,150.01 | 0.00 | 0.00 | | | 8,688,150.01 |
| H. Total Future Lease Payments Due | \$ 124,809,023.31 | \$ 0.00 | \$ 0.00 | \$ | \$ | 124,809,023.31 |
| I. Less: Imputed Interest Executory Costs | 16,796,277.03 | 0.00 | 0.00 | | | 16,796,277.03 |
| J. Net Capital Lease Liability | \$ 108,012,746.28 | \$ 0.00 | \$ 0.00 | \$ | \$ | 108,012,746.28 |

2. Capital Lease Liabilities Covered by Budgetary Resources

\$ 95,041,452.81

3. Capital Lease Liabilities Not Covered by Budgetary Resources

\$ 12,971,293.46

| As of June 30 | 2008 | | | | | |
|---|--------------------|-----------|---------|-------|----|----------------|
| | Asset Category | | | | | |
| | Land and Buildings | Equipment | Other | Total | | |
| 1. Future Payments Due | | | | | | |
| A. 2008 | \$ 9,619,445.70 | \$ 0.00 | \$ 0.00 | \$ | \$ | 9,619,445.70 |
| B. 2009 | 38,477,782.80 | 0.00 | 0.00 | | | 38,477,782.80 |
| C. 2010 | 38,477,782.80 | 0.00 | 0.00 | | | 38,477,782.80 |
| D. 2011 | 36,785,618.84 | 0.00 | 0.00 | | | 36,785,618.84 |
| E. 2012 | 13,087,621.97 | 0.00 | 0.00 | | | 13,087,621.97 |
| F. 2013 | 9,462,253.99 | 0.00 | 0.00 | | | 9,462,253.99 |
| G. After 5 Years | 17,376,300.01 | 0.00 | 0.00 | | | 17,376,300.01 |
| H. Total Future Lease Payments Due | \$ 163,286,806.11 | \$ 0.00 | \$ 0.00 | \$ | \$ | 163,286,806.11 |
| I. Less: Imputed Interest Executory Costs | 26,116,271.25 | 0.00 | 0.00 | | | 26,116,271.25 |
| J. Net Capital Lease Liability | \$ 137,170,534.86 | \$ 0.00 | \$ 0.00 | \$ | \$ | 137,170,534.86 |

2. Capital Lease Liabilities Covered by Budgetary Resources

\$ 118,500,545.68

3. Capital Lease Liabilities Not Covered by Budgetary Resources

\$ 18,669,989.18

| | |
|-----------------|--------------------------------------|
| Note 16. | Commitments and Contingencies |
|-----------------|--------------------------------------|

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 Secretary of the Air Force General Counsel (SAF/GC) considers an adverse decision probable and the amount of loss 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," and Note 15, "Other Liabilities."

Claims and litigation from Civil Law having a reasonably possible liability are estimated at \$3.0 billion. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. Since monetary judgments paid to civil litigants come from a judgment fund administered by U.S. Treasury, it is uncertain that claims will become a liability to the Air Force.

The amounts disclosed for litigation claims and assessments are fully supportable and must agree with 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 \$572.7 million.

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

The estimated probable liability amount of \$1.1 billion was recognized in Note 15 as contingent liabilities.

The recognized contingent liability includes \$534.8 million in estimated future contract financing payments that will be paid to contractors upon delivery and government acceptance. See note 15 for additional details.

In addition, Air Force recognized the total estimated probable liability for claims and litigation against the Air Force handled by the Civil Law and Litigation Directorate, as of June 30, 2009, valued at \$542.7 million included in Contingent Liabilities nonfederal. As of June 30, 2009, the Air Force was party to 10,205 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. There are only two types of cases where U.S. Treasury will seek reimbursements from the affected agency, the Contract Dispute Act cases and select federal government personnel disciplinary matters.

The SAF/GC developed the estimating methodology for the contingent liabilities recognized in Note 15.

