



UNITED STATES AIR FORCE

Annual Financial Statement

2009





U.S. AIR FORCE

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2009



U.S. AIR FORCE



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November 2009

Message from the Secretary of the Air Force



I am pleased to present the Air Force Annual Financial Statement for Fiscal Year 2009. The purpose of this statement is to report the U.S. Air Force's financial position and results of operations, supported by our strategic acquisition of capabilities and recapitalization of platforms that enable us to *"fly, fight and win in air, space and cyberspace."* The policy and resource decisions documented in this volume will shape our future force.

America's Air Force is an integral member of the joint team and is delivering capabilities across the spectrum of conflict in support of the wars in Iraq and Afghanistan. The United States Air Force is "All In" for today's joint fight.

The Air Force is taking a balanced approach to prevail in today's operations while prudently investing in new capabilities, force structure, and technologies to meet tomorrow's needs. We are retiring legacy fighters in order to reallocate resources to priority missions such as tactical aircraft modernization; unmanned aircraft systems; intelligence, surveillance and reconnaissance; irregular warfare capabilities; sustaining the nuclear enterprise; and the integration of air, space, cyberspace, and missile defense capabilities. We are actively distributing our diverse missions and responsibilities across the Active and Reserve Components and civilian workforce in ways that maximize effectiveness and efficiency.

Financial Management (FM) professionals continue to perform a vital role in the Air Force's ability to develop and deliver war fighting capabilities for air, space and cyberspace systems. As an organization that strives for continuous process improvement, the financial management community contributed significantly to reviews of our acquisition system resulting in the Air Force's 2009 Acquisition Improvement Plan. This plan focuses on improvement initiatives ranging from replenishing our acquisition workforce numbers and refining lines of authority within our acquisition organizations to strengthening the alignment between budgeting and program execution.

Our 2009 Annual Financial Statement describes how the Air Force is using taxpayer resources to deliver the air, space and cyberspace capability our nation needs as well as the efforts of Air Force FM professionals to ensure those resources are used efficiently and effectively. Integrity, Service, and Excellence will continue to be our guiding principles.


Michael B. Donley



November 2009

Message from the Assistant Secretary of the Air Force for Financial Management and Comptroller



The Air Force Annual Financial Statement for Fiscal Year 2009 discloses the Air Force's financial position and results of operations. It provides information for Congress, agency managers, and the public to assess our management performance and stewardship. The Financial Statement aims to provide reliable and complete information to sustain our efforts to continuously improve our financial management business processes and systems while supporting the Secretary's priorities. The path to fully auditable and reliable financial statements is a long and difficult one, but both the law and principles of good management require that we make continued diligent efforts to complete this task.

Our nation faces serious fiscal challenges, and yet we must provide the resources needed to meet wartime requirements. Air Force Financial Management (FM) professionals develop the budgets which rebalance Air Force programs to address our nation's commitment to our uniformed service members, provide the capabilities needed in the wars we are fighting today, and prepare for the uncertain conflicts of the future. We are committed to strengthening our ability to manage our nation's resources as efficiently as possible. A detailed analysis of the Air Force's internal controls can be found in the "Audit Opinion" section of this statement.

At the same time that Air Force Financial Managers work to advance these broad, Air Force-wide goals, we must also maintain our focus on strengthening our own operations. Three main priorities exist within the FM organization itself: improve the transparency and fidelity of the Department's financial processes in order to provide senior leaders with a clearer picture of the Air Force's fiscal posture; enhance Air Force cost estimation capabilities as part of the Department's commitment to improving the defense acquisition process; and develop and empower FM professionals across the Air Force to ensure that today's financial managers and their successors are prepared to provide the best possible advice to commanders at every level.

We will continue to improve the transparency of financial processes to ensure that senior leadership can make decisions with the best available information. Performance metrics support clarity and play a significant role in the success of the Air Force's financial operation. An analysis of the completeness of the Air Force's performance information is included in the Agency Performance Report. Program stability and cost control will continue to be improved through realistic budgeting and comprehensive cost estimates. Incremental, prioritized financial improvement activities define our process for delivering greater capability. We are leading the way in the development and sizing of the FM workforce to meet these continuously evolving demands.

I am grateful for the efforts of the Air Force FM professionals who worked to prepare these statements, and of those throughout the Air Force whose efforts were crucial to providing the data presented here.

A handwritten signature in black ink, appearing to read "Jamie M. Morin".

Jamie M. Morin



A C-130 Hercules flies over the American flag at the Iron Mike Memorial Ceremony June 7, 2009 at La Fiere, France. Hundreds came to honor those who sacrificed during D-Day and World War II 65 years ago. (U.S. Army photo by Lea Greene)

MANAGEMENT DISCUSSION AND ANALYSIS

Air Force Heritage

“The eyes of the world are upon you.”

– Supreme Commander of the Allied Expeditionary Force,
General Dwight D. Eisenhower

No truer words could describe the profoundly historic milestone we celebrate this year: the 65th anniversary of the 1944 D-Day invasion of France. Profound in regard to the universal understanding that the outcome of the invasion equated to victory or defeat in the war. Impactful in the exponential expansion in Airmen and plane numbers as the Air Corps of 1939 (20,000 Airmen/2,400 aircraft) transitioned into the 1944 Army Air Force (2,400,000 Airmen/80,000 aircraft). The Air Force’s transformation reflected a fundamental change in the United States’ strategic and tactical approach to warfare.

The purpose of “Operation Overlord” was clearly stated: to emancipate the peoples of Europe and destroy the German war machine. The approach – breach the “Atlantic Wall”

on the coast of Normandy, secure a foothold and bring in near limitless resources to achieve full victory. Out of the approximate 13,000 aircraft supporting the invasion, 8,722 were American. American Air Force sorties dropped two airborne divisions behind enemy lines, covered convoys approaching Normandy beaches, and delivered tons of bombs on coastal batteries and enemy troop concentrations. Consensus among historians is that Allied air supremacy was virtually complete over the approaches to the battle area. In the first 24 hours, the Allies landed about 155,000 troops and controlled 62 miles of French coastline at a cost of around 10,000 lives.

Today’s United States Air Force continues to offer the capabilities of air and logistical power exhibited during D-Day operations. The Air Force continues to sustain joint operations across an even more diverse set of geopolitical and resourcing imperatives. America’s Air Force is ready to fulfill the commitments of today and face the challenges of tomorrow through strong financial stewardship, continued precision and reliability, and dedication to persistent *Global Vigilance, Reach and Power* for the nation.

Landing vehicles and cargo on a Normandy beach, June 1944





The Air Force strategic framework consists of these elements:

Our Core Values are:

- ◆ Integrity First
- ◆ Service Before Self
- ◆ Excellence in All That We Do

Our Critical Capabilities are:

- ◆ Global Vigilance
- ◆ Global Reach
- ◆ Global Power

Our Goals are:

- ◆ Foster Mutual Respect and Dignity
- ◆ Sustain Air, Space and Cyberspace Capabilities
- ◆ Provide Persistent Situational Awareness
- ◆ Develop Joint and Battle-Ready Airmen
- ◆ Improve the Total Force Quality of Life
- ◆ Achieve Open, Transparent Business Practices and a Clean Audit
- ◆ Foster Air Force Smart Operations in the 21st Century (AFSO21)

Air Force operational success is directly supported by the acquisition excellence provided by Air Force Financial Management (FM) professionals. Acquisition excellence is a capability that allows the United States Air Force to acquire and recapitalize platforms that enable us to “fly, fight and win in air, space and cyberspace.” Equipped with strong leadership support and the goals of continuous financial process improvement FM personnel will be uninterrupted in their service to country and their ability to acquire an array of capabilities for Combatant Commanders.



(U.S. Air Force Photo by TSgt Ben Bloker)



A B-2 Spirit, 393rd Expeditionary Bomb Squadron, Whiteman AFB, MO and F-15E Strike Eagles, 391 Expeditionary Force Squadron, fly in formation across the Pacific Ocean. (U.S. Air Force photo by TSgt Cecilio Ricardo)

Air Force in Action—FY 2009

In the past year, the Air Force has conducted approximately 61,000 sorties in Operation Iraqi Freedom and over 37,000 sorties supporting Operation Enduring Freedom, delivering over 2 million passengers and 700,000 tons of cargo and weaponry. America's Airmen continue to proudly serve their nation and consistently exhibit an unwavering commitment to fulfilling the needs of global Air Force operations. Overarching Service priorities relating to organizing, training and equipping Airmen to meet the needs of our national leadership and our combatant commanders continue to be achieved:

- ◆ Reinvigorate the Air Force Nuclear Enterprise
- ◆ Partner with the Joint and Coalition Team to Win Today's Fight
- ◆ Develop and Care for Airmen and Their Families
- ◆ Modernize our Air and Space Inventories, Organizations and Training
- ◆ Recapture Acquisition Excellence

Reinvigorate the Air Force Nuclear Enterprise

Work continued in 2009 to sustain the safety and reliability of our nation's nuclear capability – one that deters aggressors and reassures allies. The Air Force manages a large percentage of our nation's nuclear stockpile and is constantly stressing accountability, compliance and precision in the nuclear enterprise. Air Force nuclear forces are being reorganized to refortify lines of authority for nuclear operations. Near-term changes to the Air Force Nuclear Enterprise include:

- ◆ Consolidating all nuclear sustainment matters under the Air Force Nuclear Weapons Center
- ◆ Establishing a new Air Staff nuclear directorate responsible for policy oversight and integration of our nuclear enterprise activities
- ◆ Stand up Air Force Global Strike Command to consolidate Air Force Intercontinental Ballistic Missiles and nuclear capable bombers under a single command



Partner with the Joint and Coalition Team to Win Today's Fight

Global relations and strategic partnerships fortify our geographic access and ultimate security around the world. Deployed Airmen are partnering with Afghans and Iraqis to develop new National Army Air Corps and Air Forces for their respective countries. The Air Force is also actively engaged in joint programs such as the Joint Strike Fighter and communications satellites with allies where longer standing relationships exist. In 2009 the Air Force's release of the Global Partnership Strategy will update existing Air Force published official security cooperation strategies. The new strategy will include classified, nation-by-nation strategic plans to help direct the Air Force's key relationships.

Develop and Care for Airmen and Their Families

Emerging requirements brought about by the constantly evolving global political landscape demand an agile Air Force that is sufficiently equipped to respond to the operational needs of today and overcome the challenges



Staff Sgt. Frederick Battle from the 820th RED HORSE Squadron is greeted by his wife and daughter upon his arrival home after a seven-month deployment in Southwest Asia. (U.S. Air Force photo by A1C Brett Clashman)

of tomorrow. Air Force leadership is committed to providing each Airman with a quality of service that materializes into daily operational roles that are meaningful and impactful. Enhanced foundational and accelerated training opportunities will enable Airmen to support Air Force core functions and satisfy combatant commander requirements. In addition to sustaining the world's highest quality work force, the Air Force is equally committed to meeting the needs of their families. Quality of life initiatives such as advanced educational opportunities, modernized family housing, and expanded support services bolster the family support structures that fortify the Air Force's greatest asset – our Airmen.

Modernize Our Air and Space Inventories, Organizations and Training

Our nation's air superiority is reliant on maintaining a technological advantage over our enemies. To maintain its technological advantage, the Air Force continues to invest in weapons, platforms and training that increase our air superiority and global precision attack capabilities. Below are a few examples of modernization efforts that will ensure we have the right combination of equipment, organizational structure and trained Airmen to deter and defeat future threats:

- ◆ Replacing the aging KC-135 fleet remains the Air Force's top acquisition priority
- ◆ Low-observable characteristics and 5th generation designs make the F-22 and F-35 integral components of the Air Force's modernization efforts
- ◆ Laser Joint Direct Attack Munition will enhance our capability to strike efficiently and avoid surface threats
- ◆ Accelerated retirement of our oldest legacy fighters will eliminate excessive overmatch in our tactical fighter force (F-15s, F-16s, A-10s) resulting in the ability to redistribute billions in funds to support growth in priority missions such as aerial surveillance systems and ISR support
- ◆ Sustaining and modernizing air mobility assets (C-5s, C-17s, C-130s) ensures the ability to deploy, maneuver and sustain large global forces



The F-35 Lightning II, also known as the Joint Strike Fighter (JSF). Eglin AFB will be the home of the JSF training facility. (U.S. Air Force photo by Amn Anthony Jennings)

- ◆ Air and Space Operations Centers have been established in alignment with each geographic combatant commander to integrate air, space, cyber and missile defense capabilities into joint operations
- ◆ Cyberspace capabilities are being consolidated under the Air Force Space Command to provide an enhanced joint capability and provide optimum support to our networked force
- ◆ Terminal Air Controllers are receiving enhanced training on flexible air strike control systems like Remote Operated Video Enhanced Receiver (ROVER)

Recapture Acquisition Excellence

As good stewards of taxpayer dollars, the Air Force is solidifying an acquisition system that will ensure delivery of capabilities to the war fighter on time and within budget. Recapturing acquisition excellence requires an experienced and accountable workforce that is supported by mature

requirements and a stable budget. The May 2009 release of the Air Force's Acquisition Improvement Plan outlines five initiatives that will support the Air Force's implementation of continuous process improvement:

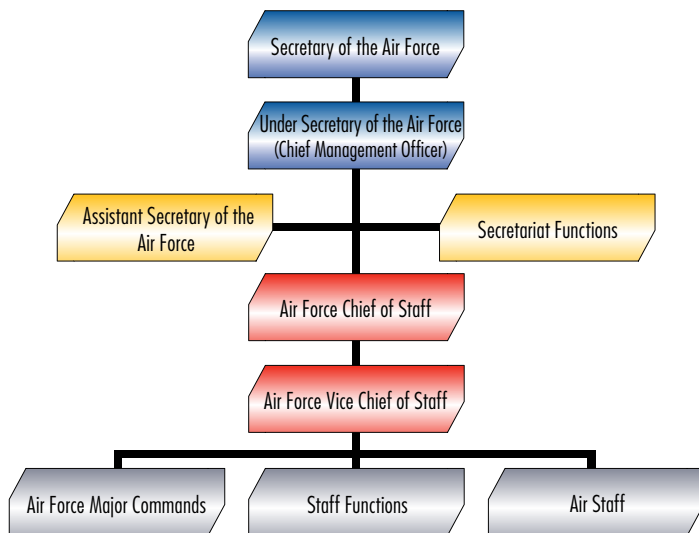
- ◆ Revitalize the Air Force Acquisition Workforce
- ◆ Improve Requirements Generation Process
- ◆ Instill Budget and Financial Discipline
- ◆ Improve Air Force Major Systems Source Selections
- ◆ Establish Clear Lines of Authority and Accountability Within Acquisition Organizations

The Air Force is dedicated to providing our nation with the best equipment and capabilities to *fly, fight and win in air, space and cyberspace*. We will develop, organize and size our workforce and ensure continuous acquisition training and process improvement. The Air Force remains committed to our core values: integrity first, service before self, and excellence in all we do.



Air Force Structure

The command line of the Air Force flows from the President and the National Command Authority to the Secretary of Defense and the Department of the Air Force. The Air Force is headed by the Secretary of the Air Force (SECAF), with the Chief of Staff reporting to the Secretary. Immediately subordinate to the departmental headquarters are the Major Air Commands (MAJCOMs), Field Operating Agencies (FOAs), Direct Reporting Units (DRUs), and the Auxiliary.



Major Air Commands

MAJCOMs are primarily of two types: operational and support. Within the operational commands, the divisions are generally defined according to purpose or location (e.g., combat, movement of people and supplies, or Pacific and European theaters). The support commands generally are organized according to function (e.g., logistic, support, or training) and are directly subordinate to Air Force Headquarters. A list of the MAJCOMs and their missions follows:



Air Force Global Strike Command (AFGSC)

Missions: Stood up in August 2009, this command is dedicated to nuclear deterrence and global strike missions. Reestablishes a single organization within the Air Force accountable for all aspects of the

nuclear deterrence mission with responsibility for nuclear missiles and nuclear-capable bombers when it reaches full capability. The command will have operational responsibility for all Intercontinental Ballistic Missile (ICBM) forces and B-2 and B-52 bombers.

Command Personnel: 900

Primary Inventory includes: Intercontinental ballistic missiles and Bombers.



Gen. Norton A. Schwartz, Air Force Chief of Staff, passes the Air Force Global Strike Command guidon to Lt. Gen. Frank G. Klotz, commander, during the activation ceremony of the major command. (U.S. Air Force photo by SrA Alexandra M. Longfellow)



Air Combat Command (ACC)

Missions: Operate Air Force conventional bombers and Air Force's CONUS-based fighter and attack, reconnaissance, battle management, command and control aircraft, and intelligence and surveillance systems. Supply combat airpower to America's warfighting commands (Africa Command, Central Command, European Command, United States Northern Command, Pacific Command and United States Southern Command); nuclear, conventional, and information operations forces to United States Strategic

Command; and air defense forces to North American Aerospace Defense Command. Provide support to the provisional Air Force Cyber Command.

Command Personnel: 148,000

Primary Aircraft Inventory includes: Bombers, Fighters, Intelligence, Surveillance and Reconnaissance (ISR), and Trainers.



Air Education and Training Command (AETC)

Missions: Recruit, train, and educate professional, expeditionary-minded Airmen to sustain the combat capability of America's Air Force. Conduct joint, readiness, and Air Force security assistance training. Provide basic military training, initial and advanced technical training, flying training, and professional military and degree-granting professional education.

Command Personnel: 72,000

Primary Aircraft Inventory includes: Trainers, Fighters, Transports, Helicopters, and Tankers.



Air Force Materiel Command (AFMC)

Missions: Deliver war-winning expeditionary capabilities to the warfighter through development and transition of technology, professional acquisition management, and world-class sustainment of all Air Force weapons systems. Provide exacting test and evaluation of all weapons and supporting systems.

Command Personnel: 75,000

Primary Aircraft Inventory includes: Bombers, Fighters, Transports, Tankers, Helicopters and Trainers.



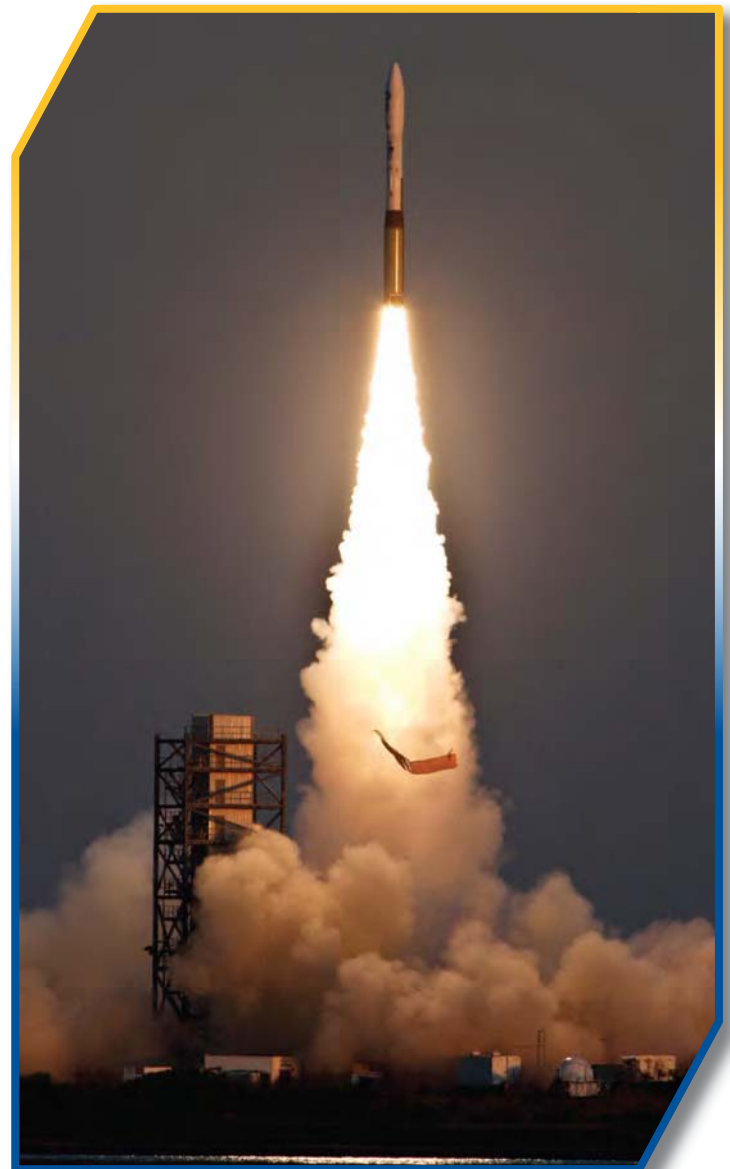
Air Force Space Command (AFSPC)

Missions: Operate and test the following: missile warning radars, sensors, and satellites; national space-launch facilities and operational boosters; worldwide space surveillance radars and optical

systems; worldwide space environment systems; and position, navigation, and timing systems.

Command Personnel: 27,000

Primary Inventory includes: Missile Warning Systems, ICBMs, Satellite Systems, and Space Surveillance Systems.



A Minotaur I launch from the Mid-Atlantic Regional Spaceport at the NASA Wallops Flight Facility, Wallops Island, VA of a TacSat-3 satellite. Air Force Space Command's Space and Missile Systems Center's Space Development and Test Wing at Kirtland AFB, NM, has overall management of the mission. (Image Courtesy of Orbital Sciences Corporation)



A CV-22 Osprey aircraft from the 8th Special Operations Squadron at Hurlburt Field, FL, flies over Florida's Emerald Coast. (U.S. Air Force photo by SrA Julianne Showalter)



Air Force Special Operations Command (AFSOC)

Missions: Serve as America's specialized air power, providing Air Force special operations forces for worldwide deployment and assignment to regional

unified commands. The command's core tasks have been grouped into three mission areas: forward presence and engagement, information operations precision employment and strike, and special operations forces mobility.

Command Personnel: 19,000

Primary Aircraft Inventory includes: Helicopters, Tankers and Special Operations Aircraft.



Air Mobility Command (AMC)

Missions: Provide rapid global mobility and sustainment through tactical and strategic airlift and aerial refueling for U.S. armed forces. Provide special duty

and operational support aircraft and global humanitarian support.

Command Personnel: 132,000

Primary Aircraft Inventory includes: Transports, Helicopters, and Tankers.



Pacific Air Forces (PACAF)

Missions: Provide ready air and space power to promote U.S. interests in the Asia-Pacific region during peacetime, crisis, and war.

Command Personnel: 43,000

Primary Aircraft Inventory includes: Fighters, Transports, and Tankers.



U.S. Air Forces in Europe (USAFE)

Missions: Deliver airpower options to combatant commanders within the U.S. European Command area of responsibility. Plan, control, support and conduct joint, coalition North Atlantic

Treaty Organization (NATO), and warfighting headquarters operations in Europe, Asia, and Africa based on taskings from EUCOM and/or AFRICOM Commanders.

Command Personnel: 30,000

Primary Aircraft Inventory includes: Fighters, Transports, and Tankers.



Air Force Reserve Command (AFRC)

Missions: Support the active duty force. Serve in such missions as fighter, bomber, airlift, aerial port operations, aeromedical evacuation, aerial fire fighting, weather reconnaissance, space

operations, airborne air control, flying training, fight testing, and aerial spraying. Provide support and disaster relief in the United States and support national counterdrug efforts.

Command Personnel: 71,000

Primary Aircraft Inventory includes: Fighters, Transports, and Tankers.



Air National Guard (ANG)

Missions: Provide combat capability to the warfighter and security for the homeland. Protect life and property and preserve peace, order, and public safety.

Command Personnel: 108,000

Primary Aircraft Inventory includes: Fighters, Transports, and Tankers.

Field Operating Agency (FOA)

An FOA is a subdivision of the Air Force that carries out field activities under the operational control of a Headquarters U.S. Air Force functional manager. FOAs have the same administrative and organizational responsibilities as MAJCOMs. Examples of FOAs

include the Air Force Audit Agency, Air Force Center for Environmental Excellence, Air Force Financial Services Center, Air Force Services Agency, and Air Force Weather Agency, among others.

Direct Reporting Unit (DRU)

A DRU is a subdivision of the Air Force that is directly subordinate to Headquarters Air Force, separate from any MAJCOM or FOA because of a unique mission, legal requirements, or other factors. DRUs have the same administrative and organizational responsibilities as MAJCOMs. The DRUs are the Air Force Academy, Air Force District of Washington, and Air Force Operational Test and Evaluation Center.



Air and Army National Guard members work as a joint unit to deploy the Joint Incident Site Communication Capability system during a week-long training exercise. (U.S. Air Force photo by SSgt Nicholas A. McCorkle)



Auxiliary

An Air Force auxiliary is an organization created by statute that the Secretary of the Air Force may use to fulfill the Air Force's non-combat programs and missions. The Civil Air Patrol (CAP) is the only current U.S. Air Force auxiliary.



Air Force Resources

The three vital resources to successful accomplishment of the Air Force mission are:

◆ **Places:** A network of bases that reflect the Air Force’s global competencies.

- The Air Force is a global force, spanning facilities both in the United States and around the world, as shown below.
 - CONUS: 68
 - OCONUS: 17

◆ **People:** Trained, motivated, and dedicated.

- The Air Force consists of over 722,000 military and civilian personnel. Aerospace power is a proven necessity for victory on land, sea, air, space, and cyberspace. The foundation for this is our people.

- The reserve component (Air Force Reserve and Air National Guard) has become more important than ever in sustaining worldwide operations. These warriors make possible the successful accomplishment of Air Force missions.

◆ **Systems:** Modern weapons platforms that integrate air, space, and cyber assets into an undefeatable force.

- Air Force “systems” no longer mean only “manned aircraft.” Systems also include space launch vehicles, satellites, intelligence, surveillance and reconnaissance assets, unmanned aerial systems, and the cohesive infrastructure to all Air Force systems. All Air Force systems are essential assets for Air Force people to accomplish the mission.



Major Active-Duty Air Force Facilities

Air Force Major Management Initiatives

The Air Force is committed to providing the best combination of air, space and cyber power possible within available resources. From effective program and financial management of American Recovery and Reinvestment Act (ARRA) funds to developing renewable energy sources, the Air Force continues to implement strategically significant programs. The initiatives described below provide examples of the Air Force's successful efforts to prevail in today's operations while investing wisely to meet tomorrow's needs.

Chief Management Officer (CMO)

On June 19, 2009, in accordance with the National Defense Authorization Act (NDAA) for Fiscal Year 2009 (Section 908), the Secretary of the Air Force established the Office of Business Transformation to assist the Air Force Under Secretary, as Chief Management Officer (CMO). The Secretary named the Air Force Deputy Chief Management Officer (DCMO) as Director of Business Transformation to head this office. A strong team has been formed, with expertise in continuous process improvement, strategic planning, project planning, data base data element definition and other key competencies. Air Force governance processes have been modified to give appropriate representation to CMO and DCMO in leadership forums to support business transformation objectives.

Management of American Recovery and Reinvestment Act Funds (ARRA)

The Air Force received approximately \$1.5 billion in Defense-related appropriations through ARRA. With a focus on Airmen care, families and environmental stewardship, ARRA funds are being used for high priority maintenance and repair projects as well as new child development centers, military family housing and dormitories. To maximize the benefit of ARRA funding, previously conducted facility and requirements studies were leveraged to identify and prioritize the locations with the greatest need. ARRA funded projects include more than 1,500 maintenance and repair projects valued at \$1.1 billion. Military construction and housing accounts for \$260 million:

- ◆ \$100 million for four dormitories
- ◆ \$80 million for seven child development centers
- ◆ \$80 million for two military family housing projects



“Investment in Air Force-related projects will further President Barack Obama’s goal of providing much-needed stimulus to the economy while improving quality of life for Airmen and their families.”

- Audrey Davis

Deputy Assistant Secretary
of the Air Force for Financial Operations

Source: TSgt Amaani Lyle, *Stimulus Package to Aid Airmen*, Air Force Print News Today (March 2009)

Supporting Air Force goals to lead Department of Defense and National efforts to achieve greater energy independence, ARRA funds will also be used to support critical military energy efficiency research programs such as fuel-cell, wind, solar and energy security. Additional ARRA funds of \$17 million are being allocated to the Air Force engineers to construct four energy conservation investment program projects.



President Obama speaks to the Airmen of Nellis AFB NV during a visit to Las Vegas. The president spoke about issues concerning world energy and the importance of solar power. (U.S. Air Force Photo by SrA Brian Ybarbo)

Energy and Environmental Focus

The mission of the Air Force – *fly, fight and win in air, space and cyberspace* – is both highly technical and energy-intensive. Air Force continues to lead the way in environmental stewardship and has begun implementing a comprehensive energy strategy that will result in a 30% reduction in energy use by FY 2015. The energy strategy seeks efficiencies in the full spectrum of energy activities across all operational and support areas ranging from developing new weapons systems and fuel-efficient aircraft engines to responsibly managing bases and flying aircraft. Actively engaged with other federal entities and industry the Air Force is adopting and sharing best practices and technologies for conservation and renewable power development. The Air Force’s commendable energy and environmental focus will produce verifiable reductions in energy consumption and provide

alternatives and renewable energy sources that will improve our Nation’s energy posture, significantly increase our energy independence, and strengthen our energy security.

The Air Force continues to receive accolades and achieve top results for their conservation efforts. During a May 2009 visit, President Obama cited Nellis Air Force Base (AFB), Nevada as “...a shining example of what’s possible when we harness the power of clean, renewable energy to build a new, firmer foundation for economic growth.” Air Force was a recipient of three *2009 Secretary of Defense Environmental Awards*, and was honored by Vice President Biden’s commentary touting the Air Force’s ability to lead the way in environmental stewardship while leading the way in the Nation’s defense. The 14th Civil Engineer Squadron Pollution Prevention Team, Columbus AFB, Mississippi, won in the “Team/Individual Pollution Prevention” category. Vandenberg AFB, California, won in the “Installation Cultural Resources” category. Environmental Management Division, Hill AFB, Utah, won in the “Industrial Installation Environmental Quality” category. The Air Force also had a significant number of nominees for the *2009 White House Closing the Circle (CTC) Awards*: Keesler AFB; Randolph AFB; Robins AFB; Lackland AFB; Edwards AFB; Little Rock AFB; Goodfellow AFB; Laughlin AFB; Air Force Weather Headquarters; and 179th Airlift Wing.

“...a shining example of what’s possible when we harness the power of clean, renewable energy to build a new, firmer foundation for economic growth.”

- President Barack Obama
Speaking at Nellis AFB
May 2009

Personnel Services Delivery (PSD)

PSD transformation continues to enable Airmen to take care of routine personnel actions online, at their convenience, giving back valuable time, mission time, to each Airmen. The delivery model is helping to redesign personnel services processes through business process improvements that eliminate unnecessary steps and streamline approval processes, reducing associated workload. PSD is also focused on increasing self-service capabilities through online and contact centers that provide self-service options. Efforts to increase PSD functionality are aiding the modernization of Air Force architecture and technology that support and integrate web-based applications. By automating routine personnel actions, PSD enables personnel to focus on strategic advisory services for commanders and leaders that will ensure the Air Force's ability to appropriately structure the future force.

Financial Services Delivery (FSD)

FSD cohesively addresses all elements impacting customers receiving financial services and seeks to optimize all elements of operations including people, processes, technology and communications. Integrated end-to-end FSD processes establish a new way to deliver customer service consistently across all geographies and theaters. FSD encompasses all areas of the FM organization from bases through the MAJCOMs to the Air Force Financial Services Center (AFFSC) at Ellsworth AFB, South Dakota, and includes the enabling technologies and processes that support how customers receive financial services. This effort began in September 2007, with the phased consolidation of back-office military pay and travel processing for 109 Active and Reserve bases into the AFFSC. A 24/7 Contact Center is scheduled to open at the AFFSC in FY 2010 along with continued enhancement of online service options.

With the standup of the AFFSC, the FM community will ultimately be able to reduce face-to-face customer interaction and direct customers to self-service resources through the Air Force Portal or the Contact Center as the preferred option to initiate inquiries and transactions. From the Comptroller Squadron through to the AFFSC, FM personnel will have access to uniform processes, consistent roles, and a coordinated suite of resources.

Across FSD, efficiencies are gained through centralization and process improvement, benefiting the customer through quicker, more accurate and more consistent pay transactions. Customers receive the same answer whether they seek service online, at the AFFSC, or at their local Financial Services Office.

The first phase of Web Self-Service (WSS), the Top 180 Frequently Asked Questions (FAQs), was launched on the Air Force Portal in early FY 2009, and additional functionality and new customer resources will continue to emerge in FY 2010. WSS provides FAQs, a searchable index of questions, and other tools designed to resolve pay and travel questions. Looking ahead, the AFFSC is intended to provide full integration with Air Force Personnel Center and Air Reserve Personnel Center on a common technology platform, supporting full customer visibility between centers and a range of service options through a single point of entry.



Users log on to the Air Force Portal by using their common access card and personal identification number.



B-52 Stratofortress mechanics inspect their aircraft during phase maintenance at Andersen AFB, Guam. The B-52s come here from a forward-deployed location and go into phase maintenance after 300 flying hours. The hangar can house any type of Air Force aircraft. (U.S. Air Force photo by MSgt Val Gempis)

Expeditionary Logistics for the 21st Century (eLog21)

eLog21 is an umbrella strategy that integrates and governs logistics transformation initiatives to ensure the warfighter receives the right support at the right place and the right time. This program promotes data sharing, collaboration, and better decision-making across the entire Air Force supply chain to support the modern-day conduct of operations. The Air Force is engaging in multiple contingencies simultaneously with a smaller force. eLog21 provides a flexible, nimble, scalable logistics process that leverages combat support assets and capabilities across the breadth of the Air Force. This initiative positively impacts the entire logistics enterprise, including the operational and training bases, Centralized Repair Facilities, depots, deployed operations, product centers, Air Logistics Centers, and Air Force industry trading partners. Individuals who support the warfighter by launching and recovering jets, maintaining and overhauling weapon systems or equipment, purchasing products and services, managing the supply chain, or managing weapon systems will benefit from eLog21. The overall goals of this program are to

increase equipment availability and reduce operations and support cost. eLog21 will provide the following end-state capabilities:

- ◆ Air Force-Wide Logistics Planning
- ◆ Optimized Resources
- ◆ Optimized Repair Planning
- ◆ Total Asset Visibility
- ◆ Logistics Netcentricity
- ◆ Data Accuracy
- ◆ Centralized Asset Management
- ◆ Predictive Maintenance

Air Force Financial Management Assurances

Air Force FM is based on people, processes, and systems. This section focuses on the Air Force's system of internal control and emphasizes our compliance with federal laws such as the Federal Managers' Financial Integrity

Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The following examples illustrate some of the ways the Air Force FM community is proactively meeting future challenges and improving compliance and efficiency.

Chief Financial Officer (CFO) Compliance

The passage of the CFO Act of 1990 required major federal agencies to prepare auditable financial statements for the first time. In 1994 the Government Management Reform Act (GMRA) extended the CFO Act to include agency-wide reports from all major executive branch agencies, their components, and for the government as a whole. The Government Performance and Results Act (GPRA) of 1993 required agencies to systematically report on plans and performance. The FFMIA of 1996, along with the Clinger-Cohen Act of 1996 (also known as the Information Technology Management Reform Act), required that agencies install integrated systems that comply with federal accounting standards and produce auditable financial statements.

Compliance with these laws requires the integration of financial and functional processes and systems. The annual audit will serve as a report card of how well

agencies are doing with integrating their processes and systems. Auditable financial statements must be prepared in accordance with Office of Management and Budget Circular A-136, Financial Reporting Requirements. Additionally, agencies must follow generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB).

The Air Force Financial Improvement Plan is a roadmap to accomplish those tasks and actions necessary to obtain an unqualified audit opinion on the Air Force General Fund and Working Capital Fund financial statements. The plan is an Air Force-wide management plan meant to improve the quality of information that is needed to make sound business decisions. Quality information must be relevant and reliable. The overarching goal of the CFO Act is to provide leaders and managers, on a routine basis, quality information with which to make decisions. An unqualified audit opinion attests to the reliability of the Air Force's financial information.

Internal Controls

The Air Force operates a robust Manager's Internal Control Program and employs a comprehensive strategy for the continual evaluation of internal controls. This review





system is integrated fully with institutional and program assessment techniques used to help ensure that the national defense mission and goals of the Department of the Air Force are achieved each year. The objectives of the system of internal control of the Department of the Air Force are to provide reasonable assurance that:

- ◆ Obligations and costs comply with applicable laws
- ◆ Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation
- ◆ Revenues and expenditures applicable to Air Force operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets, including nonappropriated fund activities
- ◆ Programs, administrative and operating functions are efficiently and effectively carried out in accordance with applicable laws and management policy
- ◆ The internal control process emphasizes prevention of waste, fraud, and mismanagement along with timely correction of internal control weaknesses

Internal Control Program Accomplishments and Highlights

FMFIA implementation in the Air Force rests on a solid general control environment supported by positive endorsement from top management. FY 2009 was a year of strong internal control activity as our financial managers continued to integrate their job oversight responsibilities with the internal control program's evaluation procedures. Using pervasive technologies, MAJCOMs increased distribution of internal control information on their force-wide available Web sites.

Internal Controls Over Financial Reporting (ICOFR)

The Office of the Under Secretary of Defense (Comptroller) directed that our review of ICOFR encompass DoD priority areas. The Air Force evaluated the effectiveness of internal controls of those priority areas and key business processes, which significantly affect financial reports. This involved documenting processes, developing swim-lane flowcharts,

performing risk analysis, and testing and analyzing existing internal controls. There were no new material weaknesses identified during this year's review effort. We continue to track and report on ten existing ICOFR material weaknesses that are included in the Secretary's Annual Statement of Assurance.

Continuous Improvement

This year the Air Force completed a validation of corrective actions in the Air Force Financial Improvement Plan (FIP). The FIP consolidates all the required actions, establishes action offices, determines the status, and identifies resources required to produce accurate and timely financial information. A by product of this plan is progress toward an unqualified opinion goal. The FIP operates under a governance structure created to oversee the implementation of the plan.

Progress Towards Auditability

The Secretary of the Air Force established an Executive Steering Committee (ESC) composed of senior level Air Force leaders. This group's charter states that it will meet at least quarterly to ensure the actions incorporated in the FIP are effectively implemented. In addition to overseeing the FIP, the ESC also provides oversight to the Accountability and Financial Management Integrated Project Team (A&FM IPT). This work group is responsible for resolving the issues and monitoring actions contained in the FIP. The integrated project team meets monthly and orchestrates the numerous systems and procedural changes needed to achieve the above stated goals. It is important to note that while the Air Force is currently unable to produce financial statements that receive an unqualified audit opinion, we are working aggressively toward achieving that goal.

Air Force General Fund

The General Fund is the fund into which most receipts of the United States Government are deposited. Exceptions include receipts from specific sources required by law to be deposited into other designated funds and receipts from appropriations made by Congress to carry on the general and ordinary operations of the Government. The Notes to the Principal Statements provide more detail on the appropriations. The major appropriations in the Air Force General Fund and their uses are introduced below.

Appropriations

MILITARY PERSONNEL (MILPERS)

This appropriation provides funding for the care and feeding of our Airmen. It includes all direct military compensation for active duty, reserve, guard, and retired personnel including regular pay, allowances, and bonuses. Additionally, this appropriation funds all Permanent Change of Station (PCS) moves and supports a total force (active, reserve and guard) end strength of 507,431.

OPERATIONS AND MAINTENANCE (O&M)

This appropriation funds key readiness programs critical to prepare forces for combat operations and other peacetime missions. These include day-to-day operating costs such

as flying hours, depot maintenance, training, spare parts, and base operations. The FY 2009 appropriation supported 84 installations, produced over 1,200 pilots and funded approximately 1.4 million flying hours while sustaining an aircraft fleet of over 5,500 aircraft.

PROCUREMENT

This appropriation provides for purchase of aircraft, missiles, vehicles, electronic and telecommunications equipment, satellite and launch equipment, base maintenance and support equipment, and investment-type spares. The FY 2009 program supported the purchase of up to 93 aircraft including 52 Unmanned Aerial Vehicles (UAVs) and 20 F-22 Raptors.

RESEARCH, DEVELOPMENT, TEST AND EVALUATION

This appropriation provides funding for the research and development of next generation weapons and platforms and for the testing and evaluation of current prototypes and upgrades. The Air Force's top five acquisition priorities are the Combat Search and Rescue (CSAR) Helicopter; new space systems for early warning, targeting, communications, and navigation; the F-35A Joint Strike Fighter; the Refueling Tanker and the New Bomber.

Aircrews perform a preflight check on an MQ-9 Reaper before it takes off for a mission in Afghanistan. The Reaper is larger and more heavily-armed than the MQ-1 Predator and in addition to its traditional intelligence, surveillance and reconnaissance capabilities, is designed to attack time-sensitive targets with persistence and precision. (Courtesy photo)





MILITARY CONSTRUCTION (MILCON)

This appropriation includes any construction, development, conversion, or extension of any kind carried out with respect to a military installation. Typically this appropriation applies to any projects that exceed \$1.5 million but can be applicable to projects exceeding a \$750 thousand threshold. A sub-element of this appropriation provides funding for family housing construction programs. The FY 2009 appropriation supported 54 projects in total.

BASE REALIGNMENT AND CLOSURE (BRAC)

The law authorizes the BRAC accounts to fund one-time, nonrecurring costs that are a direct result of BRAC-directed base closure or realignment actions. Some costs do not qualify for BRAC funding as costs resulting from closure or realignment. The FY 2009 BRAC program was approximately \$1.2 billion.

ARRA

In FY 2009, the Air Force received \$1.5 billion in ARRA funds to stimulate the economy.

Current and Future Financial Systems - Defense Enterprise Accounting and Management System (DEAMS)

Our systems enable us to maintain stewardship over the resources entrusted to us. DEAMS is key to our current and future ability to manage the Air Force's resources. DEAMS was launched in August 2003 as a joint initiative between the Air Force, U.S. Transportation Command (USTRANSCOM) and the Defense Finance and Accounting Service under what is now the Defense Department's Business Transformation Agency. The DEAMS mission is to support the Nation's warfighters with timely, accurate, and reliable financial information, enabling more efficient and effective decision making by DoD managers. DEAMS is reengineering financial management activities with a unified enterprise architecture, standardized business rules and processes, and the first implementation of the new Standard Financial Information Structure.



The Air Force is implementing DEAMS through a three-increment development approach in five spirals. Spiral 1 is a technology demonstration at Scott AFB, Illinois, involving USTRANSCOM; Headquarters, Air Mobility Command; and Air Force Active Duty, Air National Guard and Air Force Reserve tenant organizations on or associated with that base. Spiral 1 successfully demonstrated an initial commitment accounting capability in 2007 while Spiral 2 will deploy in late 2009, taking the full Oracle I-Procurement functionality to those same units.

Increment 2 will expand DEAMS capability to the remaining AMC bases, Surface Deployment and Distribution Command (SDDC) and Military Sealift Command (MSC) in Spiral 3 and the remaining Air Force Major Commands in Spiral 4, except for Air Force Materiel Command and Air Force Space Command. Increment 3 will complete DEAMS deployment to those MAJCOMs and throughout the Air Force in 2015.

When fully fielded, DEAMS will transform financial management and set a new standard for effective and efficient stewardship of our Nation's Defense resources.

Air Force Working Capital Fund

The Air Force Working Capital Fund (AFWCF) conducts business in two primary areas: the Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group-Retail (SMAG-R).

The Consolidated Sustainment Activity Group (CSAG) is a new AFWCF business activity. The CSAG consolidates the Depot Maintenance Activity Group (DMAG) and the Material Support Division (MSD) from the Supply Management Activity Group into a single business enterprise. This consolidation eliminates internal transactions between MSD and DMAG, resulting in a more efficient business enterprise and customer support improvements. The mission of CSAG is supply management of reparable and consumable items as well as maintenance services. Under CSAG, business operations formerly known as DMAG are now characterized as the Maintenance Division and business operations formerly known as MSD are now designated the Supply Division.

Air Force Materiel Command (AFMC) manages more than 90 percent of the AFWCF business activity for Supply Management and Depot Maintenance activities. These functions provide goods and services to the Air Force and DoD customers, as well as customers

outside the DoD (e.g., local and foreign governments). Supply Management provides expedited repair, replenishment and inventory control for spare parts and associated logistics support services to fulfill Air Force needs during war and peacetime. Depot Maintenance provides economical and responsive repair, overhaul and modification of aircraft, missiles, engines, other major end items and associated components.

In FY 1998 the Air Force was appointed the Executive Agent for Transportation Working Capital Fund (TWCF) cash. Even though AFWCF manages TWCF's cash, daily operations are managed by the United States Transportation Command. As a result, TWCF's financial statements are reported with other Defense Agencies.

The AFWCF allows the Air Force to accomplish the following: ensure readiness through reduced support costs, stabilized rates and responsive customer service; flexibility to respond to customer support needs in real-world situations; focus management attention on net operating results, including cost and performance; identify the total cost of providing support products and services; and, establish strong customer/provider relationships.



Air Force Materiel Command's headquarters at Wright-Patterson AFB, OH, manages more than 90 percent of the AFWCF business activity for Supply Management and Depot Maintenance activities.



CSAG–Maintenance Division

The Maintenance Division repairs systems and spare parts to ensure readiness in peacetime and to provide sustainment for combat forces in wartime. This division operates on the funds received from its customers through sales of its services. In peacetime, the Air Force enhances readiness by efficiently and economically repairing, overhauling and modifying aircraft, engines, missiles, components and software to meet customer demands. The Maintenance Division’s depots have unique skills and equipment required to support and overhaul both new, complex components as well as aging weapon systems. During wartime or contingencies, the depots can surge repair operations and realign capacity to support the war fighter’s immediate needs.

A number of initiatives have begun to ensure the depots are poised to fulfill war fighter mission needs with the best product at the best price. These initiatives include formal training programs to develop multi-skilled “maintenance-ready” technicians and managers, benchmarking programs to identify industry leaders in various production processes, and the institutionalization of lean principles within the workforce. By embedding these initiatives into the maintenance culture, reductions are being made in shop flow days and cost. For example, over the last five years Oklahoma Air Logistics Center reduced Programmed Depot Maintenance flow days for the B-1 by 30 days (18%). Ogden Air Logistics Center has reduced the A-10 wing, F-16 wing, and F-16 stabilizer repair flow days by 39%, while on-time delivery has improved to 100% and 98% for A-10 wings and F-16 wings, respectively. Warner Robins Air Logistics Center has reduced C-5 aircraft overhaul flow days by 103 days (31%), freeing up floor space for additional workload.

CSAG Maintenance Division is managed by AFMC and employs over 22,000 personnel supporting four industrial locations.

CSAG Maintenance sites include:

Ogden Air Logistics Center (OO-ALC), Ogden, UT
Oklahoma City Air Logistics Center (OC-ALC), Oklahoma City, OK

Warner Robins Air Logistics Center (WR-ALC), Warner Robins, GA
Aerospace Maintenance and Regeneration Group (AMARG), Tucson, AZ

CSAG Maintenance Customer Support Performance Metrics

Due Date Performance and Quality Defect Rate metrics allow managers to assess production schedule and work quality. The Due Date Performance (ability of the depot to produce aircraft on the promised date) is 85% as of March 2009 which is lower than AFMC standard of 95%. F-15 and C-130 late deliveries are the driving platforms causing the lower than standard delivery performance. C-130 late deliveries are mainly driven by over and above structural and corrosion issues. The root cause for the F-15s stems from the Program Depot Maintenance (PDM) reflow after the grounding in November 2007 and severe corrosion issues in the fuel tank areas. The Quality Defect Rate (measuring the number of production defects) is .08 defects per aircraft as of March 2009 and is lower than the AFMC standard of .22 (lower is better).

CSAG Supply Division

The Supply Division is primarily responsible for Air Force-managed, depot-level repairable spares and consumable spares unique to the Air Force. Spares are an individual part, subassembly, or assembly supplied for the maintenance or repair of systems or equipment. In addition to management of these inventories, the Supply Division provides a wide range of logistics support services including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal, distribution management and transportation.

The Supply Division is committed to implementing improvements that meet customer demands and lower cost. The Air Force is examining new ways of doing business and leveraging new technologies to support war fighter needs. The division is committed to reducing the impact of parts obsolescence and material shortage problems associated with supporting aircraft fleets with an average age of 24 years. The number of parts that have no qualified manufacturing or repair source is expected to increase over



An aircraft mechanic removes support brackets from the wings of a preserved KC-135E Stratotanker at the AMARG storage site at Davis-Monthan AFB, AZ. The brackets will be shipped to Tinker AFB, OK, where they will be used to bring a broken KC-135R back to flying status. The center provides customer services including aircraft regeneration restoring aircraft to flying status, limited depot-level maintenance, parts reclamation, historic storage and disposal functions. (U.S. Air Force photo by Bennie J. Davis III)

the next ten years. In addition there are increasing numbers of manufacturers not willing to produce and/or repair aging spare parts. The Supply Division remains committed to re-engineer these parts for which no supplier exists and take proactive action to identify future obsolescence issues in advance.

Supporting aging weapon systems requires proactive management of spare part inventory levels. As weapon systems exceed their life expectancy, additional maintenance drives increased demands on spare parts inventory. An initiative is underway to reduce excess on-order and on-hand inventory. Inventory levels were reduced by 1.2 million cubic feet in FY 2008. Quarterly reviews have been established and metrics are reported to the Deputy Chief of Staff for Logistics, Installations and Mission Support.