In cases where SAF/GC disclosed that a judgment has been awarded against the Air Force, these amounts were reported on the Balance Sheet and within Note 15.

Note 17.**Military Retirement and Other Federal Employment Benefits**

| As of June 30 | 2009 | | | |
|--|---------------------|---------------------------|--|----------------------|
| | Liabilities | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Liabilities |
| 1. Pension and Health Actuarial Benefits | | | | |
| A. Military Retirement Pensions | \$ 0.00 | | \$ 0.00 | \$ 0.00 |
| B. Military Retirement Health Benefits | 0.00 | | 0.00 | 0.00 |
| C. Military Medicare-Eligible Retiree Benefits | 0.00 | | 0.00 | 0.00 |
| D. Total Pension and Health Actuarial Benefits | \$ 0.00 | | \$ 0.00 | \$ 0.00 |
| 2. Other Actuarial Benefits | | | | |
| A. FECA | \$ 1,158,231,550.30 | | \$ 0.00 | \$ 1,158,231,550.30 |
| B. Voluntary Separation Incentive Programs | 0.00 | | 0.00 | 0.00 |
| C. DoD Education Benefits Fund | 0.00 | | 0.00 | 0.00 |
| D. Total Other Actuarial Benefits | \$ 1,158,231,550.30 | | \$ 0.00 | \$ 1,158,231,550.30 |
| 3. Other Federal Employment Benefits | \$ 2,864,394.65 | | \$ (2,864,394.65) | \$ 0.00 |
| 4. Total Military Retirement and Other Federal Employment Benefits: | \$ 1,161,095,944.95 | | \$ (2,864,394.65) | \$ 1,158,231,550.30 |

Actuarial Cost Method Used:

Assumptions:

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

| As of June 30 | 2008 | | | |
|--|---------------------|---------------------------|--|----------------------|
| | Liabilities | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Liabilities |
| 1. Pension and Health Actuarial Benefits | | | | |
| A. Military Retirement Pensions | \$ 0.00 | \$ | 0.00 | \$ 0.00 |
| B. Military Retirement Health Benefits | 0.00 | | 0.00 | 0.00 |
| C. Military Medicare-Eligible Retiree Benefits | 0.00 | | 0.00 | 0.00 |
| D. Total Pension and Health Actuarial Benefits | \$ 0.00 | \$ | 0.00 | \$ 0.00 |
| 2. Other Actuarial Benefits | | | | |
| A. FECA | \$ 1,132,558,273.01 | \$ | 0.00 | \$ 1,132,558,273.01 |
| B. Voluntary Separation Incentive Programs | 0.00 | | 0.00 | 0.00 |
| C. DoD Education Benefits Fund | 0.00 | | 0.00 | 0.00 |
| D. Total Other Actuarial Benefits | \$ 1,132,558,273.01 | \$ | 0.00 | \$ 1,132,558,273.01 |
| 3. Other Federal Employment Benefits | \$ 2,810,514.13 | \$ | (2,810,514.13) | \$ 0.00 |
| 4. Total Military Retirement and Other Federal Employment Benefits: | \$ 1,135,368,787.14 | \$ | (2,810,514.13) | \$ 1,132,558,273.01 |

Actuarial Cost Method Used:

Assumptions:

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

Relevant Information for Comprehension

Programs for which actuarial benefits are computed include the Federal Employees' Compensation Act (FECA), the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred unreported claims.

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

Interest rate assumptions utilized for discounting were as follows:

2008

4.368% in Year 1
4.770% in Year 2
and thereafter

To adjust more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (Cost of Living Adjustments (COLAs)) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2007 were also used to adjust the methodology's historical payments to current year constant dollars.