Supply Customer Support Performance Metrics

Mission Incapable (MICAP) and Customer Wait Time (CWT) metrics allow managers to assess quality of spares support provided and plan corrective action when needed. MICAP measures the number of hours a weapon system is not available due to non-availability of a spare part provided by CSAG Supply or GSD. CWT measures the average time elapsed between the customer demand and the delivery of a spare part to the customer, measured in days. MICAP hours for CSAG Supply managed items improved significantly since 1999. CSAG Supply items accrued an average of five million MICAP hours during calendar year 2000. As of March 2009, CSAG Supply MICAP hours are 1.2 million. CWT is a newer metric but has also shown a significant improvement. The monthly average CWT for Supply items during 2004 was 7.4 days and has decreased to 6.4 days as of March 2009.



Supply Management Activity Group–Retail

The Air Force Supply Management Activity Group–Retail (SMAG-R) is comprised of three divisions: General Support, Medical-Dental, and the United States Air Force Academy.

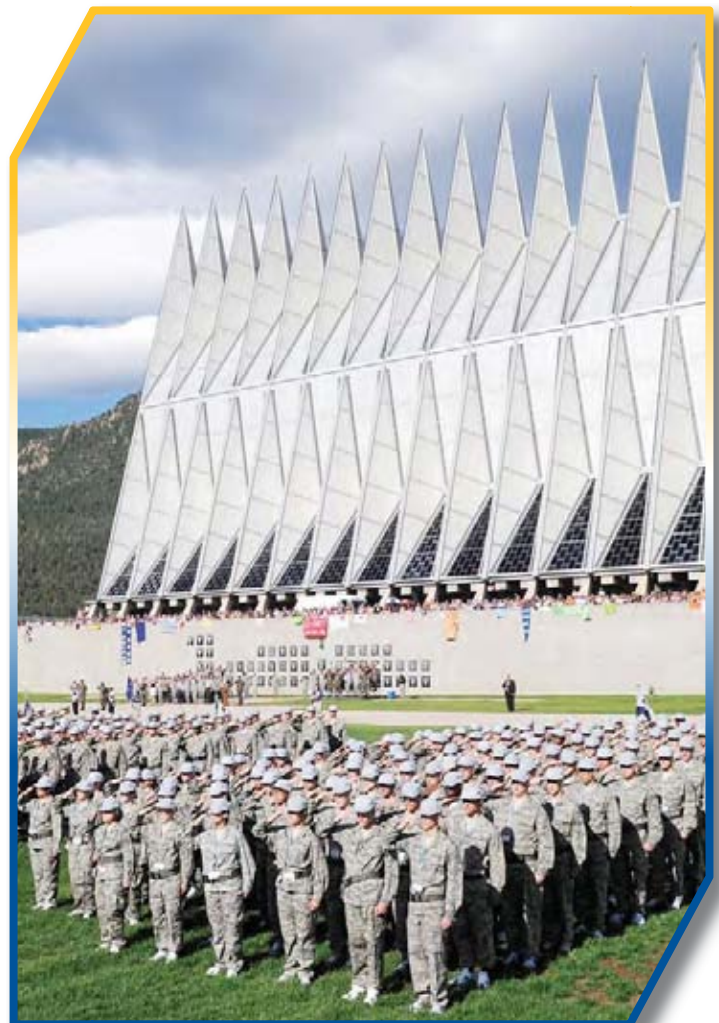
The Supply Management Activity Group-Retail (SMAG-R) manages over 1.4 million inventory items including weapon system spare parts, medical-dental supplies and equipment, and other supply items used in non-weapon system applications. The Air Force SMAG-R is a critical component in the support of combat readiness by procuring materiel and selling it to authorized retail customers. Within SMAG-R, the Medical Dental Division inventory includes a War Reserve Materiel (WRM) Stockpile. WRM provides initial war fighting capability until re-supply lines can sustain wartime demands for medical and dental supplies and equipment.

The Air Force SMAG-R provides a wide range of logistics support services including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal, distribution management and transportation. Inventories are an integral part of SMAG-R and are maintained by each of the divisions in support of customer requirements. The SMAG-R objective is to replenish inventories and provide supplies to customers in a timely manner within customer funding constraints, while maintaining fund solvency.

The **General Support Division (GSD)** manages nearly 1.4 million different items, which are procured from Defense Logistics Agency (DLA) and General Services Administration (GSA). GSD customers use the majority of these items to support field and depot maintenance of aircraft, ground and airborne communication and electronic systems, as well as other sophisticated systems and equipment. The General Support Division also manages many items related to installation, maintenance, and administrative functions. GSD manages stock levels and procurement for critical Overseas Contingency Operation (OCO) requirements.

The **Medical-Dental Division (MDD)** manages over 8,000 different items for 84 Medical Treatment Facilities (MTF) worldwide. All supply and equipment requirements generated by Air Force treatment facilities are procured through this division. The Medical-Dental Division also maintains the WRM requirement.

The **Air Force Academy Division** finances the purchase of uniforms and uniform accessories for sale to cadets in accordance with regulations of the Air Force Academy and related statutes. The customer base consists of approximately 4,500 cadets who receive distinctive uniforms procured from various manufacturing contractors.



More than 1,300 basic cadets salute during their first reveille formation June 26, 2009 at the U.S. Air Force Academy. (U.S. Air Force Photo by Mike Kaplan)

SMAG-R Stockage Effectiveness

Division	FY 2008	FY 2009	FY 2010
General-Support	85%	84%	84%
Medical-Dental	96%	96%	96%
Academy	95%	95%	95%

Supply Management Activity Group–Retail Metrics

Stockage Effectiveness measures how often the supply system is available for immediate sale of those items it intends to maintain at base and depot level supply locations.

Air Force Working Capital Fund Customers

AFWCF provides support to a variety of customers: Air Force Major Commands (including the Air National Guard & Air Force Reserves), the Army, the Navy, other WCF's, other government agencies and foreign countries.

Air Force Working Capital Fund Financial Performance Measures

AFWCF tracks several metrics to assess financial performance. These measures are designed to achieve accountability at the appropriate level and also measure compliance with AFWCF budget objectives.

AFWCF assesses financial performance using the Net Operating Result (NOR) of an activity. The NOR is the difference between revenue and expenses, i.e., a bottom-line profit and loss indicator. Revenues are amounts earned as a result of normal operations and usually result from sale of, or reimbursements for, goods and services provided to DoD activities, other federal government agencies and the public. Expenses are the resources used during an accounting period. Expenses occur from rendering services; acquiring, producing or delivering goods; or carrying out other mission-related activities. The NOR objective of an activity group is to break even over a two year period. Actual NOR are compared to the budget targets. Budget targets are identified in financial performance plans and are used to measure results during

execution review. Prices are established to achieve this objective by recovering or returning prior year losses or gains. DoD cash management policy is to maintain the minimum cash balance necessary to meet both operational requirements and disbursements in support of the capital program. Cash generated from operations is the primary means of maintaining adequate cash levels. Effective cash management is directly dependent on the availability of accurate and timely data on cash levels and operational results. Cash levels should be maintained to cover 7 to 10 days of operational costs as well as cash adequate to meet 6 months of capital disbursements.

Air Force Logistics Initiatives

eLog21 The Air Force has launched a campaign called Expeditionary Logistics for the 21st Century, or "eLog21." This initiative is designed to bring logistics operations into the 21st Century by modernizing processes and systems with new expeditionary, network-centric, enterprise wide processes and systems. As processes continue to improve, customers will receive the benefit of receiving repaired weapon systems and spare parts at the right place, right time and lowest cost. The Air Force is benchmarking against industry to capitalize on best practices used in the areas of repair processes, inventory management and cost control. Other acquisition reform efforts are underway to streamline contracting, strengthen vendor relationships and expand the use of electronic interchanges for material management.

Two major initiatives included under the umbrella of e-Log21 are the Repair Network Integration (RNI), formerly Repair Enterprise 21 (RE21), and Air Force Global Logistics Support Center (AFGLSC) initiatives.



The vision of RNI is to establish enterprise management of the Air Force repair network by utilizing existing depots and establishing Centralized Repair Facilities. In addition, the repair network will support mission generation and sustain weapon systems and equipment.

The AFGLSC is an enterprise network of supply chain experts. The AFGLSC merged wholesale (i.e. depot) and retail (i.e. base level) supply chain entities into a single organization. It now administers the majority of AFWCF supply chain processes, technologies, and resources to deliver end-to-end warfighter support. In addition, the AFGLSC manages materiel and its distribution, and oversees execution of the supply plan to improve the delivery of serviceable spare parts to the warfighter. The AFGLSC is designed to establish a supply chain management capability that provides enterprise planning, global command and control and a single focal point in support of logistics requirements.

Depot Maintenance Activity Group (DMAG)

The transition of contract depot maintenance from the working capital fund was completed in FY 2008. The activity ceased accepting new orders at the end of FY 2008 and is expected to close out all accounting records by the end of FY 2010. This change brings the user and provider of contract depot maintenance services closer together and removes the WCF from its current role as the “middleman.” This action will allow depot managers to dedicate time and efforts to organic production.


Expeditionary Combat Support System (ECSS) enables the transformation of the AFWCF by replacing the majority of legacy systems with a single solution set of business processes, software applications, and data. ECSS will provide timely, consistent, and accurate information to enhance operations. The result will be standardized business processes and tools across the entire enterprise, regardless of program or site. ECSS takes advantage of commercial best practices in driving end-to-end process designs and full integration of logistics activities.

The Air Force has formalized the use of functional and financial performance plans to assess business operations at both Air Force Materiel Command and Air Logistics Center levels since FY 1997. Quarterly reviews with the



Air Force Secretary Michael B. Donley speaks during Air Force Week at the Salt Lake City Capitol building. (U.S. Air Force photo by SSgt Desiree N. Palacios)

Deputy Chief of Staff for Logistics, Installations and Mission Support continue to focus management attention on cost performance as well as the ability to deliver parts and maintenance on time. The Air Force continues to make improvements in our financial and reporting structures through close cooperation with the Office of the Secretary of Defense and the Defense Finance and Accounting Service. Financial reporting improvements allow us to work closely with customers by having consistent and timely data, resulting in the ability to identify discrepancies between the accounting system and the logistics feeder systems from which data is supplied.



“A balanced approach means finding the right balance between prevailing in today’s operations with today’s capabilities, while simultaneously investing in new capabilities and force structure to meet tomorrow’s threats.”

– **Michael B. Donley**
Secretary of the Air Force

Financing the Fight

As the brave Soldiers, Sailors, Airmen and Marines of our great nation continue to deploy and operate in a state of persistent conflict, supporting the Overseas Contingency Operations, joint operations continue to have critical strategic and tactical importance, yielding increased capabilities for the war fighter. Our Air Force FM community directly supports today’s commitments through sound financial stewardship and acquisition excellence. Our financial management professionals are actively

positioning the Air Force for success against tomorrow’s challenges by refining internal business processes and systems in order to increase efficiencies that improve war fighter effectiveness.

America’s Air Force draws its strength from its outstanding Airmen. Our Airmen’s success is inextricably linked to the efforts of our FM community, whose sense of purpose and duty is founded in *“financing the fight.”*

(U.S. Air Force photo by TSgt Erik Gudmundson)



(U.S. Air Force photo by SSgt Raymond Hoy)

Fiscal Year 2009

Annual Financial Statements





Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of Title 31, United States Code, Section 3515 (b). While the statements have been prepared from the books and records of the entity, in accordance with U.S. generally accepted accounting principles promulgated by the Federal Accounting Standards Advisory Board, and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



General Fund Principal Statements Fiscal Year 2009

The FY 2009 Department of the Air Force General Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the General Fund for the fiscal year ending September 30, 2009, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2008.

The following statements comprise the Department of the Air Force General Fund Principal Statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet presents as of September 30, 2009 and 2008 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position).

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2009 and 2008. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2009 and 2008.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2009 and 2008, the status of these resources at September 30, 2009 and 2008, and the outlay of budgetary resources for the years ended September 30, 2009 and 2008.

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's Circular A-136, "Financial Reporting Requirements."



CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008

(\$ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 103,310,367	\$ 92,909,909
Investments (Note 4)	1,079	874
Accounts Receivable (Note 5)	298,953	271,020
Other Assets (Note 6)	212,245	265,591
Total Intragovernmental Assets	<u>\$ 103,822,644</u>	<u>\$ 93,447,394</u>
Cash and Other Monetary Assets (Note 7)	\$ 98,939	\$ 111,976
Accounts Receivable, Net (Note 5)	583,340	502,182
Inventory and Related Property, Net (Note 9)	47,588,282	46,906,666
General Property, Plant and Equipment, Net (Note 10)	149,759,237	140,230,716
Other Assets (Note 6)	11,716,176	11,030,527
TOTAL ASSETS	<u><u>\$ 313,568,618</u></u>	<u><u>\$ 292,229,461</u></u>
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,583,818	\$ 2,002,120
Other Liabilities (Note 15 & 16)	2,016,078	1,952,785
Total Intragovernmental Liabilities	<u>\$ 4,599,896</u>	<u>\$ 3,954,905</u>
Accounts Payable (Note 12)	\$ 3,278,316	\$ 3,810,935
Military Retirement and Other Federal Employment Benefits (Note 17)	1,078,566	1,163,414
Environmental and Disposal Liabilities (Note 14)	8,817,194	8,266,375
Other Liabilities (Note 15 and Note 16)	6,201,694	6,379,597
TOTAL LIABILITIES	<u>\$ 23,975,666</u>	<u>\$ 23,575,226</u>
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	\$ 105,252,117	\$ 92,171,366
Cumulative Results of Operations - Earmarked Funds	10,432	5,355
Cumulative Results of Operations - Other Funds	184,330,403	176,477,514
TOTAL NET POSITION	<u>\$ 289,592,952</u>	<u>\$ 268,654,235</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 313,568,618</u></u>	<u><u>\$ 292,229,461</u></u>

CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2009 and 2008
(\$ in Thousands)

	<u>2009 Consolidated</u>	<u>Restated 2008 Consolidated</u>
Program Costs		
Gross Costs	\$ 143,926,714	\$ 148,135,576
(Less: Earned Revenue)	(6,141,434)	(5,875,708)
Net Program Costs	<u>\$ 137,785,280</u>	<u>\$ 142,259,868</u>
Net Cost of Operations	<u>\$ 137,785,280</u>	<u>\$ 142,259,868</u>



CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2009 and 2008

(\$ in Thousands)

	<u>2009 Earmarked Funds</u>	<u>2009 All Other Funds</u>	<u>2009 Eliminations</u>
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 5,355	\$ 185,017,169	\$ 0
Prior Period Adjustments:			
Corrections of errors (+/-)	0	(8,539,654)	0
Beginning balances, as adjusted	\$ 5,355	\$ 176,477,515	\$ 0
Budgetary Financing Sources:			
Appropriations used	\$ 0	\$ 147,746,152	\$ 0
Nonexchange revenue	846	0	0
Donations and forfeitures of cash and cash equivalents	7,322	0	0
Transfers-in/out without reimbursement	0	130,180	0
Other budgetary financing sources	0	0	0
Other Financing Sources:			
Transfers-in/out without reimbursement (+/-)	0	(124,914)	0
Imputed financing from costs absorbed by others	0	725,513	0
Other (+/-)	0	(2,841,855)	0
Total Financing Sources	\$ 8,168	\$ 145,635,076	\$ 0
Net Cost of Operations (+/-)	3,091	137,782,189	0
Net Change	\$ 5,077	\$ 7,852,887	\$ 0
Cumulative Results of Operations	\$ 10,432	\$ 184,330,402	\$ 0
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 0	\$ 92,171,366	\$ 0
Beginning balances, as adjusted	0	92,171,366	0
Budgetary Financing Sources:			
Appropriations received	0	163,967,087	0
Appropriations transferred-in/out	0	693,628	0
Other adjustments (rescissions, etc)	0	(3,833,812)	0
Appropriations used	0	(147,746,152)	0
Total Budgetary Financing Sources	0	13,080,751	0
Unexpended Appropriations	0	105,252,117	0
Net Position	\$ 10,432	\$ 289,582,519	\$ 0

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2009 Consolidated	2008 Earmarked Funds	Restated 2008 All Other Funds	2008 Eliminations	Restated 2008 Consolidated
\$ 185,022,524	\$ 4,546	\$ 180,315,323	\$ 0	\$ 180,319,869
(8,539,654)	0	(8,493,837)	0	(8,493,837)
<u>\$ 176,482,870</u>	<u>\$ 4,546</u>	<u>\$ 171,821,486</u>	<u>\$ 0</u>	<u>\$ 171,826,032</u>
\$ 147,746,152	\$ 0	\$ 144,550,203	\$ 0	\$ 144,550,203
846	1,088	0	0	1,088
7,322	2,544	0	0	2,544
130,180	0	88,000	0	88,000
0	0	(157)	0	(157)
(124,914)	0	322,962	0	322,962
725,513	0	628,882	0	628,882
(2,841,855)	0	1,323,183	0	1,323,183
<u>\$ 145,643,244</u>	<u>\$ 3,632</u>	<u>\$ 146,913,073</u>	<u>\$ 0</u>	<u>\$ 146,916,705</u>
137,785,280	2,823	142,257,045	0	142,259,868
<u>\$ 7,857,964</u>	<u>\$ 809</u>	<u>\$ 4,656,028</u>	<u>\$ 0</u>	<u>\$ 4,656,837</u>
<u>184,340,834</u>	<u>\$ 5,355</u>	<u>\$ 176,477,514</u>	<u>\$ 0</u>	<u>\$ 176,482,869</u>
\$ 92,171,366	\$ 0	\$ 80,465,487	\$ 0	\$ 80,465,487
<u>\$ 92,171,366</u>	<u>\$ 0</u>	<u>\$ 80,465,487</u>	<u>\$ 0</u>	<u>\$ 80,465,487</u>
163,967,087	0	156,788,176	0	156,788,176
693,628	0	2,662,362	0	2,662,362
(3,833,812)	0	(3,194,456)	0	(3,194,456)
(147,746,152)	0	(144,550,203)	0	(144,550,203)
13,080,751	0	11,705,879	0	11,705,879
105,252,117	0	92,171,366	0	92,171,366
<u>\$ 289,592,951</u>	<u>\$ 5,355</u>	<u>\$ 268,648,880</u>	<u>\$ 0</u>	<u>\$ 268,654,235</u>



COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2009 and 2008
(\$ in Thousands)

	<u>2009 Combined</u>	<u>2008 Combined</u>
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	\$ 26,676,890	\$ 21,175,345
Recoveries of prior year unpaid obligations	4,093,396	4,602,017
Budget authority		
Appropriation	163,975,253	156,791,805
Spending authority from offsetting collections		
Earned		
Collected	9,302,479	10,464,416
Change in receivables from Federal sources	324,746	(354,080)
Change in unfilled customer orders		
Advance received	147,616	(199,948)
Without advance from Federal sources	80,913	38,934
Subtotal	<u>173,831,007</u>	<u>166,741,127</u>
Nonexpenditure transfers, net, anticipated and actual	823,808	2,750,362
Permanently not available	(3,833,813)	(3,194,456)
Total Budgetary Resources	<u><u>\$ 201,591,288</u></u>	<u><u>\$ 192,074,395</u></u>
Status of Budgetary Resources:		
Obligations incurred:		
Direct	\$ 162,319,819	\$ 155,042,972
Reimbursable	10,060,121	10,354,532
Subtotal	<u>172,379,940</u>	<u>165,397,504</u>
Unobligated balance:		
Apportioned	26,091,928	24,139,914
Exempt from apportionment	4,480	3,820
Subtotal	<u>26,096,408</u>	<u>24,143,734</u>
Unobligated balance not available	3,114,940	2,533,157
Total status of budgetary resources	<u><u>\$ 201,591,288</u></u>	<u><u>\$ 192,074,395</u></u>
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 67,813,258	\$ 60,933,360
Less: Uncollected customer payments	(2,051,639)	(2,366,785)
from Federal sources, brought forward, October 1		
Total unpaid obligated balance	<u>65,761,619</u>	<u>58,566,575</u>
Obligations incurred net (+/-)	<u>172,379,940</u>	<u>165,397,504</u>
Less: Gross outlays	(160,002,387)	(153,915,590)
Less: Recoveries of prior year unpaid obligations, actual	(4,093,396)	(4,602,017)
Change in uncollected customer payments from Federal sources (+/-)	(405,660)	315,146
Obligated balance, net, end of period		
Unpaid obligations	76,097,415	67,813,257
Less: Uncollected customer payments	(2,457,299)	(2,051,639)
from Federal sources (-)		
Total, unpaid obligated balance, net, end of period	<u>73,640,116</u>	<u>65,761,618</u>
Net Outlays		
Net Outlays:		
Gross outlays	160,002,387	153,915,590
Less: Offsetting collections	(9,450,094)	(10,264,468)
Less: Distributed Offsetting receipts	(104,099)	(201,497)
Net Outlays	<u><u>\$ 150,448,194</u></u>	<u><u>\$ 143,449,625</u></u>

General Fund

Fiscal Year 2009

Notes to the Principal Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.





Note 1. Significant Accounting Policies

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, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). 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 USGAAP and the OMB Circular A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The Air Force derives 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 USGAAP. The Air Force continues to implement process and system improvements addressing these limitations.

The DoD currently has 13 auditor identified material weaknesses. Of these the Air Force has the following: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) Operating Materiel and Supplies; (5) General Property, Plant, and Equipment; (6) Government-Furnished Materiel and Contractor-Acquired Materiel; (7) Accounts Payable; (8) Environmental Liabilities; (9) Statement of Net Cost; (10) Intragovernmental Eliminations; (11) Other Accounting Entries; and (12) Reconciliation of Net Cost of Operations to Budget.

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

- General funds are used for financial transactions funded by congressional appropriations, including personnel, operations and maintenance, research and development, procurement, and military construction.
- 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. Special fund accounts are used to record government receipts reserved for a specific purpose. 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. The Air Force is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for earmarked funds.
- Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not Air Force funds, and as such, are not available for Air Force's operations. The Air Force is acting as an agent or a custodian for funds awaiting distribution.

The Air Force is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are an entity's legal delegation of authority to obligate budget authority and outlay funds to another entity. The Air Force is a party to allocation transfers as the child for the Department of Agriculture. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These 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 receives allocation transfers for EOP (Foreign Military Sales – Military Assistance Program) meeting the OMB exception. Based on an agreement with OMB, funds Security Assistance programs are reported separately.

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



General Fund

Notes to the Principal Statements

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

The Air Force's financial management systems are unable to meet all full accrual accounting requirements. Many of the Air Force's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of the Air Force's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The financial statements and supporting trial balances are compiled from the underlying financial data and trial balances. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the lower level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all Air Force's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, Air Force's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The Air Force receives congressional appropriations as financing sources for general funds that expire annually, on a multi-year basis, or do not expire. 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 and services provided to other federal agencies and the public. Full cost pricing is Air Force's standard policy for services provided as required by OMB Circular A-25, User Charges. The Air Force recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.



General Fund

Notes to the Principal Statements

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 countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. 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 USGAAP.

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 to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be reported as expenses when consumed.

Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The Air Force continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the Air Force cannot accurately identify intragovernmental transactions by customer because Air Force's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the 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 and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls.

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" provide guidance for reporting and reconciling intragovernmental balances. While Air Force is unable to fully reconcile intragovernmental transactions with all federal agencies, 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 do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

Generally, 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 costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, 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 Federal 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 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 checks issued, 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. On a monthly basis, Air Force's FBWT is adjusted to agree with the U.S. Treasury accounts.

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. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

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



General Fund

Notes to the Principal Statements

officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Air Force conducts a significant portion of operations overseas. 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 calculated 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

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. 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 at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

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 items such as self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in Air Force's 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, Air Force uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2009 and FY 2008, 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.

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 investments 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, which are issued to federal agencies by the U.S. Treasury’s Bureau of Public Debt. They are not traded on any securities exchange but mirror the prices of particular U.S. Treasury securities traded in the government securities market.

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 Air Force has not fully implemented the threshold for real property; therefore, Air Force is primarily using the capitalization threshold of \$100 thousand for General PP&E, and most real property.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more



General Fund

Notes to the Principal Statements

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

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 meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on Air Force's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires Air Force to maintain, in its property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The Air Force has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

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

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, Air Force records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Air Force records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Air Force, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by Air Force are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

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 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 advances 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. The Air Force has fully implemented this policy.

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. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion 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. 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.



General Fund

Notes to the Principal Statements

Other liabilities arise as a result of anticipated disposal costs for Air Force assets. 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. Based on DoD’s policy, which is consistent with SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs. The Air Force does not recognize contingent liabilities associated with nonenvironmental disposals due to immateriality.

1.T. Accrued Leave

The Air Force reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

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

Unexpended Appropriations represent the amounts of budget 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 between expenses and losses and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations 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 the land and capital improvements. Treaty terms generally allow Air Force continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and 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 specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

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. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements intransit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.Y. Significant Events

On October 1, 2008, the Air Force began using the Reliability and Maintainability Information system (REMIS) as the official system of record for financial accountability for military equipment assets. The conversion from Capital Asset Management System-Military Equipment, the previous system of record, to REMIS required a prior period adjustment. See Notes 10, 19, 21, and 25 for additional information.

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 September 30	2009		2008 Restated	
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	\$	125,030	\$	101,059
B. Accounts Receivable		0		1,430
C. Total Intragovernmental Assets	\$	125,030	\$	102,489
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	\$	98,939	\$	111,976
B. Accounts Receivable		138,516		111,649
C. Other Assets		186,225		183,444
D. Total Nonfederal Assets	\$	423,680	\$	407,069
3. Total Nonentity Assets	\$	548,710	\$	509,558
4. Total Entity Assets	\$	313,019,908	\$	291,719,903
5. Total Assets	\$	313,568,618	\$	292,229,461

Relevant Information for Comprehension

Nonentity assets are assets for which the Air Force maintains stewardship accountability and reporting responsibility but are not available for the Air Force's normal 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 include interest receivable that upon collection is remitted to the U.S. Treasury as miscellaneous receipts.

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. These funds are not available for use in Air Force operations.

Note 3.	Fund Balance with Treasury
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As of September 30	2009	2008
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	\$ 103,175,823	\$ 92,800,590
B. Revolving Funds	0	0
C. Trust Funds	8,137	6,773
D. Special Funds	1,377	1,487
E. Other Fund Types	125,030	101,059
F. Total Fund Balances	\$ 103,310,367	\$ 92,909,909
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 104,651,268	\$ 94,578,060
B. Fund Balance per Air Force	103,310,367	92,909,909
3. Reconciling Amount	\$ 1,340,901	\$ 1,668,151

Fund Balance with Treasury

Other Fund Types include balances in deposit accounts which consist of taxes, small escrow accounts and other federal payroll withholding allotments.

The Air Force shows a reconciling amount of \$1.3 billion primarily due to the withdrawal of \$1.2 billion in cancelling appropriations at the end of fiscal year 2009. These funds are included in Fund Balance with Treasury (FBWT) per Treasury but are not included in FBWT per Air Force.



Status of Fund Balance with Treasury

As of September 30	2009		2008	
(Amounts in thousands)				
1. Unobligated Balance				
A. Available	\$	26,096,409	\$	24,143,734
B. Unavailable		3,114,938		2,533,156
2. Obligated Balance not yet Disbursed	\$	76,097,415	\$	67,813,258
3. Nonbudgetary FBWT	\$	459,967	\$	472,259
4. NonFBWT Budgetary Accounts	\$	(2,458,362)	\$	(2,052,498)
5. Total	\$	103,310,367	\$	92,909,909

The Status FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds.

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

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

NonFBWT Budgetary Accounts reduces the Status FBWT. The items that comprise the amount reported as NonFBWT receipts are from investments and discounts in U.S. Treasury securities, and unfilled customer orders without advances.

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 \$3.1 billion is not available for new obligations since the period for new obligations established by law has expired.

Note 4.	Investments and Related Interest
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As of September 30	2009				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	1,079		(10)	1,069	1,093
5. Total Nonmarketable, Market-Based	1,079		(10)	1,069	1,093
B. Accrued Interest	10			10	10
C. Total Intragovernmental Securities	\$ 1,089		\$ (10)	\$ 1,079	\$ 1,103
2. Other Investments					
A. Total Other Investments	\$ 0		\$ 0	\$ 0	N/A

As of September 30	2008				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	868		(3)	865	890
5. Total Nonmarketable, Market-Based	868		(3)	865	890
B. Accrued Interest	9			9	9
C. Total Intragovernmental Securities	\$ 877		\$ (3)	\$ 874	\$ 899
4. Other Investments					
A. Total Other Investments	\$ 0		\$ 0	\$ 0	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 is deposited in the U.S. Treasury, which uses the cash for general Government purposes. The U.S. Treasury securities are issued to the earmarked funds as evidence of its receipts and are an asset to the Air Force and a liability to the U.S. Treasury. Since the Air Force and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. 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, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government used the same method to finance all other expenditures.

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

Note 5.	Accounts Receivable
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As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	\$ 298,953	N/A	\$ 298,953
2. Nonfederal Receivables (From the Public)	\$ 666,917	\$ (83,577)	\$ 583,340
3. Total Accounts Receivable	\$ 965,870	\$ (83,577)	\$ 882,293

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	\$ 271,020	N/A	\$ 271,020
2. Nonfederal Receivables (From the Public)	\$ 619,412	\$ (117,230)	\$ 502,182
3. Total Accounts Receivable	\$ 890,432	\$ (117,230)	\$ 773,202

Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 212,245	\$ 265,591
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 212,245	\$ 265,591
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 11,446,790	\$ 10,775,541
B. Advances and Prepayments	83,161	71,542
C. Other Assets (With the Public)	186,225	183,444
D. Total Nonfederal Other Assets	\$ 11,716,176	\$ 11,030,527
3. Total Other Assets	\$ 11,928,421	\$ 11,296,118

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 Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and Air Force is not obligated to make payment to the contractor until delivery and acceptance.

The Outstanding Contract Financing Payments balance of \$11.4 billion is comprised of \$10.8 billion in contract financing payments and an additional \$577.0 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 September 30	2009		2008	
(Amounts in thousands)				
1. Cash	\$	83,306	\$	93,046
2. Foreign Currency		15,633		18,930
3. Other Monetary Assets		0		0
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$	98,939	\$	111,976

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 \$99.0 million is restricted.

Note 8. Direct Loan and/or Loan Guarantee Programs

Not Applicable

Note 9.	Inventory and Related Property
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As of September 30	2009	2008
(Amounts in thousands)		
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materiel & Supplies, Net	47,588,282	46,906,666
3. Stockpile Materiel, Net	0	0
4. Total	\$ 47,588,282	\$ 46,906,666

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 are valued at zero. This allowance results in a zero value to the Air Force. The category Held for Repair represents suspended, unserviceable (but repairable) items recorded at Moving Average Cost (MAC) or standard price.

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 MAC or standard price, however, is made for the category Excess, Obsolete, and Unserviceable. This allowance results in a net book value of zero to the Air Force. Excess, Obsolete, and Unserviceable are valued at zero.



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.”

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

Inventory, Net

Not Applicable

Operating Materiel and Supplies, Net

As of September 30	2009			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$	36,018,675	\$	0	\$	36,018,675	SP, LAC, MAC
B. Held for Repair		11,569,607		0		11,569,607	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		1,698,500		(1,698,500)		0	NRV
D. Total		\$ 49,286,782	\$ (1,698,500)	\$	\$	47,588,282	

As of September 30	2008			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$	35,828,669	\$	0	\$	35,828,669	SP, LAC, MAC
B. Held for Repair		11,077,997		0		11,077,997	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		1,904,436		(1,904,436)		0	NRV
D. Total		\$ 48,811,102	\$ (1,904,436)	\$	\$	46,906,666	

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

Stockpile Materials, Net

Not Applicable



General Fund

Notes to the Principal Statements

Note 10. General PP&E, Net

As of September 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	\$ 401,899	N/A	\$ 401,899
B. Buildings, Structures, and Facilities	S/L	20 Or 40	54,172,092	\$ (29,440,064)	24,732,028
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	543,013	(308,150)	234,863
E. General Equipment	S/L	5 or 10	41,527,663	(32,013,234)	9,514,429
F. Military Equipment	S/L	Various	300,284,138	(189,897,273)	110,386,865
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	393,002	(322,098)	70,904
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	4,418,249	N/A	4,418,249
J. Other			0	0	0
K. Total General PP&E			\$ 401,740,056	\$ (251,980,819)	\$ 149,759,237

As of September 30	2008 Restated				
	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	\$ 443,879	N/A	\$ 443,879
B. Buildings, Structures, and Facilities	S/L	20 Or 40	49,696,527	\$ (28,272,596)	21,423,931
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	517,377	(163,801)	353,576
E. General Equipment	S/L	5 or 10	36,802,784	(28,890,932)	7,911,852
F. Military Equipment	S/L	Various	296,655,662	(190,735,309)	105,920,353
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	393,002	(303,111)	89,891
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	4,087,234	N/A	4,087,234
J. Other			0	0	0
K. Total General PP&E			\$ 388,596,465	\$ (248,365,749)	\$ 140,230,716

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

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General Fund

Notes to the Principal Statements

Categories	Measure Quantity	As of September 30, 2008	Additions	Deletions	As of September 30, 2009
Buildings and Structures	Each	10,250	0	0	10,250
Archaeological Sites	Each	1,848	0	0	1,848
Museum Collection Items (Objects, Not Including Fine Art)	Each	117,134	5,162	95	122,201
Museum Collection Items (Objects, Fine Art)	Each	10,599	154	0	10,753

(Acres in Thousands)

Facility Code	Facility Title	As of September 30, 2007	Additions	Deletions	As of September 30, 2008
9110	Government Owned Land	1,506	0	5	1,501
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public Land	7,593	0	1	7,592
9130	Licensed and Permitted Land	137	0	1	136
9140	Public Land	0	0	0	0
9210	Land Easement	177	0	6	171
9220	In-leased Land	103	0	11	92
9230	Foreign Land	309	0	18	291
Grand Total					9,783
TOTAL - All Other Lands					2,191
TOTAL - Stewardship Lands					7,592

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. Beginning fiscal year (FY) 2009, the Air Force began using the Reliability and Maintainability Information System (REMIS) as the official system of record for financial accountability of military equipment assets which include trainer aircraft. The conversion from Capital Assets Management System Military Equipment (CAMS-ME) to REMIS resulted in a prior period adjustment of \$8.5 billion, representing net book value, to the beginning balance of FY 2008.

Other Air Force Disclosures

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



Heritage Assets 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. 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. 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. The Air Force Stewardship Land consists mainly of mission essential land acquired by donation or devise. Fiscal Year ended September 30, 2009 stewardship land data is not yet available due to limitations of the Air Force financial and nonfinancial management processes and systems that feed into financial statements. The Air Force reported 7,592,100 acres of mission essential land under their administration at the end of FY 2008. Air Force policy is to promote and preserve indefinitely the identifiable human, environmental or civic value of such land.

Heritage Assets within the Air Force consist of buildings and structures, archaeological sites, museum collection items (objects, not including fine arts), and museum collection items (fine art).

Buildings and Structures: Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places, including multi-use Heritage Assets. These buildings and structures are maintained by each base's civil engineering group as part of their overall responsibility. The Air Force reported 10,250 buildings and structures on Air Force bases and sites to be heritage assets at the end of FY 2008. The timing of this data call is such that Air Force cannot report reconciled FY 2009 buildings and structures at the end of FY 2009.

Archaeological Sites: Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Historical Places in accordance with Section 110 National Historical Preservation Act. The Air Force listed 1,848 archeological sites on or eligible for the National Register at the end of FY 2008. The timing of this data call is such that Air Force cannot report reconciled FY 2009 archaeological site data at the end of FY 2009.

Museum Collection Items, Objects Not Including Fine Art: The Air Force reported 122,201 museum collection items (not including fine art). During FY 2009, 5,162 objects were added to the collections, primarily as a result of private donations, transfers from other federal entities, curatorial administrative actions, and the documentation of previously unreported artifacts at Air Force Bases worldwide.

Museum Collection Items, Fine Art: The Air Force has 10,753 fine art museum collections of, which 154 paintings were received through donations in FY 2009.

Assets Under Capital Lease

As of September 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	(322,098)	(303,111)
D. Total Capital Leases	<u>\$ 70,904</u>	<u>\$ 89,891</u>



Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	337,063	823,278
D. Total Intragovernmental Liabilities	\$ 337,063	\$ 823,278
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 357,871	\$ 394,075
B. Military Retirement and Other Federal Employment Benefits	1,072,388	1,158,232
C. Environmental Liabilities	7,955,740	7,519,475
D. Other Liabilities	2,624,364	3,033,988
E. Total Nonfederal Liabilities	\$ 12,010,363	\$ 12,105,770
3. Total Liabilities Not Covered by Budgetary Resources	\$ 12,347,426	\$ 12,929,048
4. Total Liabilities Covered by Budgetary Resources	\$ 11,628,240	\$ 10,646,178
5. Total Liabilities	\$ 23,975,666	\$ 23,575,226

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 require resources funded from future year appropriations. 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 consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist 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
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As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 2,583,818	\$ N/A	\$ 2,583,818
2. Nonfederal Payables (to the Public)	3,278,316	0	3,278,316
3. Total	\$ 5,862,134	\$ 0	\$ 5,862,134

As of September 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 2,002,120	\$ N/A	\$ 2,002,120
2. Nonfederal Payables (to the Public)	3,810,464	471	3,810,935
3. Total	\$ 5,812,584	\$ 471	\$ 5,813,055

Relevant Information for Comprehension

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by Air Force. The Air Force's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. Accounts Payable was adjusted by accruing additional accounts payable and expenses.

Note 13. Debt

Not Applicable



Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30

2009

2008

(Amounts in thousands)

1. Environmental Liabilities--Nonfederal

A. Accrued Environmental Restoration Liabilities			
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$	3,350,133	\$ 3,625,577
2. Active Installations—Military Munitions Response Program (MMRP)		1,674,291	1,392,442
3. Formerly Used Defense Sites—IRP and BD/DR		0	0
4. Formerly Used Defense Sites--MMRP		0	0
B. Other Accrued Environmental Liabilities—Non-BRAC			
1. Environmental Corrective Action		189,250	179,748
2. Environmental Closure Requirements		1,252,339	1,129,889
3. Environmental Response at Operational Ranges		0	0
4. Asbestos		888,960	428,602
5. Non-Military Equipment		34,175	28,716
6. Other		0	0
C. Base Realignment and Closure Installations			
1. Installation Restoration Program		1,372,805	1,402,008
2. Military Munitions Response Program		4,230	2,398
3. Environmental Corrective Action / Closure Requirements		14,609	37,920
4. Asbestos		0	0
5. Non-Military Equipment		0	0
6. Other		0	0
D. Environmental Disposal for Military Equipment / Weapons Programs			
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel		0	0
2. Non-Nuclear Powered Military Equipment		36,402	39,075
3. Other National Defense Weapons Systems		0	0
4. Other		0	0
E. Chemical Weapons Disposal Program			
1. Chemical Demilitarization - Chemical Materials Agency (CMA)		0	0
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)		0	0
3. Other		0	0
2. Total Environmental Liabilities	\$	8,817,194	\$ 8,266,375

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.

The unrecognized portion of the estimated total cleanup costs associated with general, property, plant, and equipment is \$373.0 million.

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 (RCRA)
- (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 for 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 for 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

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



engineering estimates after obtaining data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cleanup cost estimates are complete, Air Force 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 the Air Force are based on accounting estimates which require certain judgments and assumptions to be made by management. The Air Force believes the estimates are reasonable based upon the information available at the time of calculation. Actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when the estimate was calculated. The liabilities can be further impacted if further investigation discovers contamination different 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 September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	\$ 840,562	\$ 0	\$ 840,562
B. Deposit Funds and Suspense Account Liabilities	334,937	0	334,937
C. Disbursing Officer Cash	287,368	0	287,368
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	130,959	171,766	302,725
F. Custodial Liabilities	0	140,886	140,886
G. Employer Contribution and Payroll Taxes Payable	74,790	0	74,790
H. Other Liabilities	34,810	0	34,810
I. Total Intragovernmental Other Liabilities	\$ 1,703,426	\$ 312,652	\$ 2,016,078
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 2,326,474	\$ 0	\$ 2,326,474
B. Advances from Others	33,655	0	33,655
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	125,295	0	125,295
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,459,699	0	2,459,699
H. Capital Lease Liability	7,358	93,006	100,364
I. Contract Holdbacks	111,281	0	111,281
J. Employer Contribution and Payroll Taxes Payable	236,706	0	236,706
K. Contingent Liabilities	577,272	152,889	730,161
L. Other Liabilities	78,059	0	78,059
M. Total Nonfederal Other Liabilities	\$ 5,955,799	\$ 245,895	\$ 6,201,694
3. Total Other Liabilities	\$ 7,659,225	\$ 558,547	\$ 8,217,772

Annual Financial Statement 2009

General Fund

Notes to the Principal Statements

As of September 30	2008		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	\$ 694,789	\$ 0	\$ 694,789
B. Deposit Funds and Suspense Account Liabilities	371,200	0	371,200
C. Disbursing Officer Cash	297,209	0	297,209
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	130,059	171,153	301,212
F. Custodial Liabilities	0	194,800	194,800
G. Employer Contribution and Payroll Taxes Payable	63,176	0	63,176
H. Other Liabilities	30,399	0	30,399
I. Total Intragovernmental Other Liabilities	\$ 1,586,832	\$ 365,953	\$ 1,952,785
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 2,032,464	\$ 0	\$ 2,032,464
B. Advances from Others	136,825	0	136,825
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	101,064	0	101,064
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,272,149	0	2,272,149
H. Capital Lease Liability	0	130,091	130,091
I. Contract Holdbacks	131,506	0	131,506
J. Employer Contribution and Payroll Taxes Payable	297,742	0	297,742
K. Contingent Liabilities	533,208	744,245	1,277,453
L. Other Liabilities	303	0	303
M. Total Nonfederal Other Liabilities	\$ 5,505,261	\$ 874,336	\$ 6,379,597
3. Total Other Liabilities	\$ 7,092,093	\$ 1,240,289	\$ 8,332,382



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 \$577.3 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 because 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. See Note 16 for detailed disclosure of 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 September 30

2009

Asset Category

	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Future Payments Due				
A. 2010	38,478	0	0	38,478
B. 2011	36,786	0	0	36,786
C. 2012	13,088	0	0	13,088
D. 2013	9,462	0	0	9,462
E. 2014	8,688	0	0	8,688
F. After 5 Years	8,688	0	0	8,688
G. Total Future Lease Payments Due	\$ 115,190	\$ 0	\$ 0	\$ 115,190
H. Less: Imputed Interest Executory Costs	14,825	0	0	14,825
I. Net Capital Lease Liability	\$ 100,365	\$ 0	\$ 0	\$ 100,365

2. Capital Lease Liabilities Covered by Budgetary Resources

\$ 88,894

3. Capital Lease Liabilities Not Covered by Budgetary Resources

\$ 11,471

As of September 30

2008

Asset Category

	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Future Payments Due				
A. 2009	38,478	0	0	38,478
B. 2010	38,478	0	0	38,478
C. 2011	36,786	0	0	36,786
D. 2012	13,088	0	0	13,088
E. 2013	9,462	0	0	9,462
F. After 5 Years	17,376	0	0	17,376
G. Total Future Lease Payments Due	\$ 153,668	\$ 0	\$ 0	\$ 153,668
H. Less: Imputed Interest Executory Costs	23,577	0	0	23,577
I. Net Capital Lease Liability	\$ 130,091	\$ 0	\$ 0	\$ 130,091

2. Capital Lease Liabilities Covered by Budgetary Resources

\$ 112,802

3. Capital Lease Liabilities Not Covered by Budgetary Resources

\$ 17,289



Note 16. Commitments and Contingencies

The Air Force is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

The Air Force has accrued contingent liabilities for legal actions where the 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 U.S. Treasury 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 \$3.1 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 \$525.4 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 \$730.2 million was recognized in Note 15 as contingent liabilities.

The recognized contingent liability includes \$577.3 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 September 30, 2009, valued at \$152.9 million, and included in Contingent Liabilities nonfederal. As of September 30, 2009, the Air Force was party to 11,978 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
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As of September 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	\$ 0		\$ 0	\$ 0
2. Other Actuarial Benefits				
A. FECA	\$ 1,072,389		\$ 0	\$ 1,072,389
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	\$ 1,072,389		\$ 0	\$ 1,072,389
3. Other Federal Employment Benefits	\$ 6,177		\$ (6,177)	\$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,078,566		\$ (6,177)	\$ 1,072,389

Actuarial Cost Method Used:

Assumptions:

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



General Fund

Notes to the Principal Statements

As of September 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	\$ 0		\$ 0	\$ 0
2. Other Actuarial Benefits				
A. FECA	\$ 1,158,232		\$ 0	\$ 1,158,232
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	\$ 1,158,232		\$ 0	\$ 1,158,232
3. Other Federal Employment Benefits	\$ 5,182		\$ (5,182)	\$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,163,414		\$ (5,182)	\$ 1,158,232

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:

Discount Rates

4.223% in Year 1
 4.715% 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) 2009 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>
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014 +	2.00%	3.71%

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 2009 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 2009 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 September 30

(Amounts in thousands)

	2009	2008 Restated
1. Intragovernmental Costs	\$ 33,832,898	\$ 33,664,673
2. Public Costs	110,093,815	114,470,903
3. Total Costs	\$ 143,926,713	\$ 148,135,576
4. Intragovernmental Earned Revenue	\$ (4,138,542)	\$ (4,937,405)
5. Public Earned Revenue	(2,002,892)	(938,303)
6. Total Earned Revenue	\$ (6,141,434)	\$ (5,875,708)
7. Net Cost of Operations	\$ 137,785,279	\$ 142,259,868

Relevant Information for Comprehension

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

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 DoD'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 DoD 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."

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. Buyer-side expenses are adjusted to agree with internal seller-side revenue. Expenses are generally adjusted by accruing additional accounts payable and expenses.

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 generally do not capture information relative to heritage assets separately and distinctly from normal operations.

Beginning FY 2009, the Air Force began using the Reliability and Maintainability Information System (REMIS) as the official system of record for financial accountability of military equipment assets. The conversion from Capital Asset Management System Military Equipment (CAMS-ME) to REMIS resulted in a prior period adjustment \$8.5 billion, of which \$45.8 million was for additional depreciation unrecognized in FY 2008. See Note 26 for additional information.

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 \$8.2 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 expenses) for intradepartmental activity between earmarked and other (nonearmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line, except for intraentity imputed financing costs.

Beginning FY 2009, the Air Force began using the Reliability and Maintainability Information System (REMIS) as the official system of record for financial accountability of military equipment assets. The conversion from Capital Asset Management System Military Equipment (CAMS-ME) to REMIS resulted in a prior period adjustment of \$8.5 billion, representing net book value, to the beginning balance of FY 2008 cumulative results of operations. See Note 26 for additional information.



Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 79,201,453	\$ 70,594,923
2. Available Borrowing and Contract Authority at the End of the Period	0	0

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	\$89.3 billion	\$72.9 billion	\$6.7 million
Reimbursable	\$6.1 billion	\$4.0 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 (see 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 \$8.2 million difference.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of September 30

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

	2009	2008 Restated
1. Obligations incurred	\$ 172,379,940	\$ 165,397,504
2. Less: Spending authority from offsetting collections and recoveries (-)	(13,949,150)	(14,551,339)
3. Obligations net of offsetting collections and recoveries	\$ 158,430,790	\$ 150,846,165
4. Less: Offsetting receipts (-)	(104,099)	(201,497)
5. Net obligations	\$ 158,326,691	\$ 150,644,668
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(124,914)	322,962
8. Imputed financing from costs absorbed by others	725,513	628,882
9. Other (+/-)	(2,841,855)	1,323,184
10. Net other resources used to finance activities	\$ (2,241,256)	\$ 2,275,028
11. Total resources used to finance activities	\$ 156,085,435	\$ 152,919,696

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 (-)	\$ (8,606,530)	\$ (6,483,468)
12b. Unfilled Customer Orders	228,532	(161,014)
13. Resources that fund expenses recognized in prior Periods (-)	(845,421)	(86,602)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	104,099	201,497
15. Resources that finance the acquisition of assets (-)	(29,521,992)	(18,749,096)
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	0
16b. Other (+/-)	2,966,770	(1,646,144)
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (35,674,542)	\$ (26,924,827)
18. Total resources used to finance the Net Cost of Operations	\$ 120,410,893	\$ 125,994,869



General Fund

Notes to the Principal Statements

As of September 30	2009	2008 Restated
(Amounts in thousands)		
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	\$ 187,550	\$ 75,316
20. Increase in environmental and disposal liability	550,819	1,367,508
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	137,812	533,952
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 876,181	\$ 1,976,776
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 18,297,128	\$ 11,597,672
26. Revaluation of assets or liabilities (+/-)	1,265,504	4,323,066
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	0	0
27c. Operating Material and Supplies Used	25,371,357	22,597,444
27d. Other	(28,435,783)	(24,229,959)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 16,498,206	\$ 14,288,223
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 17,374,387	\$ 16,264,999
30. Net Cost of Operations	\$ 137,785,280	\$ 142,259,868

Relevant Information for Comprehension

Due to Air Force financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency. The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost is \$508.1 million, in the Other Components Not Requiring or Generating Resources category.

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 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.