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

| <u>CBY</u> | <u>COLA</u> | <u>CPIM</u> |
|------------|-------------|-------------|
| 2008 | 3.03% | 4.71% |
| 2009 | 3.87% | 4.01% |
| 2010 | 2.73% | 3.86% |
| 2011 | 2.20% | 3.87% |
| 2012 | 2.23% | 3.93% |
| 2013 + | 2.30% | 3.93% |

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

The Air Force's actuarial liability for workers' compensation benefits is developed and provided by Department of Labor at the end of each fiscal year. There is no change on a quarterly basis.

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

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

| As of June 30 | 2009 | Restated 2008 |
|-------------------------------------|------------------------------|------------------------------|
| 1. Intragovernmental Costs | \$ 26,103,338,672.65 | \$ 25,601,919,246.52 |
| 2. Public Costs | 80,449,009,974.76 | 81,023,976,074.08 |
| 3. Total Costs | \$ 106,552,348,647.41 | \$ 106,625,895,320.60 |
| 4. Intragovernmental Earned Revenue | \$ (2,850,805,581.29) | \$ (3,101,196,322.85) |
| 5. Public Earned Revenue | (1,167,783,438.86) | (644,670,530.08) |
| 6. Total Earned Revenue | \$ (4,018,589,020.15) | \$ (3,745,866,852.93) |
| 7. Net Cost of Operations | \$ 102,533,759,627.26 | \$ 102,880,028,467.67 |

Relevant Information for Comprehension

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

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

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

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the federal government supported by appropriations or other means. The intent of SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The Department is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation".

The Air Force does not meet accounting standards because information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems, adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Air Force's accounting systems do not capture information relative to heritage assets separately and distinctly from normal operations.

Note 19. Disclosures Related to the Statement of Changes in Net Position

Relevant Information for Comprehension

The Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations Received on the Statement of Budgetary Resources (SBR) in the amount of \$8.0 million. The difference is due to additional resources included in the Appropriations Received on the SBR. Refer to note 20 for additional details.

The eliminations column on SCNP will reflect zero dollars. In the SCNP, all offsetting balances (i.e. transfers-in and transfers-out, revenues, and expense) for intradepartmental activity between earmarked and other (non earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line, except for intraentity imputed financing costs.

Effective 1st Quarter, FY 2009, an overall adjustment of \$568.9 million representing total book value, net of accumulated depreciation, was recorded, reflecting the transfer of Air Force purchased airframes, previously reported by USSOCOM (Air Force Special Operations Command). See Note 26 for additional information.

Note 20. Disclosures Related to the Statement of Budgetary Resources

| As of June 30 | 2009 | 2008 |
|--|----------------------|----------------------|
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | \$ 75,556,058,880.08 | \$ 70,164,299,496.25 |
| 2. Available Borrowing and Contract Authority at the End of the Period | 0.00 | 0.00 |

Apportionment Categories

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

| | Category A | Category B | Exempt |
|--------------|----------------|----------------|---------------|
| Direct | \$66.0 billion | \$54.6 billion | \$6.3 million |
| Reimbursable | \$3.5 billion | \$3.0 billion | \$0.6 million |

Intraentity Transactions

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

Permanent Indefinite Appropriations

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

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

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

Appropriations Received

The Appropriations Received line item on the Statement of Changes in Net Position differs from that reported on SBR because Appropriations Received on the Statement of Changes in Net Position do not include dedicated appropriations and earmarked receipts. Dedicated appropriations and earmarked receipts are accounted for as either nonexchange revenue or donations and forfeitures of cash and cash equivalents. This resulted in an \$8.0 million difference.

| | |
|-----------------|---|
| Note 21. | Reconciliation of Net Cost of Operations to Budget |
|-----------------|---|

As of June 30

2009

Restated
2008

Resources Used to Finance Activities:

Budgetary Resources Obligated:

| | | |
|--|------------------------------|------------------------------|
| 1. Obligations incurred | \$ 127,086,511,274.12 | \$ 123,822,154,860.86 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | (11,450,144,608.72) | (13,030,210,466.28) |
| 3. Obligations net of offsetting collections and recoveries | \$ 115,636,366,665.40 | \$ 110,791,944,394.58 |
| 4. Less: Offsetting receipts (-) | (63,617,165.88) | (71,386,398.89) |
| 5. Net obligations | \$ 115,572,749,499.52 | \$ 110,720,557,995.69 |
| Other Resources: | | |
| 6. Donations and forfeitures of property | 0.00 | 0.00 |
| 7. Transfers in/out without reimbursement (+/-) | (183,365,634.51) | 229,258,448.64 |
| 8. Imputed financing from costs absorbed by others | 532,817,964.83 | 486,573,745.10 |
| 9. Other (+/-) | (2,868,950,350.58) | (1,223,924,962.67) |
| 10. Net other resources used to finance activities | \$ (2,519,498,020.26) | \$ (508,092,768.93) |
| 11. Total resources used to finance activities | \$ 113,053,251,479.26 | \$ 110,212,465,226.76 |

Resources Used to Finance Items not Part of the Net Cost of Operations:

| | | |
|--|-------------------------------|-------------------------------|
| 12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided: | | |
| 12a. Undelivered Orders (-) | \$ (4,961,136,052.00) | \$ (6,052,844,219.63) |
| 12b. Unfilled Customer Orders | 1,779,217,652.22 | 1,893,397,538.64 |
| 13. Resources that fund expenses recognized in prior Periods (-) | (602,555,273.24) | (623,369,700.30) |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations | 63,617,165.88 | 71,386,398.89 |
| 15. Resources that finance the acquisition of assets (-) | (24,350,264,484.44) | (11,825,585,534.48) |
| 16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations: | | |
| 16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-) | 0.00 | 0.00 |
| 16b. Other (+/-) | 3,052,315,985.09 | 994,666,514.03 |
| 17. Total resources used to finance items not part of the Net Cost of Operations | \$ (25,018,805,006.49) | \$ (15,542,349,002.85) |
| 18. Total resources used to finance the Net Cost of Operations | \$ 88,034,446,472.77 | \$ 94,670,116,223.91 |

As of June 30

2009

Restated
2008**Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:**

Components Requiring or Generating Resources in Future Period:

| | | | | |
|---|----|---------------------|----|---------------------|
| 19. Increase in annual leave liability | \$ | 249,062,414.78 | \$ | 101,332,147.61 |
| 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 (+/-) | | 23,224,413.27 | | 458,319.80 |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | \$ | 272,286,828.05 | \$ | 101,790,467.41 |
| Components not Requiring or Generating Resources: | | | | |
| 25. Depreciation and amortization | \$ | 14,636,040,147.09 | \$ | 8,213,269,424.26 |
| 26. Revaluation of assets or liabilities (+/-) | | 765,281,382.44 | | 1,103,349,221.94 |
| 27. Other (+/-) | | | | |
| 27a. Trust Fund Exchange Revenue | | 0.00 | | 0.00 |
| 27b. Cost of Goods Sold | | 0.00 | | 0.00 |
| 27c. Operating Material and Supplies Used | | 19,077,504,570.37 | | 17,900,970,442.11 |
| 27d. Other | | (20,251,799,773.46) | | (19,109,467,311.96) |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | \$ | 14,227,026,326.44 | \$ | 8,108,121,776.35 |
| 29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period | \$ | 14,499,313,154.49 | \$ | 8,209,912,243.76 |
| 30. Net Cost of Operations | \$ | 102,533,759,627.26 | \$ | 102,880,028,467.67 |

Relevant Information for Comprehension

Due to Air Force financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. An adjustment of \$2.1 million was made to the note schedule, in the Other Components Not Requiring or Generating Resources category, to bring it into balance with the Statement of Net Cost. The difference between budgetary and proprietary data is a previously identified deficiency.

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

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

Other Resources Used to Finance Activities consists of other gains and losses to adjust intragovernmental transfers in.

Other Resources Used to Finance Items Not Part of the Net Cost of Operations is comprised of losses to adjust intragovernmental transfers in order to reconcile buyer and seller transfers.

Other Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period includes adjustments to the contingent legal liability provisions.

Other Components not Requiring or Generating Resources represents other Operating Materiel and Supplies activities during the period.

Note 22.**Disclosures Related to Incidental Custodial Collections**

The Air Force collected \$54.7 million of incidental custodial revenues generated primarily from collection of accounts receivable related to cancelled accounts. The Air Force distributed \$54.7 million to the U.S. Treasury.

Note 23.**Earmarked Funds**

| BALANCE SHEET As of June 30 | 2009 | | | | |
|--|--------------------------|--|-------------------------|----------------|----------------------|
| | Military Retirement Fund | Medicare Eligible Retiree Health Care Fund | Other Earmarked Funds | Eliminations | Total |
| ASSETS | | | | | |
| Fund balance with Treasury | \$ 0.00 | \$ 0.00 | \$ 9,933,090.11 | \$ 0.00 | 9,933,090.11 |
| Investments | 0.00 | 0.00 | 963,734.21 | 0.00 | 963,734.21 |
| Accounts and Interest Receivable | 0.00 | 0.00 | 1,132.68 | 0.00 | 1,132.68 |
| Other Assets | 0.00 | 0.00 | 10,695.70 | 0.00 | 10,695.70 |
| Total Assets | \$ 0.00 | \$ 0.00 | \$ 10,908,652.70 | \$ 0.00 | 10,908,652.70 |
| LIABILITIES and NET POSITION | | | | | |
| Military Retirement Benefits and Other Federal Employment Benefits | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | 0.00 |
| Other Liabilities | 0.00 | 0.00 | 189,559.18 | 0.00 | 189,559.18 |
| Total Liabilities | \$ 0.00 | \$ 0.00 | \$ 189,559.18 | \$ 0.00 | 189,559.18 |
| Unexpended Appropriations | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cumulative Results of Operations | 0.00 | 0.00 | 10,719,093.52 | 0.00 | 10,719,093.52 |
| Total Liabilities and Net Position | \$ 0.00 | \$ 0.00 | \$ 10,908,652.70 | \$ 0.00 | 10,908,652.70 |
| STATEMENT OF NET COST | | | | | |
| For the period ended June 30 | | | | | |
| Program Costs | \$ 0.00 | \$ 0.00 | \$ 2,865,169.22 | \$ 0.00 | 2,865,169.22 |
| Less Earned Revenue | 0.00 | 0.00 | (630,108.88) | 0.00 | (630,108.88) |
| Net Program Costs | \$ 0.00 | \$ 0.00 | \$ 2,235,060.34 | \$ 0.00 | 2,235,060.34 |
| Less Earned Revenues Not Attributable to Programs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Cost of Operations | \$ 0.00 | \$ 0.00 | \$ 2,235,060.34 | \$ 0.00 | 2,235,060.34 |

| STATEMENT OF CHANGES IN NET POSITION For the period ended June 30 | 2009 | | | | |
|---|-----------------------------|--|--------------------------|--------------|---------------|
| | Military Retirement Fund | Medicare Eligible Retiree Health Care Fund | Other Earmarked Funds | Eliminations | Total |
| Net Position Beginning of the Period | \$ 0.00 | \$ 0.00 | \$ 5,354,879.21 | \$ 0.00 | 5,354,879.21 |
| Net Cost of Operations | 0.00 | 0.00 | 2,235,060.34 | 0.00 | 2,235,060.34 |
| Budgetary Financing Sources | 0.00 | 0.00 | 7,599,274.65 | 0.00 | 7,599,274.65 |
| Other Financing Sources | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Change in Net Position | \$ 0.00 | \$ 0.00 | \$ 5,364,214.31 | \$ 0.00 | 5,364,214.31 |
| Net Position End of Period | \$ 0.00 | \$ 0.00 | \$ 10,719,093.52 | \$ 0.00 | 10,719,093.52 |