Other Components not Requiring or Generating Resources represents net changes in Operating Materiel and Supplies during the period.

Beginning FY 2009, the Air Force began using the Reliability and Maintainability Information System (REMIS) as the official system of record for financial accountability of military equipment assets. The conversion from Capital Asset Management System Military Equipment (CAMS-ME) to REMIS resulted in a prior period adjustment \$8.5 billion, of which \$45.8 million was for additional depreciation unrecognized in FY 2008. See Note 26 for additional information.

Note 22.	Disclosures Related to Incidental Custodial Collections
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The Air Force collected \$65.2 million of incidental custodial revenues generated primarily from collection of accounts receivable related to cancelled accounts. These funds are not available for use by Air Force. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.



General Fund

Notes to the Principal Statements

Note 23. Earmarked Funds

BALANCE SHEET As of September 30 (Amounts in thousands)	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	\$ 0	\$ 0	\$ 9,515	\$ 0	\$ 9,515
Investments	0	0	1,079	0	1,079
Accounts and Interest Receivable	0	0	1	0	1
Other Assets	0	0	5	0	5
Total Assets	\$ 0	\$ 0	\$ 10,600	\$ 0	\$ 10,600
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Liabilities	0	0	168	0	168
Total Liabilities	\$ 0	\$ 0	\$ 168	\$ 0	\$ 168
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	10,432	0	10,432
Total Liabilities and Net Position	\$ 0	\$ 0	\$ 10,600	\$ 0	\$ 10,600
STATEMENT OF NET COST					
For the period ended September 30					
Program Costs	\$ 0	\$ 0	\$ 3,721	\$ 0	\$ 3,721
Less Earned Revenue	0	0	(630)	0	(630)
Net Program Costs	\$ 0	\$ 0	\$ 3,091	\$ 0	\$ 3,091
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	\$ 0	\$ 0	\$ 3,091	\$ 0	\$ 3,091

Annual Financial Statement 2009

General Fund

Notes to the Principal Statements

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30	2009				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0	\$ 0	5,355	\$ 0	5,355
Net Cost of Operations	0	0	3,091	0	3,091
Budgetary Financing Sources	0	0	8,168	0	8,168
Other Financing Sources	0	0	0	0	0
Change in Net Position	\$ 0	\$ 0	5,077	\$ 0	5,077
Net Position End of Period	\$ 0	\$ 0	10,432	\$ 0	10,432

UNITED STATES AIR FORCE



General Fund

Notes to the Principal Statements

	2008				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
BALANCE SHEET					
As of September 30 (Amounts in thousands)					
ASSETS					
Fund balance with Treasury	\$ 0	\$ 0	\$ 8,260	\$ 0	\$ 8,260
Investments	0	0	874	0	874
Accounts and Interest Receivable	0	0	1	0	1
Other Assets	0	0	4	0	4
Total Assets	\$ 0	\$ 0	\$ 9,139	\$ 0	\$ 9,139
LIABILITIES and NET POSITION					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Liabilities	0	0	3,784	0	3,784
Total Liabilities	\$ 0	\$ 0	\$ 3,784	\$ 0	\$ 3,784
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	5,355	0	5,355
Total Liabilities and Net Position	\$ 0	\$ 0	\$ 9,139	\$ 0	\$ 9,139
STATEMENT OF NET COST					
For the period ended September 30					
Program Costs	\$ 0	\$ 0	\$ 12,867	\$ 0	\$ 12,867
Less Earned Revenue	0	0	(10,044)	0	(10,044)
Net Program Costs	\$ 0	\$ 0	\$ 2,823	\$ 0	\$ 2,823
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	\$ 0	\$ 0	\$ 2,823	\$ 0	\$ 2,823

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30	2008				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0	\$ 0	\$ 4,549	\$ 0	4,549
Net Cost of Operations	0	0	2,823	0	2,823
Budgetary Financing Sources	0	0	3,629	0	3,629
Other Financing Sources	0	0	0	0	0
Change in Net Position	\$ 0	\$ 0	\$ 806	\$ 0	806
Net Position End of Period	\$ 0	\$ 0	\$ 5,355	\$ 0	5,355

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 accumulated in 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.



Note 24. Fiduciary Activities

Schedule of Fiduciary Activity

For the period ended September 30

2009

(Amounts in thousands)

1. Fiduciary net assets, beginning of year	\$	17,561
2. Fiduciary revenues		0
3. Contributions		36,902
4. Investment earnings		2,124
5. Gain (Loss) on disposition of investments, net		0
6. Administrative and other expenses		0
7. Distributions to and on behalf of beneficiaries		(31,143)
8. Increase/(Decrease) in fiduciary net assets	\$	7,883
9. Fiduciary net assets, end of period	\$	25,444

Schedule of Fiduciary Net Assets

For the period ended September 30

2009

(Amounts in thousands)

FIDUCIARY ASSETS

1. Cash and cash equivalents	\$	25,444
2. Investments		0
3. Other Assets		0
		0

FIDUCIARY LIABILITIES

4. Less: LIABILITIES	\$	0.00
5. TOTAL FIDUCIARY NET ASSETS	\$	25,444

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
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As of September 30	2009 Asset Category			
	Land and Buildings	Equipment	Other	Total

(Amounts in thousands)

1. ENTITY AS LESSEE-

Operating Leases

Future Payments Due

Fiscal Year

2010	45,601	0	105,563	151,164
2011	46,969	0	109,786	156,755
2012	48,378	0	114,177	162,555
2013	49,829	0	118,744	168,573
2014	51,324	0	123,494	174,818
After 5 Years	52,864	0	0	52,864

**Total Future Lease
Payments Due**

	\$ 294,965	\$ 0	\$ 571,764	\$ 866,729
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Relevant Information for Comprehension

Leases in the land and buildings category include costs for operating leased housing facilities for active duty 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
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Beginning FY 2009, the Air Force began using the Reliability and Maintainability Information System (REMIS) as the official system of record for financial accountability of military equipment assets. The conversion from Capital Asset Management System-Military Equipment (CAMS-ME) to REMIS resulted in a prior period adjustment of \$8.5 billion, representing net book value, to the beginning balance of FY 2008 Cumulative Results of Operations. Statements affected by the adjustment are the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.



(Defense Dept. photo by TSgt Jerry Morrison)

General Fund

Fiscal Year 2009

Required Supplementary
Stewardship Information





STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by DoD for the benefit of the nation, but are not physical assets owned by DoD. Stewardship investments include expenses incurred for federally financed, but not federally owned physical property (Nonfederal Physical Property) and federally financed research and development (Research and Development).

NONFEDERAL PHYSICAL PROPERTY

Nonfederal Physical Property investments are expenses included in calculating net cost incurred by the reporting entity for the purchase, construction or major renovation of physical property owned by state and local governments. The expenses include the costs identified for major additions, alterations and replacements, purchases of major equipment, and purchases or improvements of other nonfederal assets. In addition, Nonfederal Physical Property Investments include federally-owned physical property transferred to state and local governments.

NONFEDERAL PHYSICAL PROPERTY
 Yearly Investment in State and Local Governments
 For the Current and Four Preceding Fiscal Years
 (\$ in millions)

Categories	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
1. Transferred Assets:					
National Defense Mission Related	0	0	0	0	0
2. Funded Assets:					
National Defense Mission Related	\$13.0	\$19.6	\$2.8	\$8.5	\$8.3
Totals	\$13.0	\$19.6	\$2.8	\$8.5	\$8.3

The Air National Guard investments in Nonfederal Physical Property are strictly through the Military Construction Cooperative Agreements (MCCAs). These agreements involve the transfer of money only and allow joint participation with States, Counties, and Airport Authorities for construction or repair of airfield pavements and facilities required to support the flying mission assigned at these civilian airfields.

Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the USGAAP requirements.

RESEARCH AND DEVELOPMENT

Research and Development investments are incurred in the search for new or refined knowledge and ideas, for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

INVESTMENTS IN RESEARCH AND DEVELOPMENT					
Yearly Investment in Research and Development					
For the Current and Four Preceding Fiscal Years					
(\$ in millions)					
Categories	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
1. Basic Research	\$418	\$389	\$383	\$374	\$373
2. Applied Research	1,069	\$1,051	\$1,032	\$1,034	\$919
3. Development:					
Advanced Technology Development	635	\$611	\$937	\$970	\$924
Advanced Component Development and Prototypes	2,022	\$2,423	\$2,310	\$2,185	\$1,769
System Development and Demonstration	3,542	\$3,654	\$4,094	\$4,572	\$4,332
Research, Development, Test and Evaluation					
Management Support	1,296	\$1,323	\$1,286	\$1,381	\$1,125
Operational Systems Development	14,793	\$12,459	\$11,481	\$11,579	\$11,021
4. Totals	\$23,775	\$21,910	\$21,523	\$22,095	\$20,463

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicality of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, and limited construction of, or part of, a weapon system, to include nonsystem specific development efforts.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of the following five stages:

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed towards proof of technological visibility and



assessment of operational and productivity rather than the development of hardware for service use. This employs demonstration activities intended to prove or test a technology or method.

2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapon systems finalized for complete operational and developmental testing.

4. Research, Development (R&D), Test and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are representative program examples for each of the above major categories:

Basic Research:

A team of Air Force-supported researchers has developed a novel technique that aligns maps with satellite imagery; the new method automatically identifies a set of control points that registers a map with an image. This technique automatically extracts the road intersections on a map and uses the layout of those intersections to find the corresponding area on the satellite imagery currently used by various agencies to create context and situational awareness for better and faster decision-making.

Air Force-funded researchers have produced an anti-reflective nanostructure surface using arrayed silicon nanotips. The silicon nanotip surface mimics the naturally formed surfaces found on many plants and animals. The color on butterfly wings, camouflage for cicadas, and night vision for moths are all made possible by tiny surface structures that absorb certain wavelengths of light. Researchers are expanding on the anti-reflective properties of moth eyes to make better protective skins for U.S. Air Force unmanned aerial vehicles. The current findings allow researchers to add broadband anti-reflection and quasi-omni-directional anti-reflection to the list of properties that show promise for Air Force optical defensive applications.

Applied Research:

The Air Force has developed and demonstrated the ability to combine two sensors onto a single chip that provides an infrared focal plane array imager with both spectral tunability and polarimetric sensing. Combining these two sensors on a single chip cuts the size, weight, and power requirements by more than half and could significantly reduce production costs to build a focal plane array camera four times larger than current systems. This added resolution will give the warfighter a better ability to acquire targets.

The Air Force achieved photonic industry “firsts” with its highly integrated photonic devices for on-board communications systems. These firsts are: first integrated erbium doped waveguide amplifier and pump laser; first athermal arrayed waveguide grating; and first 32-channel pre-amplified receiver array. These devices reduce the size, weight, and power consumption and increase the network capacity of on-board communications systems for avionics and satellite platforms.

Advanced Technology Development:

The Air Force’s Advanced Composite Cargo Aircraft is a proof-of-concept technology demonstrator for advanced composite manufacturing processes in a full-scale, certified aircraft. The demonstrator program, with the aircraft utilizing composite materials as the predominant/primary structure, achieved a detailed, fabrication-ready design in five months using advanced analytical modeling tools. The first flight of the demonstrator aircraft occurred in 25 months. The advances in materials were at an unprecedented scale for the aerospace industry by successfully curing the largest known aircraft composite structure in the world. The overall larger, higher performance airframe structure at the same weight indicates ~20% weight savings are possible for equivalent structures.

An Air Force-led, multi-agency collaboration recently launched a new satellite that can provide imagery to in-theater combatant commanders within ten minutes of collection to help keep warfighters a step ahead of their adversaries. Launched aboard an Air Force Minotaur I rocket on May 19, 2009 from NASA’s Wallops Flight Facility on the coast of Virginia, Tactical Satellite-3 (TacSat-3) has exceeded expectations with all systems performing well. Its primary payload, the Advanced Responsive Tactically-effective Military Imaging Spectrometer sensor has already provided high-resolution imagery to a ground station via a high-bandwidth data link. TacSat-3 is a collaboration involving the Air Force Research Laboratory, the Army Space and Missile Defense Command, the Department of Defense’s Operationally Responsive Space Office, the Office of Naval Research, the National Geospatial-Intelligence Agency, and the Air Force’s Space Development and Test Wing.

As part of efforts to reduce the U.S. military’s reliance on foreign energy sources, the Air Force continued certification of the alternative jet fuel blend of JP-8 with up to 50% synthetic kerosene produced by the Fischer-Tropsch (FT) process. The FT process can use coal, natural gas, biomass or a combination of them to produce liquid fuel, and will provide potential sources for jet fuel in addition to petroleum. The FT certification effort is part of the Pentagon’s Assured Fuel Initiative, in which the Air Force plans to certify all of its systems which use jet fuel to be



General Fund

Required Supplementary Stewardship Information

able to use the FT blend by early 2011. Certified aircraft include the F-15, F-22, B-52, C-17 and B-1. In addition, the fuel blend has also been flight tested further on the T-38, C-5 and C-130. Field service evaluations to identify longer term effects of the blended fuel were successfully completed on a pair of F-15 aircraft and nearing completion on a representative example of USAF's fueling infrastructure with no negative effects found. Based on extensive laboratory testing, the Occupational, Environmental Health Working Group has determined the Occupational Exposure Limit of the blended fuel will be the same as JP-8. The Air Force collaborated with the FAA and Industry in the development and final approval by ASTM International of a new commercial specification for aviation fuel allowing up to 50% FT synthetic kerosene in commercial Jet A and Jet A-1 fuels (ASTM D-7566, "Aviation Turbine Fuel Containing Synthesized Hydrocarbons"- September 1, 2009). Based on the approved standard, the Air Force initiated certification of its Commercial Derivative Aircraft. In addition, the Air Force began planning and fuel acquisition for a certification program for another near-term potential non-petroleum fuel blend; its blend stocks are derived from biological fats and oils. This class of fuel blend stocks is termed Hydroprocessed Renewable Jet (HRJ) fuel, which, when blended up to 50% with JP-8, will provide the Air Force with sustainable options for reducing the use of petroleum fuels.

The Air Force developed improved turbine engine life-management tools that integrate state-of-the-art material analysis, enhanced non-destructive evaluation, and data management as a comprehensive life management system. Component cost avoidance is estimated to exceed \$300 million for the F100/F110 engine series alone.

The Air Force developed a custom-molded, noise-attenuating earplug that enables seamless voice communications to and from radios, while electronically passing all outside environmental sounds to the operator at safe levels. The Joint Unmanned Combat Air Systems (J-UCAS) program was terminated in December 2005. The Air Force continued to advocate the Air Force Research Library (AFRL) Automated Air Refueling (AAR) program, which continues to make historic progress. The AAR program consists of a combination of simulation and flight tests in order to develop the appropriate requirements and system design for Unmanned Aerial Vehicle (UAV) refueling, which may also be applied to manned refueling. Phase I of the AAR demonstration program was completed with great success. In September 2007, the AAR Positions and Pathways Flight Test successfully demonstrated automated maneuvering with over eight hours of hands-off formation flight, including movement from the observation position (off the wing of the tanker) to pre-contact position, to the contact position, and then back. February 2008 saw a successful four-ship Concept of Operations (CONOPs) simulation involving Air Mobility Command operators in the loop. AFRL kicked off AAR Phase II in June 2008 by issuing solicitations for an overall Phase II integrating contractor and a Precision GPS developer; selection of the winning bidders occurred 1st Quarter, FY 2009.

Demonstration and Validation (Advanced Component Development and Prototypes):

The Air Force's Advanced Component Development and Prototypes programs are comprised of system specific advanced technology integration efforts accomplished in an operational environment to help expedite transition from the effort. In FY 2004, the Air Force successfully demonstrated Fighter Aircraft Command and Control Enhancement (FACE). FACE provides an improved, beyond-line-of-sight (BLOS) command and control link with fighter aircraft by integrating Iridium telephone communications equipment with existing aircraft communications equipment. BLOS capability has traditionally been provided by low-density, high-demand airborne platforms acting as communications relays. FACE provides relief for these overworked assets, while allowing combatant commanders to maintain positive control of the battle space. FACE has been approved for deployment to Afghanistan through the Air Force's Rapid Response Process, and has the potential for extensive use in virtually any area of responsibility, including Homeland Defense.

In FY 2005, the Air Force restructured and refocused the Space Radar (SR) program (formerly Space Based Radar) to address congressional concerns with technical risk, affordability, and DoD-IC integration. In January 2005 the Secretary of Defense and the Director of Central Intelligence signed a joint memo designating the SR program as the single space radar capability for the nation. In May 2007, the Deputy Secretary of Defense and the Principal Deputy Director of National Intelligence signed the Joint Radar Enterprise Memorandum, agreeing to a joint funding arrangement, acquisition strategy, and management structure. The details of this arrangement are being captured in the Joint Radar Enterprise Management Plan. The SR Initial Capabilities Document (ICD) was approved by the IC Mission Requirements Board (MRB) in December 2005 and the DoD Joint Requirements Oversight Council (JROC) in January 2006. The Capability Development Document is being prepared in parallel with the SR system concept of operations (CONOPS); both are on track for MRB and JROC approval in 1st Quarter, FY 2009. The SR program implemented a demonstration framework approach to system development. This approach will further technology maturity risk reduction and CONOPS experimentation through a mix of space, air, and land-based demonstration activities that will maximize existing assets. The SR program continues to make significant advancement towards the System Requirements Review milestone. The SR program will provide day/night, all-weather global surface moving target indications (MTI), Search and Rescue (SAR), and high-resolution terrain information (HRTI) capabilities from a space-based platform. Initial launch capability is planned for 4th Quarter, FY 2016.

System Development and Demonstration:

The F-35 Joint Strike Fighter (JSF) program is developing a family of strike fighter aircraft for the Air Force, Navy, Marine Corps and our allies, with maximum commonality among the variants to minimize life cycle costs. The Air Force Conventional Takeoff and Landing (CTOL) variant will be a multi-role, primary air-to-ground aircraft to replace the F-16 and A-10, and complement the F-22. While the F-22 will establish air dominance, the F-35 with its combination of stealth, large internal payloads and multi-spectral avionics will provide persistent stealth and precision engagement to future battle space. The F-35 is in the eighth year of a



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13-year Engineering and Manufacturing Development (EMD) effort. Significant program accomplishments in FY 2009 include:

- 9 flight and ground test aircraft delivered (4 CTOL, 4 Short Takeoff and Vertical Landing (STOVL), 1 Combat Vehicle (CV))
- 7 flight test aircraft being built (2 STOVL, 3 CTOL, 2 CV)
- 3 ground test aircraft being built (1 STOVL, 2 CV)
- Over 100 flights on 3 test aircraft
- Low Rate Initial Production (LRIP) Lot 3 contracts for 7 AF CTOLs & 7 Navy STOVLs awarded to Lockheed on June 2, 2009 and P&W on July 22, 2009
- Service Acquisition Executive (SAE) leadership transitioned from Navy to Air Force April 2009

Predator (MQ-1) UAV Program:

The MQ-1 Predator UAV program is developing the capability to instantaneously derive and disseminate JDAM-quality coordinates from the aimpoint of its electro-optical/infra-red (EO/IR) full motion video sensor. Sensor improvements include development of a precise attitude reference system coupled with an off-the-shelf two color eye-safe laser rangefinder/designator plus development of an accurately timed metadata system. Aircraft will be modified with a new guidance system incorporating differential GPS. Fielding is scheduled to begin in FY 2011. Follow-on development will provide instantaneous JDAM-quality data for all pixels within the EO/IR image.

Global Hawk (RQ-4) Test Program:

In FY 2009 the Global Hawk flight test program was restructured to alleviate concurrent test and flight acceptance by moving flight acceptance to Beale AFB leaving Edwards AFB to concentrate on flight test. The first Block 40 aircraft will be delivered to Edwards AFB in 2009 to support developmental flight test. RTIP sensor testing continues flights on the Proteus aircraft while RTIP core mode (SAR Spot/Swath and GMTI modes) development is complete and deferred modes (Concurrent and High Range Resolution) development is still in progress. In support of JUON 336, Battle Field Airborne Communications Node (BACN) development and flight testing has been accelerated on Block 20 aircraft in order to provide this much needed support to the warfighter on a 24/7 basis.

The Airborne Warning and Control System (AWACS) aircraft continues to modernize its mission capabilities to remain an effective airborne battle management and surveillance system for command and control of combat forces. The Block 40/45 Upgrade improves the quality and timeliness of sensor data for shooters, improves combat identification, supports a Single Integrated Air Picture (SIAP) through multi-sensor integration, improves the AWACS contribution to Time Critical Targeting via Data Link Infrastructure, improves electronic support, measures processing, and enables more effective, faster upgrades via an open system, Ethernet-based architecture. Block 40/45 awarded a Low Rate Initial Production contract for hardware on the first aircraft in July 2009. The Navigation Warfare (NAVWAR) effort satisfies a Chairman Joint Chiefs of Staff Instruction for Global Positioning Satellite (GPS) users and incorporates new technology into the navigation sensor. NAVWAR completed a first article inspection in April 2009, installed Embedded GPS Inertial units in operational aircraft in May 2009, and awarded a follow-on production contract in June 2009. Production and fielding will continue through 2009 and 2010. The Next Generation Identification Friend or Foe (NGIFF) effort provides AWACS with a secure Mode 5 capability. NGIFF completed Risk Reduction efforts and awarded an EMD contract for the Block 30/35 version of the modification in February 2009, and anticipates awarding the EMD contract for the Block 40/45 version of the modification later in 2009.

Research, Development, Test and Evaluation Management Support:

The Air Force's Research, Development, Test and Evaluation (RDT&E) Management Support efforts include projects directed toward support of installations and operations required for general research and development use. The projects include test ranges, maintenance support of laboratories, operation and maintenance of test aircraft, and studies and analyses in support of the research and development program. An example of Air Force RDT&E management support is the Major Test and Evaluation Investment program, which funds the planning, improvements and modernization for three national asset test centers having over \$10 billion of unique test facilities/capabilities operated and maintained by the Air Force for the DoD test and evaluation missions, and is available to others having a requirement for their unique capabilities.

Many efforts are contained within the Air Force Test and Evaluation (T&E) RDT&E program. Three examples include the Digital Integrated Air Defense System (DIADS), Magnetic Levitation (Maglev), and High Performance Computing (HPC).

DIADS was designed with proprietary hardware and software to simulate a hostile Integrated Air Defense System (IADS) that was becoming expensive to maintain and update. To overcome this issue DIADS was converted to a Linux software and personal computer (PC) base that provides users with an open architecture system and portability. Portability benefited the F-35 when Lockheed Martin Aeronautics Company mandated use of SUSE Linux software for Developmental Testing (DT) and Operational Testing (OT). SUSE contains an indemnification clause that without open architecture, serious cost/schedule implications could have resulted. With open architecture, DIADS was easily ported from Red Hat Linux to SUSE Linux without any code changes. This minimized the amount of testing and Validation & Verification (V&V) work needed. Using open architecture and PCs benefit DIADS by providing long-term



flexibility and sustainability because DIADS would become unsupportable if the proprietary hardware/software company ceased to exist.

Additionally, DIADS performance increased 20 times from running on proprietary software to running on Linux. This increase successfully supported F-22 Follow-on Operational Test & Evaluation (OT&E) Increment 3.1 which has a large scenario that is approximately five times larger than that used previously in terms of radar, C2, and weapons system players to run in real time. The proprietary software also presented a start-up time issue for the F-22 Initial OT&E scenario at the Air Combat Simulator that would have impacted test execution by making the test infeasible.

Use of open architecture and PCs has made DIADS a more capable system and less expensive to operate and update.

A Maglev system has been developed to provide increased acceleration and maximum speed while overcoming the harsh vibration environment encountered by a sled sliding on the current steel track at Holloman AFB, NM. This harsh vibration precludes testing sensitive missile hardware. The concept of magnetic levitation has been successfully demonstrated in three tests, one of which set a world land speed record of 423 miles per hour on a quarter mile track. The sled was mounted on a single slot guideway beam with two magnets. Shaped like a “T” the payload rides on top of the sled and the keel fits between the walls on each side. The superconducting magnets, mounted on each side of the keel, levitate the sled by interacting with copper rails embedded in a concrete guideway. Levitation eliminates friction, and when the sled is propelled down the guideway/track, the harsh vibration experienced on the steel track is eliminated. The Maglev goal is to reach a speed of Mach 9.

The ability to predict performance has greatly advanced over the past few years as was demonstrated in the most recent test, when the sled came to stop within 15 feet of the predicted stop point. This is a very significant accomplishment, since accurate prediction models for magnetic forces were non-existent a few years ago. Some anomalies were observed with the design, but the tests proved the reliability of the magnet design, the procedures and software for cooling/charging the magnets. System design is being refined to improve roll stability with the use of a second guideway. Predictions are that roll stability will improve 50 times with a dual guideway. A 6 Degree-of-Freedom model for the new 4 magnet sled is being developed to more accurately predict forces the sled will experience. Additionally, an aero analysis is being accomplished to predict forces the magnets will exert on the guideway beam. Understanding these forces will ensure the best possible guideway and sled are designed.

The Arnold Engineering and Development Center (AEDC) has begun operating a Silicon Graphics International HPC System that will be shared with the Air Force Seek Eagle program office (AFSEO) at Eglin AFB, FL. The computer’s capabilities are powerful computational and modeling tools that will help both organizations solve complex physics problems typically encountered in weapons stores separation test environments. AEDC is chiefly responsible for modeling, simulation and wind-tunnel testing of systems while AFSEO conducts flight testing, integrates systems and reports results to warfighters. Additionally, the computer will resolve

complicated geometries of internal weapons bays, weapon launches and inlet and engine combinations that can generate irregular airflow as well as severe acoustic and complex aerothermodynamic conditions. The computer will also be used to support computational fluid dynamics work for the F-35, Small-Diameter Bomb and Joint Direct Attack Munition.

Operational Systems Development:

The Air Force's operational system efforts include projects in support of development acquisition programs or upgrades in SDD. The F-22 Raptor program continued full rate production, and will maintain its role as the key enabler of joint air dominance through an incremental modernization program funded through Operational Systems Development activities. Through FY 2009 145 aircraft have been delivered. The modernization program will enhance the air vehicle, engine, and training systems to improve F-22A weapons, communications, and Intelligence Surveillance Reconnaissance (ISR) capabilities to further enhance Global Strike capabilities. Increment 2 is now resident in delivered aircraft and represents the first upgrade over initial operational capability. FY 2009 activities included development of the Increment 3 suite. A Capability Requirements Review (CRR) for Increment 3.2 focused on dramatically improving the F-22A Raptor's Air-to-Air and Air-to-Ground attack capabilities with AIM-9X, AIM-120D, full, Small Diameter Bomb capability, electronic protection updates, and an F-22/F-35/B-2 interoperable tactical datalink.

The Advanced Medium Range Air-to-Air Missile (AMRAAM) Phase 3 (AIM-120C-7) was approved for fielding in December 2007. Production for this variant began in 4th Quarter, FY 2004, and was completed in 3rd Quarter, FY 2009. The AIM-120C-7 provides a major upgrade over the AIM-120C-6 guidance section, particularly in the use of circular processor cards over previously used rectangular cards. These cards provide significant space savings within the missile for added capability, in addition to providing greater processing power.

AMRAAM Phase 4 (AIM-120D) builds on the AIM-120C-7 capability and is progressing. This new AIM-120D missile will add a GPS/INU and a 2-way Data Link to enhance accuracy and control, and thus, increase weapon effectiveness. In addition, the AIM-120D will have increased range and third party targeting which expands the High Off-boresight launch envelope. The SDD contract was awarded in December 2003. Captive flight testing has been initiated on the F/A-18C/D and F-15C/D. EMD is scheduled to complete in September 2009 with the completion of the Functional Configuration Audit (FCA). Proof-of-design units and proof-of-manufacturing units are being used to support simulation/integration labs, production test equipment development, and ground and flight tests. Production for AIM-120D started in 2nd Quarter, FY 2009 and will continue through FY 2024.

The Small Diameter Bomb II (SDB II) program is a joint Air Force/Navy interest program that will use a tri-mode seeker and weapon data link to fill a critical capability gap by providing a stand-off, target classification and in-weather capability against moving targets. The SDB II A weapon program will retain the SDB I legacy capability against fixed surface target, improved GPS anti-jam capability and denied sanctuary of weather for adversary moving targets. The 42-month Risk Reduction competition between two contractors that commenced in May 2006 to



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mature critical technologies for an all-up-round design will end in October 2009. Following the Risk Reduction Phase, a single contractor will be selected in 2nd Quarter, FY 2010 to complete an approximate 80 month EMD contract with production options. Milestone B is scheduled for 3rd Quarter, FY 2010. Production for SDB II is scheduled to start 1st Quarter, FY 2013 and continue through FY 2023. Required Assets Available on the F-15E is planned for FY 2014.

The SDB I Focused Lethality Munition (FLM), a variant of SDB I, is a Joint Capabilities Technology Development (JCTD) program that effectively demonstrates the military utility for prosecuting high-value targets by generating near-field blast effects in a high collateral risk environment. The SDB I FLM has a composite-cased warhead with a Multi-phase Blast Explosive to reduce fragmentation effects while increasing blast effects. This low collateral damage warhead was integrated into the SDB I weapon. The Military Utility Assessment was successfully completed in June 2008 with positive feedback in all areas. The assessment supports SDB I FLM's potential to fill a capability gap of engaging targets within 60 feet of collateral concerns. The FLM capability will increase combatant commanders' strike options, particularly in an urban environment, while decreasing collateral damage risk. This JCTD fully leverages the SDB I program to facilitate rapid acquisition, with delivery of 50 residual assets in February 2008. An additional 100 residual assets will be delivered to the warfighter during 3rd Quarter, FY 2010.

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Statement of Disaggregated Budgetary Resources

As of September 30, 2009 and 2008 (\$ in thousands)

	Other	Research, Development, Test & Evaluation	Operation and Maintenance
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES:			
Unobligated balance, brought forward, October 1	\$ 5,131	\$ 5,342,251	\$ 1,547,718
Recoveries of prior year unpaid obligations	99	541,330	2,336,509
Budget authority			
Appropriation	504,443	27,391,855	56,611,107
Spending authority from offsetting collections			
Earned			
Collected	634	3,302,232	4,973,027
Change in receivables from Federal sources	0	43,307	277,958
Change in unfilled customer orders			
Advance received	0	140,669	52,016
Without advance from Federal sources	0	22,405	80,681
Subtotal	\$ 505,077	\$ 30,900,468	\$ 61,994,789
Nonexpenditure transfers, net, anticipated and actual	(495,477)	(267,912)	701,086
Permanently not available	(1,018)	(905,666)	(2,086,305)
Total Budgetary Resources	\$ 13,812	\$ 35,610,471	\$ 64,493,797
STATUS OF BUDGETARY RESOURCES:			
Obligations incurred:			
Direct	\$ 7,647	\$ 28,358,597	\$ 56,801,984
Reimbursable	630	3,539,707	5,698,906
Subtotal	\$ 8,277	\$ 31,898,304	\$ 62,500,890
Unobligated balance:			
Apportioned	1,055	3,374,053	380,396
Exempt from apportionment	4,480	0	0
Subtotal	\$ 5,535	\$ 3,374,053	\$ 380,396
Unobligated balance not available	0	338,114	1,612,511
Total status of budgetary resources	\$ 13,812	\$ 35,610,471	\$ 64,493,797
CHANGE IN OBLIGATED BALANCE:			
Obligated balance, net			
Unpaid obligations, brought forward, October 1	\$ 4,206	\$ 9,337,076	\$ 23,104,777
Less: Uncollected customer payments from Federal sources, brought forward, October 1	0	(688,140)	(1,340,582)
Total unpaid obligated balance	\$ 4,206	\$ 8,648,936	\$ 21,764,195
Obligations incurred net (+/-)	\$ 8,278	\$ 31,898,304	\$ 62,500,890
Less: Gross outlays	(7,341)	(29,548,229)	(56,765,245)
Obligated balance transferred, net payments from Federal sources (+/-)			
Less: Recoveries of prior year unpaid obligations, actual	\$ (99)	\$ (541,330)	\$ (2,336,509)
Change in uncollected customer payments from Federal sources (+/-)	0	(65,712)	(358,639)
Obligated balance, net, end of period			
Unpaid obligations	5,043	11,145,820	26,503,914
Less: Uncollected customer payments (+/-) from Federal sources (-)	0	(753,852)	(1,699,222)
Total, unpaid obligated balance, net, end of period	5,043	10,391,968	24,804,692
NET OUTLAYS			
Net Outlays:			
Gross outlays	\$ 7,341	\$ 29,548,229	\$ 56,765,245
Less: Offsetting collections	(634)	(3,442,900)	(5,025,043)
Less: Distributed Offsetting receipts	(104,099)	0	0
Net Outlays	\$ (97,392)	\$ 26,105,329	\$ 51,740,202

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Procurement	Military Personnel	Military Construction / Family Housing	2009 Combined	2008 Combined
\$ 17,030,767	\$ 161,904	\$ 2,589,119	\$ 26,676,890	\$ 21,175,345
835,023	323,009	57,336	4,093,396	4,602,017
43,772,117	33,282,504	2,413,227	163,975,253	156,791,805
601,854	418,800	5,931	9,302,479	10,464,416
6,254	(2,624)	(150)	324,746	(354,080)
(48,808)	0	3,739	147,616	(199,948)
(25,862)	3,690	0	80,913	38,934
\$ 44,305,555	\$ 33,702,370	\$ 2,422,747	\$ 173,831,007	\$ 166,741,127
655,225	247,586	(16,700)	823,808	2,750,362
(695,274)	(122,921)	(22,629)	(3,833,813)	(3,194,456)
\$ 62,131,296	\$ 34,312,038	\$ 5,029,873	\$ 201,591,288	\$ 192,074,395
\$ 40,845,578	\$ 33,551,159	\$ 2,754,854	\$ 162,319,819	\$ 155,042,972
406,153	407,018	7,707	10,060,121	10,354,532
\$ 41,251,731	\$ 33,958,177	\$ 2,762,561	\$ 172,379,940	\$ 165,397,504
20,102,099	8,997	2,225,329	26,091,928	24,139,914
0	0	0	4,480	3,820
\$ 20,102,099	\$ 8,997	\$ 2,225,329	\$ 26,096,408	\$ 24,143,734
777,465	344,865	41,984	3,114,940	2,533,157
\$ 62,131,295	\$ 34,312,039	\$ 5,029,874	\$ 201,591,288	\$ 192,074,395
\$ 30,197,966	\$ 2,405,765	\$ 2,763,468	\$ 67,813,258	\$ 60,933,360
(110,393)	87,626	(150)	(2,051,639)	(2,366,785)
\$ 30,087,573	\$ 2,493,391	\$ 2,763,318	\$ 65,761,619	\$ 58,566,575
\$ 41,251,731	\$ 33,958,177	\$ 2,762,561	\$ 172,379,940	\$ 165,397,504
(38,118,396)	(33,533,767)	(2,029,409)	(160,002,387)	(153,915,590)
\$ (835,023)	\$ (323,099)	\$ (57,336)	\$ (4,093,396)	\$ (4,602,017)
19,608	(1,067)	150	(405,660)	315,146
32,496,279	2,507,076	3,439,283	76,097,415	67,813,257
(90,785)	86,560	0	(2,457,299)	(2,051,639)
32,405,494	2,593,636	3,439,283	73,640,116	65,761,618
\$ 38,118,396	\$ 33,533,767	\$ 2,029,409	\$ 160,002,387	\$ 153,915,590
(553,046)	(418,800)	(9,670)	(9,450,094)	(10,264,468)
0	0	0	(104,099)	(201,497)
\$ 37,565,350	\$ 33,114,967	\$ 2,019,739	\$ 150,448,194	\$ 143,449,625



DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

The Air Force has performance measures based on missions and outputs. The Air Force is unable to accumulate costs for major programs based on those performance measures because its financial processes and systems were not designed to collect and report this type of cost information. Until the processes and systems are upgraded, the Air Force will break out programs by major appropriation groupings.

HERITAGE ASSETS AND STEWARDSHIP LAND

The Air Force now reports Heritage Assets and Stewardship Land in Note 10 of its financial statements.

REAL PROPERTY DEFERRED MAINTENANCE

Real Property Deferred Maintenance For Fiscal Year Ended September 30, 2009 (In Millions of Dollars)			
Property Type	Current Fiscal Year (CFY)		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance)	3. Percentage
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	\$234,191	\$17,678	8%
2. Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	\$17,028	\$18	<1%
3. Category 3: Buildings, Structures, and Utilities (Heritage Assets)	\$9,790	\$927	9%

Use of Q-Rating versus Facilities Sustainment Model (FSM) to reflect Deferred Sustainment

The use of Q-Rating as a basis for calculated deferred maintenance is not prudent. The Service's Q-Rating database has not sufficiently matured compared with the FSM dataset.

At this stage of Q-Rating planning and development, facility Q-Ratings cannot be readily tied to actual obligations nor do they provide a consistent service-wide metric based on commercial standards.

Based on previous submissions, the use of FSM to benchmark facility requirements has proven itself in the Air Force Corporate Structure (AFCS) process by yielding data constancy and high fidelity. FSM can be linked to actual obligations, is consistent across the services, and uses commercial standards in its development, which provides the stability and credibility needed to defend program funding requirements in AFCS.

The inclusion of the “A” factor to represent “acceptable operating condition” is not currently valid. At this time, there is no dataset which can be used to underpin target Q-Rating percentages or to identify acceptable operating conditions for specific Air Force facilities.

At A=100%, the FY 2009 accumulated deferred sustainment based on Q-Ratings is \$17.7 billion as noted above. Although a backlog of \$17.7 billion obviously appears significant, this considerably large requirement adds little value to AFCS decision-making process. From our experience, AFCS will immediately question such a large backlog if used to defend our budget shortfalls. Variable "A" factors would need to be developed to make the proposed deferred maintenance concept feasible.

Strategically, the use of annual deferred sustainment maintenance based on FSM has already proven to be successful in defending our budgets through AFCS. In FY 2008, the annual deferred sustainment maintenance based on FSM was at a reasonable level of \$385.0 million.

Military Equipment Deferred Maintenance For Fiscal Year Ended September 30, 2009 (In Millions of Dollars)			
Major Categories	OP30 Amounts	Adjustments	Total
1. Aircraft	\$638	\$0	\$638
2 Automotive Equipment	\$0	\$0	\$0
3. Combat Vehicles	\$0	\$0	\$0
4. Construction Equipment	\$0	\$0	\$0
5. Electronic and Communications Systems	\$142	\$0	\$142
6. Missiles	\$1	\$0	\$1
7. Ships	\$0	\$0	\$0
8. Ordnance Weapons and Munitions	\$0	\$0	\$0
9. General Purpose Equipment	\$0	\$0	\$0
10. All Other Items Not Identified to Above Categories	\$311	\$1,299	\$1,610
Total	\$1,092	\$1,299	\$2,391

The figures presented are projected deferred maintenance amounts for FY 2009 as reported in the FY 2011 Program Budget Review OP-30 budget exhibits. FY 2009 Overseas Contingency Operations supplemental actual is not available. Adjustment totals includes Deferred Funding for Contract Logistics Support which may include more than just maintenance. These totals presently cannot be broken out by major categories.



(U.S. Air Force Photo by SrA Brian Kimball)

General Fund
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Audit Opinion





INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 8, 2009

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2009 and FY 2008
Basic Financial Statements (Report No. D-2010-006)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Air Force General Fund Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Air Force management. Air Force is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Air Force General Fund FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that the Air Force General Fund FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Air Force financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended¹ to determine whether material amounts on the financial statements were presented fairly.

¹ OMB Memorandum M-09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Prior audits have identified, and Air Force has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.² Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

In planning our work, we considered Air Force internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

- Financial Management Systems
- Fund Balance with Treasury
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Government-Furnished Material and Contractor-Acquired Material
- Environmental Liabilities
- Statement of Net Cost
- Intragovernmental Eliminations
- Other Accounting Entries
- Reconciliation of Net Cost of Operations to Budget

² The annual financial statements include the Basic Financial Statements, Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.



A material weakness is a significant deficiency, or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.³

A significant deficiency is a control deficiency⁴, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

The following previously identified significant deficiencies continued to exist.

- Accounts Receivable Financial Reporting
- Accounts Payable Financial Reporting
- Reimbursable Programs

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, some of which we consider to be material internal control weaknesses.

The Air Force reported the above weaknesses in its FY 2009 Statement of Assurance, except for the material weaknesses involving the Statement of Net Cost and Reconciliation of Net Cost of Operations to Budget and the significant deficiency involving reimbursable programs.

Summary of Compliance With Laws and Regulations

We limited our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that Air Force financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether Air Force complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

³ The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

⁴ A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Assistant Secretary of the Air Force (Financial Management and Comptroller), who provided technical comments that we have incorporated as appropriate. Air Force officials expressed their continuing commitment to address the problems this report outlines.

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated



Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and significant deficiencies that could adversely affect the Air Force financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, some of which are material, continued to exist in the following areas.

Financial Management Systems

Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. Statement of Federal Financial Accounting Concepts No. 1 also requires that financial management system controls ensure the proper safeguarding of assets to deter fraud, waste, and abuse, and provide adequate support for performance measurement information. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged that many Air Force financial management systems do not substantially comply with Federal financial management system requirements. The design of Air Force financial management and feeder systems does not allow them to collect and record financial information based on a full-accrual accounting basis. Until these systems are able to collect and report financial information in compliance with U.S. GAAP, Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

Fund Balance With Treasury

During an evaluation of internal controls, the Air Force discovered and confirmed deficiencies in the reconciliation of Fund Balance with Treasury between Air Force accounting records and the corresponding balances reported by Treasury. The Air Force does not have assurance that it can reconcile its reported balance of Fund Balance with Treasury to the balance the Treasury maintains because it currently does not receive transaction-level data from other DOD Components processing collection and disbursement data on its behalf.

Operating Materials and Supplies

The Air Force is required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," to use historical cost to value its Operating

Materials and Supplies inventory. This statement also requires that an expense be recorded for Operating Materials and Supplies when the user consumes such items. The Air Force has acknowledged that significant amounts of Operating Materials and Supplies are valued using standard prices, and it does not always use the consumption method to recognize the related expense. Accordingly, management is not certain that the Operating Materials and Supplies balances reported in its Basic Financial Statements are accurate.

General Property, Plant, and Equipment

Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force has acknowledged that despite its implementation of a new system to improve its controls over recording real property, construction-in-progress, and related expenses, its controls need additional improvement to ensure that it does not materially misstate its financial reporting for General Property, Plant, and Equipment.

Government-Furnished Material and Contractor-Acquired Material

Statement of Federal Financial Accounting Standards No. 11, "Amendments to Accounting for Property, Plant, and Equipment," requires that the Government report on its Balance Sheet property and equipment in the possession of a contractor for use in accomplishing a contract. Government property should be accounted for based on the nature of the item, regardless of who has possession. The Air Force has acknowledged that its balance does not include the cost of all Government-furnished material in the hands of contractors where such value exceeds the capitalization threshold. As a result, the Air Force does not reliably report the value of its property and material in the possession of contractors.

Environmental Liabilities

The Air Force is not currently able to support its environmental clean-up cost estimates as recorded in the Air Force Real Property Agency management information system. This system provides unsupported cost information for reporting in the annual financial statements.

Statement of Net Cost

Statement of Federal Financial Accounting Concepts No. 2, "Entity and Display," requires that the Statement of Net Cost present gross and net cost information for major organization and programs and data related to their outputs and outcomes. The Air Force acknowledged that it accumulates the amounts reported in its Statement of Net Cost by major appropriation groups funded by Congress and not by major organization and programs, as required. In addition, the Air Force does not accumulate cost information in accordance with U.S. GAAP. It presents the amounts for the General Fund based on budgetary obligations, disbursements, and collections, with adjustments made for only major items of known accruals and imputed expenses. Thus, the Statement of Net Cost may not report all actual costs or may report costs not actually incurred.

Intragovernmental Eliminations

Air Force accountants cannot always identify intragovernmental trading partners when recording transactions. Thus, the Air Force cannot properly eliminate all transactions among its internal



organizational elements. In addition, the Air Force cannot reconcile intragovernmental accounts receivable, accounts payable, and revenues for transactions between its DOD and other Federal trading partners. This may prevent the Air Force from properly eliminating all of its intragovernmental transactions.

Other Accounting Entries

The Air Force acknowledged that it continues to enter material amounts of accounting adjustments without adequate detail transaction support. Additionally, there are material transactions that the Air Force has not properly recorded in the accounting records underlying the Basic Financial Statements or the disclosed notes to the Basic Financial Statements. The lack of adequate supporting documentation for material adjustments prevents an audit of the related financial statement amounts.

Reconciliation of Net Cost of Operations to Budget

Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," states that the Reconciliation of Net Costs of Operations to Budget (in the footnotes to the Basic Financial Statements) should reconcile resources obligated during the accounting period to the net cost of operations for that period. However, as stated in preceding paragraphs, the amounts presented in the Consolidated Statement of Net Costs and assets and liabilities reported in the Balance Sheet may be inaccurate. Air Force does not reconcile budgetary amounts to actual proprietary expenses and assets and liabilities.

Previously Identified Significant Deficiencies

Previously identified significant deficiencies continued to exist in the following areas.

Accounts Receivable Financial Reporting

The Air Force cannot assure the accuracy of its Accounts Receivable financial statement line item because of weaknesses in the intragovernmental trading partner eliminations, Foreign Military Sales, and supporting documentation. These deficiencies result in the inability to properly reconcile and support the validity of Accounts Receivable.

Accounts Payable Financial Reporting

The Air Force cannot assure the accuracy of the amount of Accounts Payable reported in the Basic Financial Statements because of financial system internal control weaknesses. Because of these weaknesses, the Air Force cannot support entries to Accounts Payable or reconcile the reported balance to transaction detail.

Reimbursable Programs

Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires the Air Force to track the cost of performing work reimbursed by other Government entities or by non-Federal customers. It defines costs as a measure of resources (personnel, material, and equipment) used to accomplish the work. The Air Force has acknowledged that its reimbursable programs may not recover all billable costs incurred in the

fulfillment of reimbursable orders. Specifically, the Air Force is not always able to identify logistical, contractual, or labor costs incurred in support of reimbursable orders; therefore, such costs are not properly billed to the customer.

These financial management deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Air Force was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Air Force did not fully comply with FFMIA. The Air Force acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341) limits Air Force and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. According to 31 U.S.C. § 1351, if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2009, the Air Force reported one case of violation of the ADA. Therefore, the Air Force did not comply with 31 U.S.C. § 1341 and 31 U.S.C. § 1351.

DOD internal guidance limits the time from identification to reporting of ADA violations to 12 months. Our review of Air Force General Fund ADA investigations of potential violations showed that Air Force did not process the one ADA violation case within 12 months.



Audit Disclosures

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us on March 17, 2009, that the Air Force financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, Prompt Payment Act, and the Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act of 1996).

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendations.

Working Capital Fund Principal Statements

Fiscal Year 2009

The FY 2009 Department of the Air Force Working Capital Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the Working Capital Fund for the fiscal year ending September 30, 2009, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2008.

The following statements comprise the Department of the Air Force Working Capital Fund Principal Statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet presents as of September 30, 2009 and 2008 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position).

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2009 and 2008. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2009 and 2008.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2009 and 2008, the status of these resources at September 30, 2009 and 2008, and the outlay of budgetary resources for the years ended September 30, 2009 and 2008.

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's Circular A-136, "Financial Reporting Requirements."



CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008

(\$ in Thousands)

	2009 Consolidated	Restated 2008 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 697,367	\$ 959,598
Accounts Receivable (Note 5)	718,662	786,751
Other Assets (Note 6)	420	618
Total Intragovernmental Assets	<u>\$ 1,416,449</u>	<u>\$ 1,746,967</u>
Accounts Receivable, Net (Note 5)	152,109	117,894
Inventory and Related Property, Net (Note 9)	30,059,338	30,256,598
General Property, Plant and Equipment, Net (Note 10)	1,293,737	1,164,386
Other Assets (Note 6)	402,703	388,677
TOTAL ASSETS	<u><u>\$ 33,324,336</u></u>	<u><u>\$ 33,674,522</u></u>
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 153,539	\$ 94,776
Other Liabilities (Note 15 & 16)	13,531	86,302
Total Intragovernmental Liabilities	<u>\$ 167,070</u>	<u>\$ 181,078</u>
Accounts Payable (Note 12)	\$ 796,397	\$ 817,558
Military Retirement and Other Federal	193,710	217,337
Employment Benefits (Note 17)		
Other Liabilities (Note 15 and Note 16)	496,773	624,331
TOTAL LIABILITIES	<u><u>\$ 1,653,950</u></u>	<u><u>\$ 1,840,304</u></u>
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	\$ 1,016	\$ 1,248
Cumulative Results of Operations - Other Funds	31,669,370	31,832,970
TOTAL NET POSITION	<u><u>\$ 31,670,386</u></u>	<u><u>\$ 31,834,218</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 33,324,336</u></u>	<u><u>\$ 33,674,522</u></u>

CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2009 and 2008
(\$ in Thousands)

	<u>2009 Consolidated</u>	<u>Restated 2008 Consolidated</u>
Program Costs		
Gross Costs	\$ 10,534,391	\$ 10,727,152
(Less: Earned Revenue)	(10,380,069)	(10,784,910)
Net Program Costs	\$ 154,322	\$ (57,758)
Net Cost of Operations	<u>\$ 154,322</u>	<u>\$ (57,758)</u>



Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2009 and 2008
(\$ in Thousands)

	<u>2009 Earmarked Funds</u>	<u>2009 All Other Funds</u>	<u>2009 Eliminations</u>
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 0	\$ 35,253,245	\$ 0
Prior Period Adjustments:			
Corrections of errors (+/-)	0	(3,420,275)	0
Beginning balances, as adjusted	\$ 0	\$ 31,832,970	\$ 0
Budgetary Financing Sources:			
Appropriations used	\$ 0	\$ 61,697	\$ 0
Transfers-in/out without reimbursement	0	(251,274)	0
Other Financing Sources:			
Transfers-in/out without reimbursement (+/-)	0	(64,772)	0
Imputed financing from costs absorbed by others	0	151,466	0
Other (+/-)	0	93,605	0
Total Financing Sources	\$ 0	\$ (9,278)	\$ 0
Net Cost of Operations (+/-)	0	154,322	0
Net Change	\$ 0	\$ (163,600)	\$ 0
Cumulative Results of Operations	\$ 0	\$ 31,669,370	\$ 0
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 0	\$ 1,248	\$ 0
Beginning balances, as adjusted	\$ 0	\$ 1,248	\$ 0
Budgetary Financing Sources:			
Appropriations received	0	61,465	0
Other adjustments (rescissions, etc)	0	0	0
Appropriations used	0	(61,697)	0
Total Budgetary Financing Sources	0	(232)	0
Unexpended Appropriations	0	1,016	0
Net Position	\$ 0	\$ 31,670,386	\$ 0

Annual Financial Statement 2009

Working Capital Fund
Principal Statements

2009 Consolidated	2008 Earmarked Funds	Restated 2008 All Other Funds	2008 Eliminations	Restated 2008 Consolidated
\$ 35,253,245	\$ 0	\$ 35,516,871	\$ 0	\$ 35,516,871
(3,420,275)	0	(3,187,305)	0	(3,187,305)
<u>\$ 31,832,970</u>	<u>\$ 0</u>	<u>\$ 32,329,566</u>	<u>\$ 0</u>	<u>\$ 32,329,566</u>
\$ 61,697	\$ 0	\$ 69,073	\$ 0	\$ 69,073
(251,274)	0	(88,000)	0	(88,000)
(64,772)	0	(47,477)	0	(47,477)
151,466	0	144,150	0	144,150
93,605	0	(632,100)	0	(632,100)
<u>\$ (9,278)</u>	<u>\$ 0</u>	<u>\$ (554,354)</u>	<u>\$ 0</u>	<u>\$ (554,354)</u>
154,322	0	(57,758)	0	(57,758)
<u>\$ (163,600)</u>	<u>\$ 0</u>	<u>\$ (496,596)</u>	<u>\$ 0</u>	<u>\$ (496,596)</u>
<u>\$ 31,669,370</u>	<u>\$ 0</u>	<u>\$ 31,832,970</u>	<u>\$ 0</u>	<u>\$ 31,832,970</u>
\$ 1,248	\$ 0	\$ 4,558	\$ 0	\$ 4,558
<u>\$ 1,248</u>	<u>\$ 0</u>	<u>\$ 4,558</u>	<u>\$ 0</u>	<u>\$ 4,558</u>
61,465	0	66,458	0	66,458
0	0	(695)	0	(695)
(61,697)	0	(69,073)	0	(69,073)
(232)	0	(3,310)	0	(3,310)
1,016	0	1,248	0	1,248
<u>\$ 31,670,386</u>	<u>\$ 0</u>	<u>\$ 31,834,218</u>	<u>\$ 0</u>	<u>\$ 31,834,218</u>



COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2009 and 2008

(\$ in Thousands)

	2009 Combined	2008 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	\$ 343,595	\$ 1,073,782
Recoveries of prior year unpaid obligations	89,013	0
Budget authority		
Appropriation	61,465	66,458
Contract authority	7,255,839	6,633,730
Spending authority from offsetting collections		
Earned		
Collected	11,599,508	11,677,265
Change in receivables from Federal sources	(62,179)	407,049
Change in unfilled customer orders		
Advance received	(98,643)	(77,781)
Without advance from Federal sources	(247,280)	(241,364)
Subtotal	18,508,710	18,465,357
Nonexpenditure transfers, net, anticipated and actual	(251,274)	(88,000)
Permanently not available	(7,078,077)	(8,139,473)
Total Budgetary Resources	\$ 11,611,967	\$ 11,311,666
Status of Budgetary Resources:		
Obligations incurred:		
Reimbursable	11,238,329	10,968,071
Subtotal	11,238,329	10,968,071
Unobligated balance:		
Apportioned	0	343,595
Exempt from apportionment	373,638	0
Subtotal	373,638	343,595
Total status of budgetary resources	\$ 11,611,967	\$ 11,311,666
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 7,946,887	\$ 8,883,865
Less: Uncollected customer payments	(4,010,572)	(3,844,887)
from Federal sources, brought forward, October 1		
Total unpaid obligated balance	3,936,315	5,038,978
Obligations incurred net (+/-)	11,238,329	10,968,071
Less: Gross outlays	(11,573,286)	(11,905,048)
Less: Recoveries of prior year unpaid obligations, actual	(89,013)	0
Change in uncollected customer		
payments from Federal sources (+/-)	309,459	(165,685)
Obligated balance, net, end of period		
Unpaid obligations	7,522,917	7,946,888
Less: Uncollected customer payments	(3,701,113)	(4,010,572)
from Federal sources (-)		
Total, unpaid obligated balance, net, end of period	3,821,804	3,936,316
Net Outlays		
Net Outlays:		
Gross outlays	11,573,286	11,905,048
Less: Offsetting collections	(11,500,865)	(11,599,484)
Net Outlays	\$ 72,421	\$ 305,564

Working Capital Fund

Fiscal Year 2009

Notes to the Principal Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.





Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Air Force Working Capital Fund (AFWCF), 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 AFWCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the AFWCF is responsible unless otherwise noted.

The AFWCF is unable to fully implement all elements of USGAAP and the OMB Circular A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The AFWCF derives 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 USGAAP. The AFWCF continues to implement process and system improvements addressing these limitations.

The AFWCF currently has eight auditor identified financial statement material weaknesses: (1) financial and nonfinancial feeder systems do not contain an adequate audit trail for the proprietary and budgetary accounts, (2) AFWCF may have material amounts of account adjustments that are not adequately supported, (3) AFWCF cannot accurately identify all intragovernmental transactions by customer, which is required for eliminations when preparing consolidated financial statements, (4) the value of the AFWCF government furnished and contractor acquired materiel and equipment may not be accurately reported, (5) AFWCF General Property, Plant, and Equipment (PP&E) may not be accurately valued, (6) operating materiels and supplies (OM&S) are not reflected at historical cost, (7) cost of goods sold and work in progress are not recorded in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property, and (8) supply management systems do not provide sufficient audit trails to confirm and value the in transit inventory reported as part of inventory held for sale on the Consolidated Balance Sheet.

1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the DoD and made the Air Force a department within DoD. The overall mission of the United States Air Force is to fly, fight and win...in air, space and cyberspace. Our priorities are: (1) reinvigorate the Air Force nuclear enterprise, (2) partner with the Joint and Coalition team to win today's fight, (3) develop and care for Airmen and their families,

- (4) modernize our air and space inventories, organizations, and training, and
- (5) recapture acquisition excellence.

The stock and industrial revolving fund accounts were created by the National Security Act of 1947, as amended in 1949 and codified in United States Code 10 Section 2208. The revolving funds were established as a means to more effectively control the cost of work performed by DoD. The DoD began operating under the revolving fund concept on July 1, 1951.

Effective FY 2009, AFWCF operations consist of two major activity groups: Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group - Retail (SMAG-R). All AFWCF CSAG and SMAG-R activities establish rates based on full cost recovery. If an operating loss or gain is incurred, the activity will make the appropriate adjustment in following years' prices to recoup the loss or return the gain to their customers.

The mission of the CSAG is supply management of repairable and consumable items, and maintenance activities. CSAG combines the activities of the previous Material Support Division (MSD) of the Supply Management Activity Group and the Depot Maintenance Activity Group (DMAG). Under CSAG, business operations formerly known as DMAG are now related to the Maintenance Division. Likewise, business operations formerly known as MSD are now referred to as the Supply Division.

Supply Division activities of CSAG are authorized to procure and manage repairable and consumable items for which the Air Force is the Inventory Control Point. The Supply Division manages more than 106 thousand items that are generally related to weapon systems and ground support, and include both depot level repairables and non-depot level repairables.

Maintenance Division activities of CSAG are authorized to perform: (a) overhaul, conversion, reclamation, progressive maintenance, modernization, software development, storage, modification, and repair of aircraft, missiles, engines, accessories, components, and equipment; (b) the manufacture of parts and assemblies required to support the foregoing; and (c) the furnishing of other authorized services or products for the Air Force and other agencies of the DoD. As directed by the Air Force Materiel Command or higher authority, the Maintenance Division may furnish the above mentioned products or services to agencies of other departments or instrumentalities of the U.S. Government, and to private parties and other agencies, as authorized by law.

The SMAG-R consists of three business divisions: General Support Division (GSD), Medical-Dental Division, and Air Force Academy Division. GSD procures and manages over 1.5 million consumable supply items related to maintenance, flying hour program, and installation functions. The majority are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems and equipment. The Medical-Dental Division procures and manages over 7,000 medical supply items and equipment necessary to maintain an effective Air Force Health



Care system for the active military, retirees and their dependents. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies and other recurring issue requirements for the Cadet Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items as determined by the Cadet Uniform Board.

1.C. Appropriations and Funds

The AFWCF receives appropriations and funds as general and working capital (revolving) funds. The AFWCF uses these appropriations and funds to execute its missions and subsequently report on resource usage.

Working Capital Funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

1.D. Basis of Accounting

The AFWCF financial management systems are unable to meet all full accrual accounting requirements. Many of the AFWCF financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of AFWCF's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all AFWCF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, AFWCF's financial data will be derived from budgetary transactions data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The CSAG Maintenance Division recognizes revenue according to the percentage of completion method. The CSAG Supply Division and SMAG-R recognize revenue based on flying hours executed and the sale of inventory items.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, and unbilled revenue. In the case of Operating Materiel and Supplies (OM&S), the consumption method is used. Under the consumption method, OM&S is reported as expenses when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The AFWCF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminates intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the AFWCF cannot accurately identify intragovernmental transactions by customer because AFWCF's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the 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 and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls, eliminating the need for reconciliations.

The U.S. Treasury's Federal Intragovernmental Transactions Accounting Policy Guide and Treasury Financial Manual Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, provide guidance for reporting and reconciling intragovernmental balances. While AFWCF is unable to fully reconcile intragovernmental transactions with all federal agencies, AFWCF is able to reconcile balances pertaining to 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 do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.



Generally, 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 costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, AFWCF 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 Federal Government. Payment in U.S. dollars is required in advance.

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

The AFWCF's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of 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 AFWCF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, 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. On a monthly basis, AFWCF's FBWT is adjusted to agree with the U.S. Treasury accounts.

1.J. Foreign Currency

Not applicable.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Based upon analysis of past collection experience, AFWCF does not recognize allowances for uncollectible accounts due from the public. AFWCF policy is that all Nonfederal Receivables (From the Public) are collected. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The AFWCF values approximately 99% of its resale inventory using the moving average cost method and reports the remaining 1% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, Accounting for Inventory and Related Property. Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (PL 104-208). The AFWCF is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

The AFWCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in AFWCF's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The AFWCF 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 which is valued at purchase price. The AFWCF uses the consumption method of accounting for OM&S.

The AFWCF 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.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by AFWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. Often, it is more economical to repair these items rather than to procure them. The AFWCF often relies on weapon systems and machinery no longer in production. As a result, AFWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include (1) costs related to the production or servicing of items, including direct material, direct labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with its associated costs incurred in the delivery of maintenance services.



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

Not applicable.

1.O. General Property, Plant and Equipment

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is \$100 thousand except for real property, which is \$20 thousand. The AFWCF has not fully implemented the threshold for real property; and therefore is primarily using the capitalization threshold of \$100 thousand for General PP&E, and most real property.

With the exception of USACE Civil Works and WCF, 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 DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

The WCF capitalizes all General PP&E used in the performance of their mission. These capitalized assets are categorized as General PP&E, whether or not it meets the definition of any other General PP&E categories.

When it is in the best interest of the government, the AFWCF provides government property to contractors to complete contract work. The AFWCF 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 meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on AFWCF's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires AFWCF to maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The AFWCF has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be 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 AFWCF has implemented this policy.

1.Q. Leases

Not applicable.

1.R. Other Assets

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

The AFWCF 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, AFWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements 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 advances 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. The AFWCF has not fully implemented this policy primarily due to system limitations.

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. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage 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 AFWCF 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. The AFWCF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

1.T. Accrued Leave

The AFWCF reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

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



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

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

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Unexpended Obligations

The AFWCF obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect 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 specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

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. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements intransit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.Y. Significant Events

The AFWCF processed two prior period adjustments (PPA) totaling \$3.4 billion for material errors associated with inventory.

The first PPA in the amount of \$1.7 billion was processed due to a material error occurring when components of kits in the Standard Base Supply System (SBSS) were transferred from Readiness Spares Packages (RSP) and War Readiness Material (WRM)

to Peace Time Operating (POS) stock. The resulting financial transactions were coded incorrectly causing the subject inventory to be treated financially as a lateral shipment of inventory instead of an inventory reclassification within the Consolidated Sustainment Activity Group-Supply Division (CSAG-Supply) Inventory. Therefore, AF inventory was inadvertently double counted and an inappropriate gain was recorded in the Standard Material Accounting System (SMAS). We have documented 76,120 erroneous transactions totaling \$1.7 billion for FY 2004 – 2007 that were treated in this manner.

The second PPA in the amount of \$1.7 billion was processed due to a material error where receipts from repair contractors were coded incorrectly for CSAG-Supply Working Capital Inventory. AFMC Inventory was double counted and a gain was recorded when the receipt was not coded to relieve the In-Transit Inventory account at the time Air Force inventory was received back from the repair contractor. We have documented 23,367 erroneous transactions totaling \$1.7 billion for FY 2001 – 2008 that were treated in this manner.

1.Z. Fiduciary Activities

Not Applicable



Note 2. Nonentity Assets

As of September 30	2009		2008	
(Amounts in thousands)				
1. Intragovernmental Assets				
A. Fund Balance with Treasury	\$	0	\$	0
B. Accounts Receivable		0		0
C. Total Intragovernmental Assets	\$	0	\$	0
2. Nonfederal Assets				
A. Cash and Other Monetary Assets	\$	0	\$	0
B. Accounts Receivable		425		0
C. Other Assets		0		0
D. Total Nonfederal Assets	\$	425	\$	0
3. Total Nonentity Assets	\$	425	\$	0
4. Total Entity Assets	\$	33,323,911	\$	33,674,522
5. Total Assets	\$	33,324,336	\$	33,674,522

Asset accounts are categorized as either entity or nonentity. Entity accounts consist of resources that are available for use in the operations of the entity. The AFWCF is authorized to decide how to use resources in entity accounts. The AFWCF may be legally obligated to use these resources to meet entity obligations.

Nonentity assets are assets for which the AFWCF maintains stewardship accountability and reporting responsibility, but are not available for the AFWCF's normal operations.

These nonentity assets are interest/penalties/administrative fees that will be forwarded to the General Fund of the Treasury upon collection.

Note 3. Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2009	2008
1. Fund Balances		
A. Appropriated Funds	\$ 0	\$ 0
B. Revolving Funds	697,367	959,598
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	<u>\$ 697,367</u>	<u>\$ 959,598</u>
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 1,409,119	\$ 1,384,148
B. Fund Balance per AFWCF	697,367	959,598
3. Reconciling Amount	<u>\$ 711,752</u>	<u>\$ 424,550</u>

The reconciling amount represents \$711.8 million for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations reporting which is separate from the AFWCF. Therefore, USTC funds are not included in the AFWCF AFS.



Status of Fund Balance with Treasury

As of September 30	2009		2008	
(Amounts in thousands)				
1. Unobligated Balance				
A. Available	\$	373,638	\$	343,595
B. Unavailable		0		0
2. Obligated Balance not yet Disbursed	\$	7,522,917	\$	7,946,888
3. Nonbudgetary FBWT	\$	0	\$	0
4. NonFBWT Budgetary Accounts	\$	(7,199,188)	\$	(7,330,885)
5. Total	\$	697,367	\$	959,598

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use.

Obligated balance not yet disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. AFWCF has no Nonbudgetary FBWT.

NonFBWT Budgetary Accounts reduces the Status of FBWT such as contract authority, accounts receivable, as well as the unfilled orders without advance from customers.

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. There are no restrictions on the Unobligated Balance.

Note 4. Investment and Related Interest

The AFWCF has no Investment and Related Interest.

Note 5. Accounts Receivable

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	\$ 718,662	N/A	\$ 718,662
2. Nonfederal Receivables (From the Public)	\$ 152,109	\$ 0	\$ 152,109
3. Total Accounts Receivable	<u>\$ 870,771</u>	<u>\$ 0</u>	<u>\$ 870,771</u>

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	\$ 786,751	N/A	\$ 786,751
2. Nonfederal Receivables (From the Public)	\$ 117,894	\$ 0	\$ 117,894
3. Total Accounts Receivable	<u>\$ 904,645</u>	<u>\$ 0</u>	<u>\$ 904,645</u>



Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 420	\$ 618
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 420	\$ 618
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 179,766	\$ 148,718
B. Advances and Prepayments	78,619	57,987
C. Other Assets (With the Public)	144,318	181,972
D. Total Nonfederal Other Assets	\$ 402,703	\$ 388,677
3. Total Other Assets	\$ 403,123	\$ 389,295

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

The Contract Financing Payments balance of \$179.8 million is comprised of \$155.6 million in contract financing payments and an additional \$24.2 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

The Nonfederal Other Assets – Other Assets (With the Public) balance of \$144.3 million is comprised primarily of \$143.9 million for Supply Management Activity Group's assets returned to vendors for which credit is pending. There will be no dollar payments received for this credit but vendor billings will be offset.

Note 7. Cash and Other Monetary Assets

The AFWCF has no Cash and Other Monetary Assets.

Note 8. Direct Loan and Loan Guarantees

The AFWCF has no Direct Loan and/or Loan Guarantee Programs.

Note 9. Inventory and Related Property

As of September 30	2009		2008 Restated	
(Amounts in thousands)				
1. Inventory, Net	\$	29,915,921	\$	30,063,021
2. Operating Materiel & Supplies, Net		143,417		193,577
3. Stockpile Materiel, Net		0		0
4. Total	\$	30,059,338	\$	30,256,598

The AFWCF processed two prior period adjustments (PPA) totaling \$3.4 billion for correction of material errors associated with inventory.

The first PPA in the amount of \$1.7 billion was processed due to a material error occurring when components of kits in the Standard Base Supply System (SBSS) were transferred from Readiness Spares Packages (RSP) and War Readiness Material (WRM) to Peace Time Operating (POS) stock. The resulting financial transactions were coded incorrectly causing the subject inventory to be treated financially as a lateral shipment of inventory instead of an inventory reclassification within the Consolidated Sustainment Activity Group-Supply Division (CSAG-Supply) Inventory. Therefore, AF inventory was inadvertently double counted and an inappropriate gain was recorded in the Standard Material Accounting System (SMAS). We have documented 76,120 erroneous transactions totaling \$1.7 billion for FY 2004 – 2007 that were treated in this manner.

The second PPA in the amount of \$1.7 billion was processed due to a material error where receipts from repair contractors were coded incorrectly for CSAG-Supply Working Capital Inventory. AFMC Inventory was double counted and a gain was recorded when the receipt was not coded to relieve the In-Transit Inventory account at the time Air Force inventory was received back from the repair contractor. We have documented 23,367 erroneous transactions totaling \$1.7 billion for FY 2001 – 2008 that were treated in this manner.

The effects of these PPAs on the financial statements are reflected in Note 26, Restatements.



Inventory, Net

As of September 30	2009			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
(Amounts in thousands)				
1. Inventory Categories				
A. Available and Purchased for Resale	\$ 19,339,696	\$ (1,462)	19,338,234	LAC,MAC
B. Held for Repair	14,885,175	(4,348,938)	10,536,237	LAC,MAC
C. Excess, Obsolete, and Unserviceable	186,549	(186,549)	0	NRV
D. Raw Materiel	0	0	0	MAC,SP,LAC
E. Work in Process	41,450	0	41,450	AC
F. Total	\$ 34,452,870	\$ (4,536,949)	29,915,921	

As of September 30	2008 Restated			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
(Amounts in thousands)				
1. Inventory Categories				
A. Available and Purchased for Resale	\$ 19,646,199	\$ (10,479)	19,635,720	LAC,MAC
B. Held for Repair	14,439,808	(4,145,848)	10,293,960	LAC,MAC
C. Excess, Obsolete, and Unserviceable	472,249	(472,249)	0	NRV
D. Raw Materiel	0	0	0	MAC,SP,LAC
E. Work in Process	133,341	0	133,341	AC
F. Total	\$ 34,691,597	\$ (4,628,576)	30,063,021	

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

Restrictions

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Materiel and nuclear related spare parts.

General Composition of Inventory

Inventory includes weapon system consumable and repairable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for

eventual sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee.

Definitions

Inventory Available and Purchased for Resale includes consumable and reparable parts owned and managed by AFWCF.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because AFWCF often relies on weapon systems and machinery no longer in production, AFWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

Excess, Obsolete, and Unserviceable inventory consists of obsolete, excess to requirements, or items that cannot be economically repaired and are awaiting disposal.

Work in Process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work in Process also includes the value of finished products or completed services pending the submission of bills to the customer.



Operating Materiel and Supplies, Net

As of September 30	2009			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	\$ 143,417	\$ 0	\$ 143,417	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
D. Total	\$ 143,417	\$ 0	\$ 143,417	

As of September 30	2008			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	\$ 193,577	\$ 0	\$ 193,577	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
D. Total	\$ 193,577	\$ 0	\$ 193,577	

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

General Composition of Operating Materiel and Supplies

Operating Materiel and Supplies (OM&S) includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems.

Restrictions

There are no restrictions on the use, sale, or disposition of OM&S.

Definition

Held for Use includes consumable parts and supplies.

Stockpile Materials, Net

Not Applicable

Note 10. General PP&E, Net

As of September 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	\$ 0	N/A	\$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	974,901	(671,482)	303,419
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	1,137,415	(909,880)	227,535
E. General Equipment	S/L	5 or 10	2,351,361	(1,645,858)	705,503
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	57,280	N/A	57,280
J. Other			0	0	0
K. Total General PP&E			\$ 4,520,957	\$ (3,227,220)	\$ 1,293,737

As of September 30	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	\$ 0	N/A	\$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	932,320	(673,436)	258,884
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	1,097,939	(831,623)	266,316
E. General Equipment	S/L	5 or 10	2,157,924	(1,573,174)	584,750
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	54,436	N/A	54,436
J. Other			0	0	0
K. Total General PP&E			\$ 4,242,619	\$ (3,078,233)	\$ 1,164,386

¹ Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

AFWCF does not have any restrictions on the use or convertibility of General PP&E.



Assets Under Capital Lease

The AFWCF has no Assets Under Capital Lease.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	0	0
D. Total Intragovernmental Liabilities	\$ 0	\$ 0
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Military Retirement and Other Federal Employment Benefits	193,709	217,337
C. Environmental Liabilities	0	0
D. Other Liabilities	0	28,376
E. Total Nonfederal Liabilities	\$ 193,709	\$ 245,713
3. Total Liabilities Not Covered by Budgetary Resources	\$ 193,709	\$ 245,713
4. Total Liabilities Covered by Budgetary Resources	\$ 1,460,241	\$ 1,594,591
5. Total Liabilities	\$ 1,653,950	\$ 1,840,304

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$193.7 million for Federal Employee's Compensation Act. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable
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As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 153,539	\$ N/A	\$ 153,539
2. Nonfederal Payables (to the Public)	796,397	0	796,397
3. Total	\$ 949,936	\$ 0	\$ 949,936

As of September 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 94,776	\$ N/A	\$ 94,776
2. Nonfederal Payables (to the Public)	817,558	0	817,558
3. Total	\$ 912,334	\$ 0	\$ 912,334

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by AFWCF. The AFWCF's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

The AFWCF has no Debt.

Note 14. Environmental Liabilities and Disposal Liabilities

The AFWCF has no Environmental Liabilities and Disposal Liabilities.