Earmarked Funds

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

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

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

Wildlife Conservation Fund [16 USC 670 (a)]

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

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

Air Force Cadet Fund [37 USC 725 (s)]

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

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

| | | 2008 | | | | |
|---------------------------------------|--|--------------------------|--|--------------------------|--------------|-------|
| BALANCE SHEET As of June 30 | | Military Retirement Fund | Medicare Eligible Retiree Health Care Fund | Other Earmarked Funds | Eliminations | Total |

| | | | | | | |
|----------------------------------|-----------|----------------|----------------|------------------------|----------------|---------------------|
| ASSETS | | | | | | |
| Fund balance with Treasury | \$ | 0.00 \$ | 0.00 \$ | 5,854,529.56 \$ | 0.00 \$ | 5,854,529.56 |
| Investments | | 0.00 | 0.00 | 873,164.31 | 0.00 | 873,164.31 |
| Accounts and Interest Receivable | | 0.00 | 0.00 | 871.68 | 0.00 | 871.68 |
| Other Assets | | 0.00 | 0.00 | 10,239.90 | 0.00 | 10,239.90 |
| Total Assets | \$ | 0.00 \$ | 0.00 \$ | 6,738,805.45 \$ | 0.00 \$ | 6,738,805.45 |

| | | | | | | |
|--|-----------|----------------|----------------|----------------------|----------------|-------------------|
| LIABILITIES and NET POSITION | | | | | | |
| Military Retirement Benefits and Other Federal Employment Benefits | \$ | 0.00 \$ | 0.00 \$ | 0.00 \$ | 0.00 \$ | 0.00 |
| Other Liabilities | | 0.00 | 0.00 | 760,865.04 | 0.00 | 760,865.04 |
| Total Liabilities | \$ | 0.00 \$ | 0.00 \$ | 760,865.04 \$ | 0.00 \$ | 760,865.04 |

| | | | | | | |
|---|-----------|----------------|----------------|------------------------|----------------|---------------------|
| Unexpended Appropriations | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cumulative Results of Operations | | 0.00 | 0.00 | 5,977,940.41 | 0.00 | 5,977,940.41 |
| Total Liabilities and Net Position | \$ | 0.00 \$ | 0.00 \$ | 6,738,805.45 \$ | 0.00 \$ | 6,738,805.45 |

| | | | | | | |
|--|-----------|----------------|----------------|------------------------|----------------|---------------------|
| STATEMENT OF NET COST For the period ended June 30 | | | | | | |
| Program Costs | \$ | 0.00 \$ | 0.00 \$ | 7,472,627.36 \$ | 0.00 \$ | 7,472,627.36 |
| Less Earned Revenue | | 0.00 | 0.00 | (5,710,846.20) | 0.00 | (5,710,846.20) |
| Net Program Costs | \$ | 0.00 \$ | 0.00 \$ | 1,761,781.16 \$ | 0.00 \$ | 1,761,781.16 |
| Less Earned Revenues Not Attributable to Programs | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Cost of Operations | \$ | 0.00 \$ | 0.00 \$ | 1,761,781.16 \$ | 0.00 \$ | 1,761,781.16 |

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

Note 24. Fiduciary Activities**Schedule of Fiduciary Activity**

For the period ended June 30

2009

| | | |
|--|-----------|----------------------|
| 1. Fiduciary net assets, beginning of year | \$ | 17,561,410.19 |
| 2. Fiduciary revenues | | 0.00 |
| 3. Contributions | | 26,290,996.35 |
| 4. Investment earnings | | 1,511,965.12 |
| 5. Gain (Loss) on disposition of investments, net | | 0.00 |
| 6. Administrative and other expenses | | 0.00 |
| 7. Distributions to and on behalf of beneficiaries | | (23,671,918.13) |
| 8. Increase/(Decrease) in fiduciary net assets | \$ | 4,131,043.34 |
| 9. Fiduciary net assets, end of period | \$ | 21,692,453.53 |

Schedule of Fiduciary Net Assets

For the period ended June 30

2009

| | | |
|--------------------------------------|-----------|----------------------|
| FIDUCIARY ASSETS | | |
| 1. Cash and cash equivalents | \$ | 21,692,453.53 |
| 2. Investments | | 0.00 |
| 3. Other Assets | | 0.00 |
| FIDUCIARY LIABILITIES | | |
| 4. Less: LIABILITIES | \$ | 0.00 |
| 5. TOTAL FIDUCIARY NET ASSETS | \$ | 21,692,453.53 |

Relevant Information for Comprehension

A fiduciary relationship may exist anytime a federal government entity collects or receives, and holds or makes disposition of assets in which a non-federal individual or entity has an ownership interest that the federal government must uphold. The relationship is based on statute or other legal authority and the fiduciary activity must be in furtherance of that relationship. The Air Force's fiduciary activities primarily consist of the Savings Deposit Program (SDP). SDP was established to provide members of the uniformed services serving in a designated combat zone the opportunity to build their financial savings.

| | |
|-----------------|--------------------------|
| Note 25. | Other Disclosures |
|-----------------|--------------------------|

| As of June 30 | 2009 Asset Category | | | |
|---------------|------------------------|-----------|-------|-------|
| | Land and Buildings | Equipment | Other | Total |

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

Future Payments Due

Fiscal Year

| | | | | |
|---------------|---------------|------|----------------|----------------|
| 2009 | 55,634,000.00 | 0.00 | 96,056,332.00 | 151,690,332.00 |
| 2010 | 53,964,980.00 | 0.00 | 99,898,585.00 | 153,863,565.00 |
| 2011 | 52,346,030.00 | 0.00 | 103,894,528.00 | 156,240,558.00 |
| 2012 | 50,775,650.00 | 0.00 | 108,050,309.00 | 158,825,959.00 |
| 2013 | 49,252,380.00 | 0.00 | 112,372,322.00 | 161,624,702.00 |
| 2014 | 47,774,810.00 | 0.00 | 116,867,215.00 | 164,642,025.00 |
| After 5 Years | 46,341,560.00 | 0.00 | 0.00 | 46,341,560.00 |

**Total Future Lease
Payments Due**

| | | | | | | | |
|----|----------------|----|------|----|----------------|----|----------------|
| \$ | 356,089,410.00 | \$ | 0.00 | \$ | 637,139,291.00 | \$ | 993,228,701.00 |
|----|----------------|----|------|----|----------------|----|----------------|

Relevant Information for Comprehension

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

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

Note 26.**Restatements**

Air Force previously used Capital Asset Management System-Military Equipment (CAMS-ME) to capture and provide the net book value of military equipment. As of 1st Quarter, FY 2009 Air Force began using Reliability and Maintainability Information System (REMIS) and Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat (RAMPOD) to record detailed military equipment activity. All other Services, including USSOCOM (Air Force Special Operations Command), use CAMS-ME to track military equipment value. The process of reporting the value of military equipment is for the Office of the Under Secretary of Defense Acquisition Technology and Logistics (OUSD-AT&L) P&E Policy Office (P&E Policy) to generate quarterly reports to the Defense Finance and Accounting Service (DFAS) Departmental Reporting Area for processing of journal vouchers to record applicable component activity.

In 1st Quarter FY 2009, P&E Policy transferred Air Force purchased airframes, used only by USSOCOM, to Air Force for reporting. An overall adjustment of \$568.9 million, representing total book value, net of accumulated depreciation, was recorded by DFAS in the earliest affected period, FY 2008, in the comparative financial statements presented, as a prior period adjustment to the reported beginning balance of the cumulative results of operations. Statements affected by the adjustment are the balance sheet, statement of net cost, and statement of changes in net position.