Note 15. Other Liabilities

As of September 30

2009

Current
Liability

Noncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$	(1,004)	\$	0	\$	(1,004)
B. Deposit Funds and Suspense Account Liabilities		0		0		0
C. Disbursing Officer Cash		0		0		0
D. Judgment Fund Liabilities		0		0		0
E. FECA Reimbursement to the Department of Labor		0		0		0
F. Custodial Liabilities		425		0		425
G. Employer Contribution and Payroll Taxes Payable		14,110		0		14,110
H. Other Liabilities		0		0		0
I. Total Intragovernmental Other Liabilities	\$	13,531	\$	0	\$	13,531

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	169,070	\$	0	\$	169,070
B. Advances from Others		26,297		0		26,297
C. Deferred Credits		0		0		0
D. Deposit Funds and Suspense Accounts		0		0		0
E. Temporary Early Retirement Authority		0		0		0
F. Nonenvironmental Disposal Liabilities						
(1) Military Equipment (Nonnuclear)		0		0		0
(2) Excess/Obsolete Structures		0		0		0
(3) Conventional Munitions Disposal		0		0		0
G. Accrued Unfunded Annual Leave		0		0		0
H. Capital Lease Liability		0		0		0
I. Contract Holdbacks		3,352		0		3,352
J. Employer Contribution and Payroll Taxes Payable		0		0		0
K. Contingent Liabilities		0		24,176		24,176
L. Other Liabilities		273,878		0		273,878
M. Total Nonfederal Other Liabilities	\$	472,597	\$	24,176	\$	496,773

3. Total Other Liabilities

	\$	486,128	\$	24,176	\$	510,304
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Annual Financial Statement 2009

Working Capital Fund

Notes to the Principal Statements

As of September 30	2008		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	\$ 74,062	\$ 0	\$ 74,062
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	0	0	0
F. Custodial Liabilities	0	0	0
G. Employer Contribution and Payroll Taxes Payable	12,240	0	12,240
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	\$ 86,302	\$ 0	\$ 86,302
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 151,662	\$ 0	\$ 151,662
B. Advances from Others	24,926	0	24,926
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	1,990	0	1,990
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	21,955	21,955
L. Other Liabilities	423,798	0	423,798
M. Total Nonfederal Other Liabilities	\$ 602,376	\$ 21,955	\$ 624,331
3. Total Other Liabilities	\$ 688,678	\$ 21,955	\$ 710,633



AFWCF has an abnormal balance on line 1.A. Intragovernmental Advances from Others in the amount of \$1.0 million that occurred in the 4th Quarter, FY 2009. The abnormal balance was caused by an overliquidation of a previous progress billing. Research has been initiated to determine the root cause and anticipate the analysis to be completed and balance corrected during 1st Quarter, FY 2010.

The majority of the Nonfederal Other Liabilities balance is comprised of \$225.9 million for Contract Depot Maintenance Activity Group's accrued material and labor liabilities.

Contingent liabilities include \$24.2 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 the rights of ownership. The AFWCF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the AFWCF 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.

Capital Lease Liability

The AFWCF has no Capital Lease Liability.

Note 16. Commitments and Contingencies

The AFWCF is a party in various administrative proceedings and legal actions, related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The AFWCF's Office of the General Counsel considers the possibility of the AFWCF sustaining any losses on these legal actions to be remote.

The AFWCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, AFWCF has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore no associated liabilities are recognized or disclosed.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	\$ 0		\$ 0	\$ 0
2. Other Actuarial Benefits				
A. FECA	\$ 193,710		\$ 0	\$ 193,710
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	\$ 193,710		\$ 0	\$ 193,710
3. Other Federal Employment Benefits	\$ 0		\$ 0	\$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 193,710		\$ 0	\$ 193,710

Actuarial Cost Method Used:

Assumptions:

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



As of September 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
1. Pension and Health Actuarial Benefits				
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0
C. Military Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Actuarial Benefits	\$ 0		\$ 0	\$ 0
2. Other Actuarial Benefits				
A. FECA	\$ 217,337		\$ 0	\$ 217,337
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. Total Other Actuarial Benefits	\$ 217,337		\$ 0	\$ 217,337
3. Other Federal Employment Benefits	\$ 0		\$ 0	\$ 0
4. Total Military Retirement and Other Federal Employment Benefits:	\$ 217,337		\$ 0	\$ 217,337

Actuarial Cost Method Used:

Assumptions:

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

Federal Employees Compensation Act (FECA)

The AFWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and is updated at the end of each fiscal year. The liability includes the estimated liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments. The projected annual benefit payments are discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments (COLAs) and consumer price index medical (CPIM) factors are applied to the calculation of projected future benefits.

Air Force Working Capital Fund

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the

ultimate payments related to that period. Consistent with past practice, these projected annual benefits payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2009

4.223% in Year 1
4.715% in Year 2
and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2009 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 CBY were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2009 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2009 projection to the average pattern for the projections of the most recent three years.



Note 18.

General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue

As of September 30

(Amounts in thousands)

	2009	2008 Restated
1. Intragovernmental Costs	\$ 2,293,064	\$ 4,292,130
2. Public Costs	8,241,327	6,435,022
3. Total Costs	\$ 10,534,391	\$ 10,727,152
4. Intragovernmental Earned Revenue	\$ (10,030,681)	\$ (10,176,218)
5. Public Earned Revenue	(349,388)	(608,692)
6. Total Earned Revenue	\$ (10,380,069)	\$ (10,784,910)
7. Net Cost of Operations	\$ 154,322	\$ (57,758)

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 AFWCF's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal 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 DoD's current processes and systems generally do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is 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 Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

The AFWCF records transactions on an accrual basis. The AFWCF may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information, historical data, and current data not yet input are made as required by generally accepted accounting principles. These estimates reverse as actual costs or revenues are recorded.

The AFWCF processed two prior period adjustments (PPA) totaling \$3.4 billion for material errors associated with inventory.

The first PPA in the amount of \$1.7 billion was processed due to a material error occurring when components of kits in the Standard Base Supply System (SBSS) were transferred from Readiness Spares Packages (RSP) and War Readiness Material (WRM) to Peace Time Operating (POS) stock. The resulting financial transactions were coded incorrectly causing the subject inventory to be treated financially as a lateral shipment of inventory instead of an inventory reclassification within the Consolidated Sustainment Activity Group-Supply Division (CSAG-Supply) Inventory. Therefore, AF inventory was inadvertently double counted and an inappropriate gain was recorded in the Standard Material Accounting System (SMAS). We have documented 76,120 erroneous transactions totaling \$1.7 billion for FY 2004 – 2007 that were treated in this manner.

The second PPA in the amount of \$1.7 billion was processed due to a material error where receipts from repair contractors were coded incorrectly for CSAG-Supply Working Capital Inventory. AFMC Inventory was double counted and a gain was recorded when the receipt was not coded to relieve the In-Transit Inventory account at the time Air Force inventory was received back from the repair contractor. We have documented 23,367 erroneous transactions totaling \$1.7 billion for FY 2001 – 2008 that were treated in this manner.

The processing of these PPAs resulted in a prior period adjustment of \$3.4 billion, of which \$233.0 million affected the FY 2008 Gross Costs ending balance. The effects of these PPAs on the financial statements are reflected in Note 26, Restatements.



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

Other Financing Sources, Other is comprised of:

1. A \$62.5 million adjusting entry that increased Real Property balance and nonexchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to a one time adjustment processed in the 1st Quarter, FY 2009 to adjust the balance on the AFWCF financial statements to match that of the Automated Civil Engineer System - Real Property (ACES-RP).
2. A \$54.9 million adjusting entry that increased Equipment balance and nonexchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to an adjustment processed in the 4th Quarter, FY 2009 to adjust the balances on the AFWCF financial statements to agree with the Defense Industrial Financial Management System (DIFMS) and the Air Force Equipment Management System (AFEMS).
3. A (\$23.9) million reclassification from an exchange loss presented on the Statement of Net Cost of Operations to a nonexchange loss presented as Other Financing Sources on the Statement of Changes in Net Position due to property transfers for which a trading partner could not be identified.

The AFWCF processed two prior period adjustments (PPA) totaling \$3.4 billion for material errors associated with inventory.

1. The first PPA in the amount of \$1.7 billion was processed due to a material error occurring when components of kits in the Standard Base Supply System (SBSS) were transferred from Readiness Spares Packages (RSP) and War Readiness Material (WRM) to Peace Time Operating (POS) stock. The resulting financial transactions were coded incorrectly causing the subject inventory to be treated financially as a lateral shipment of inventory instead of an inventory reclassification within the Consolidated Sustainment Activity Group-Supply Division (CSAG-Supply) Inventory. Therefore, AF inventory was inadvertently double counted and an inappropriate gain was recorded in the Standard Material Accounting System (SMAS). We have documented 76,120 erroneous transactions totaling \$1.7 billion for FY 2004 – 2007 that were treated in this manner.
2. The second PPA in the amount of \$1.7 billion was processed due to a material error where receipts from repair contractors were coded incorrectly for CSAG-Supply Working Capital Inventory. AFMC Inventory was double counted and a gain was recorded when the receipt was not coded to relieve the In-Transit Inventory account at the time Air Force inventory was received back from the repair contractor. We have documented 23,367 erroneous transactions totaling \$1.7 billion for FY 2001 – 2008 that were treated in this manner.
3. The processing of these PPAs resulted in a prior period adjustment of \$3.4 billion. The effects of these PPAs on the financial statements are reflected in Note 26, Restatements.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of September 30	2009	2008
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 6,276,148	\$ 6,596,132
2. Available Borrowing and Contract Authority at the End of the Period	0	0

All of AFWCF obligations are reimbursable obligations in apportionment category B.

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



Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30

2009

2008 Restated

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$ 11,238,329	\$ 10,968,071
2. Less: Spending authority from offsetting collections and recoveries (-)	(11,280,419)	(11,765,169)
3. Obligations net of offsetting collections and recoveries	\$ (42,090)	\$ (797,098)
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	\$ (42,090)	\$ (797,098)
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(64,772)	(47,477)
8. Imputed financing from costs absorbed by others	151,466	144,150
9. Other (+/-)	93,605	(632,100)
10. Net other resources used to finance activities	\$ 180,299	\$ (535,427)
11. Total resources used to finance activities	\$ 138,209	\$ (1,332,525)

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 (-)	\$ 319,984	\$ 600,220
12b. Unfilled Customer Orders	(345,924)	(319,145)
13. Resources that fund expenses recognized in prior Periods (-)	(52,004)	(11,609)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
15. Resources that finance the acquisition of assets (-)	(5,012,188)	(4,945,969)
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	0
16b. Other (+/-)	(28,833)	679,577
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (5,118,965)	\$ (3,996,926)
18. Total resources used to finance the Net Cost of Operations	\$ (4,980,756)	\$ (5,329,451)

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Working Capital Fund
Notes to the Principal Statements

As of September 30	2009	2008 Restated
(Amounts in thousands)		
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	\$ 0	\$ 0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	0	46
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 0	\$ 46
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 161,990	\$ 132,208
26. Revaluation of assets or liabilities (+/-)	917,325	1,077,513
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	7,846,612	5,888,617
27c. Operating Material and Supplies Used	78,280	0
27d. Other	(3,869,129)	(1,826,691)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 5,135,078	\$ 5,271,647
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ 5,135,078	\$ 5,271,693
30. Net Cost of Operations	\$ 154,322	\$ (57,758)

Due to the AFWCF's financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. The difference between budgetary and proprietary data is a previously identified deficiency.

Resources That Finance the Acquisition of Assets is adjusted in order to align the note schedule with the amount reported on the Statement of Net Cost. This adjustment of \$72.0 million (absolute value) was made in Finance the Acquisition of Assets category.



The following 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

The majority of Resources Used to Finance Activities, Other line is comprised of:

1. A \$62.5 million adjusting entry that increased Real Property balance and nonexchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to a one time adjustment processed in the 1st Quarter, FY 2009 to adjust the balance on the AFWCF financial statements to match that of the Automated Civil Engineer System - Real Property (ACES-RP).
2. A \$54.9 million adjusting entry that increased Equipment balance and nonexchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to an adjustment processed in the 3rd Quarter, FY 2009 to adjust the balances on the AFWCF financial statements to agree with the Defense Industrial Financial Management System (DIFMS) and the Air Force Equipment Management System (AFEMS).
3. A (\$23.9) million reclassification from an exchange loss presented on the Statement of Net Cost of Operations to a nonexchange loss presented as Other Financing Sources on the Statement of Changes in Net Position due to property transfers for which a trading partner could not be identified.

The majority of Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations is comprised of:

1. A \$62.5 million adjusting entry that increased Real Property balance and nonexchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to a one time adjustment processed in the 1st Quarter, FY 2009 to adjust the balance on the AFWCF financial statements to match that of the Automated Civil Engineer System - Real Property (ACES-RP)
2. A \$54.9 million adjusting entry that increased Equipment balance and nonexchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to an adjustment processed in the 3rd Quarter, FY 2009 to adjust the balances on the AFWCF financial statements to agree with the Defense Industrial Financial Management System (DIFMS) and the Air Force Equipment Management System (AFEMS).
3. A (\$23.9) million reclassification from an exchange loss presented on the Statement of Net Cost of Operations to a nonexchange loss presented as Other Financing Sources on the Statement of Changes in Net Position due to property transfers for which a trading partner could not be identified.

4. (\$64.8) million represents property transfers to other DoD agencies.

The majority of Other Components not Requiring or Generating Resources is comprised of \$3.9 billion for Depot Maintenance Activity Group work-in-process offsets.

Note 22.	Disclosures Related to Incidental Custodial Collections
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The AFWCF collects incidental custodial revenues generated primarily from these nonentity interest/penalties/administrative fees and distributes them to the General Fund of the Treasury.

Note 23. Earmarked Funds

The AFWCF has no Earmarked Funds.

Note 24. Fiduciary Activities

AFWCF has no Fiduciary Activities.

Note 25. Other Disclosures

The AFWCF has no Other Disclosures.



Note 26. Restatements

The AFWCF processed two prior period adjustments (PPA) totaling \$3.4 billion for material errors associated with inventory.

The first PPA in the amount of \$1.7 billion was processed due to a material error occurring when components of kits in the Standard Base Supply System (SBSS) were transferred from Readiness Spares Packages (RSP) and War Readiness Material (WRM) to Peace Time Operating (POS) stock. The resulting financial transactions were coded incorrectly causing the subject inventory to be treated financially as a lateral shipment of inventory instead of an inventory reclassification within the Consolidated Sustainment Activity Group-Supply Division (CSAG-Supply) Inventory. Therefore, AF inventory was inadvertently double counted and an inappropriate gain was recorded in the Standard Material Accounting System (SMAS). We have documented 76,120 erroneous transactions totaling \$1.7 billion for FY 2004 – 2007 that were treated in this manner.

The second PPA in the amount of \$1.7 billion was processed due to a material error where receipts from repair contractors were coded incorrectly for CSAG-Supply Working Capital Inventory. AFMC Inventory was double counted and a gain was recorded when the receipt was not coded to relieve the In-Transit Inventory account at the time Air Force inventory was received back from the repair contractor. We have documented 23,367 erroneous transactions totaling \$1.7 billion for FY 2001 – 2008 that were treated in this manner.

Correction of these errors resulted in the following line items in the 2008 financial statements:

- a. CONSOLIDATED BALANCE SHEET
 - i. Inventory and Related Property, Net: \$3.4 billion
 - ii. Total Assets: \$3.4 billion
 - iii. Cumulative Results of Operations - Other Funds: \$3.4 billion
 - iv. Total Net Position: \$3.4 billion
 - v. Total Liabilities and Net Position: \$3.4 billion

- b. CONSOLIDATED STATEMENT OF NET COST
 - i. Gross Costs: (\$233.0) million
 - ii. Net Program Costs: (\$233.0) million
 - iii. Net Cost of Operations: (\$233.0) million

- c. CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 - i. Corrections of errors (+/-): \$3.2 billion
 - ii. Net Cost of Operations (+/-): (\$233.0) million
 - iii. Net Position: \$3.4 billion

Working Capital Fund

Fiscal Year 2009

Required Supplementary Information





Statement of Disaggregated Budgetary Resources

As of September 30, 2009 and 2008 (\$ in thousands)

	<u>Working Capital Fund</u>	<u>2009 Combined</u>	<u>2008 Combined</u>
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	\$ 343,595	\$ 343,595	\$ 1,073,782
Recoveries of prior year unpaid obligations	89,013	89,013	0
Budget authority			
Appropriation	61,465	61,465	66,458
Contract authority	7,255,839	7,255,839	6,633,730
Spending authority from offsetting collections			
Earned			
Collected	11,599,508	11,599,508	11,677,265
Change in receivables from Federal sources	(62,179)	(62,179)	407,049
Change in unfilled customer orders			
Advance received	(98,643)	(98,643)	(77,781)
Without advance from Federal sources	<u>(247,280)</u>	<u>(247,280)</u>	<u>(241,364)</u>
Subtotal	\$ 18,508,710	\$ 18,508,710	\$ 18,465,357
Nonexpenditure transfers, net, anticipated and actual	(251,274)	(251,274)	(88,000)
Permanently not available	<u>(7,078,077)</u>	<u>(7,078,077)</u>	<u>(8,139,473)</u>
Total Budgetary Resources	<u>\$ 11,611,967</u>	<u>\$ 11,611,967</u>	<u>\$ 11,311,666</u>
STATUS OF BUDGETARY RESOURCES:			
Obligations incurred:			
Reimbursable	11,238,329	11,238,329	10,968,071
Subtotal	<u>11,238,329</u>	<u>11,238,329</u>	<u>10,968,071</u>
Unobligated balance:			
Apportioned	0	0	343,595
Exempt from apportionment	373,638	373,638	0
Subtotal	<u>373,638</u>	<u>373,638</u>	<u>343,595</u>
Total status of budgetary resources	<u>\$ 11,611,967</u>	<u>\$ 11,611,967</u>	<u>\$ 11,311,666</u>
CHANGE IN OBLIGATED BALANCE:			
Obligated balance, net			
Unpaid obligations, brought forward, October 1	\$ 7,946,887	\$ 7,946,887	\$ 8,883,865
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(4,010,572)	(4,010,572)	(3,844,887)
Total unpaid obligated balance	<u>3,936,315</u>	<u>3,936,315</u>	<u>5,038,978</u>
Obligations incurred net (+/-)	11,238,329	11,238,329	\$ 10,968,071
Less: Gross outlays	(11,573,286)	(11,905,048)	(11,905,048)
Obligated balance transferred, net payments from Federal sources (+/-)			
Less: Recoveries of prior year unpaid obligations, actual	\$ (89,013)	\$ (89,013)	\$ 0
Change in uncollected customer payments from Federal sources (+/-)	309,459	309,459	(165,685)
Obligated balance, net, end of period			
Unpaid obligations	7,522,917	7,522,917	7,946,888
Less: Uncollected customer payments (+/-) from Federal sources (-)	(3,701,113)	(3,701,113)	(4,010,572)
Total, unpaid obligated balance, net, end of period	3,821,804	3,821,804	3,936,316
NET OUTLAYS			
Net Outlays:			
Gross outlays	11,573,286	11,573,286	11,905,048
Less: Offsetting collections	<u>(11,500,865)</u>	<u>(11,500,865)</u>	<u>(11,599,484)</u>
Net Outlays	<u>\$ 72,421</u>	<u>\$ 72,421</u>	<u>\$ 305,564</u>

Working Capital Fund
Fiscal Year 2009
Audit Opinion





INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 08, 2009

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Air Force Working Capital Fund FY 2009 and
FY 2008 Basic Financial Statements (Report No. D-2010-008)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Air Force Working Capital Fund Consolidated Balance Sheet as of September 30, 2009 and 2008, and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources for the fiscal years then ended. The financial statements are the responsibility of Air Force management. The Air Force is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Air Force Working Capital Fund FY 2009 and FY 2008 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that the Air Force Working Capital Fund FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Air Force financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to perform only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04, "Audit Requirements for Federal Financial

Statements,” as amended¹ to determine whether material amounts on the financial statements were presented fairly.

Prior audits have identified, and the Air Force has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements.² Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management’s Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

In planning our work, we considered Air Force internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified significant deficiencies, all of which are material, continued to exist in the following areas:

- Financial Management Systems
- In-Transit Inventory
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Subsidiary Ledgers and Special Journals
- Intragovernmental Eliminations
- Other Accounting Entries

¹ OMB Memorandum M-09-33, Technical Amendments to OMB Bulletin No. 07-04, “Audit Requirements for Federal Financial Statements,” September 23, 2009.

² The annual financial statements include the Basic Financial Statements, Management’s Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information.



A material weakness is a significant deficiency, or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.³

A significant deficiency is a control deficiency,⁴ or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

The following previously identified significant deficiencies continue to exist.

- Accounts Receivable
- Accounts Payable

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, most of which we consider to be material internal control weaknesses.

The Air Force reported some of the above weaknesses in its FY 2009 Statement of Assurance. However, it did not report material weaknesses involving Financial Management Systems; Operating Materials and Supplies; General Plant, Property, and Equipment; Subsidiary Ledgers and Special Journals; Intragovernmental Eliminations; and Other Accounting Entries.

Summary of Compliance With Laws and Regulations

We limited our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that Air Force's financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Air Force complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

³ The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.


⁴ A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Assistant Secretary of the Air Force (Financial Management and Comptroller), who provided technical comments that we have incorporated as appropriate. The Air Force officials expressed their continuing commitment to address the problems this report outlines.


Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated



Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and significant deficiencies that could adversely affect the Air Force financial management operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

Financial Management Systems

Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure that transactions are executed in accordance with budgetary and financial law and other requirements, consistent with the purpose authorized; and recorded in accordance with Federal accounting standards. Statement of Federal Financial Accounting Concepts No. 1 also requires that financial management system controls ensure proper safeguards for assets to deter fraud, waste, and abuse, and that there is adequate support for performance measurements information. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged that many Air Force financial management systems do not substantially comply with Federal financial management system requirements. The design of Air Force financial management and feeder systems does not allow them to collect and record financial information based on a full-accrual accounting basis. Until these systems are able to collect and report financial information in compliance with U.S. GAAP, Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

In-Transit Inventory

Air Force supply management systems do not provide sufficient audit trails to confirm and value the in-transit inventory included as part of inventory held for sale on the Consolidated Balance Sheet.

Operating Materials and Supplies

The Air Force is required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," to record an expense at the time a user consumes Operating Materials and Supplies. The Air Force does not record cost-of-goods-sold and work-in-process in accordance with Statement of Federal Financial Accounting Standards

No 3. Additionally, uncertainties exist regarding the existence and completeness of the quantities used to derive the balances reported in the financial statements for Operating Materials and Supplies inventory.

General Property, Plant, and Equipment

Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force cannot verify General Property, Plant, and Equipment values in accordance with Statement of Federal Financial Accounting Standards No. 6. In addition, the General Property, Plant, and Equipment line item on the Balance Sheet does not include all Government-furnished equipment (with values exceeding the capitalization threshold) in the hands of contractors).

Subsidiary Ledgers and Special Journals

Air Force Working Capital Fund resource managers do not always maintain adequate documentation or use transaction subsidiary ledgers and special journals to support recorded trial balance accounts. Air Force and Defense Finance and Accounting Service personnel do not perform reconciliations and system validations to verify the accuracy of accounts receivable from foreign military sales, progress payments to contractors, and accounts payable from the Materiel Support Division.

Intragovernmental Transaction Accounting

The Air Force cannot accurately identify all intragovernmental transactions by customer. Seller entities within DOD provide summary balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DOD accounting offices. In most cases, the Air Force adjusts its buyer-side records to recognize unrecorded costs and accounts payable.

Other Accounting Entries

The Air Force acknowledges that it continues to make material adjustments for financial reporting that are not supported by detail transactions because of its inability to properly identify intragovernmental trading partner transactions and the deficiencies described above.

Previously Identified Significant Deficiencies

Previously identified significant deficiencies continued to exist in the following areas.

Accounts Receivable

The Air Force cannot assure the validity of Accounts Receivable reported on its financial statements because of significant deficiencies in internal control. Specifically, the significant deficiencies include intragovernmental trading partner eliminations, Foreign Military Sales, undistributed collections, the completeness of the Tri-annual Review, and the lack of supporting documentation.



Accounts Payable

The Air Force cannot assure the accuracy of Accounts Payable reported in the Basic Financial Statements because of significant deficiencies in intragovernmental trading partner elimination, accruals, supporting documentation, and the completeness of the Tri-Annual Review. Because of these weaknesses, the Air Force is unable to properly reconcile and support the validity of Accounts Payable.

These financial management deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Air Force was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2009, the Air Force did not fully comply with FFMIA. The Air Force acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2009.

Audit Disclosures

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us on March 17, 2009, that the Air Force financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continued to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Antideficiency Act, Federal Credit Reform Act of 1990, Pay Provisions and Allowance System for Civilian Employees, Prompt Payment Act, and Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act).

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because previous audit reports contained recommendations for corrective actions or because audit projects currently in progress will include appropriate recommendation.



(U.S. Air Force Photo by SrA Matthew Smith)



UNITED STATES AIR FORCE

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U.S. AIR FORCE

