



**UNITED STATES AIR FORCE**  
**Annual Financial Statement**

A green-tinted collage featuring a central globe of the Earth. Surrounding the globe are various images of aircraft: a large transport plane at the top, a fighter jet on the right, and several smaller jets on the left. At the bottom, a group of people is shown, some looking towards the camera. The entire image has a soft, circular vignette effect.

"Aim High ... *fly-fight-win*"

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November 2011

## Message from the Secretary of the Air Force



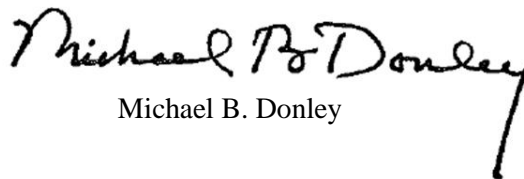
I am pleased to present the Air Force Annual Financial Statement for Fiscal Year 2011. The report provides the financial position and results of operations that support the Air Force mission and priorities.

Today's complex strategic environment calls for military forces that are ready to conduct a multitude of missions on short notice across the globe. As part of the joint team, America's Air Force unfailingly provides Global Vigilance, Reach, and Power across the full spectrum of operations. From humanitarian relief operations to the continuous air sovereignty, space, cyber, and nuclear deterrence missions, the speed, precision, and versatility of the U.S. Air Force is tested and proven daily.

At a time when the Nation is focused on economic recovery and deficit reduction, the Air Force is committed to ensuring the effective and efficient use of our resources as we execute our vital missions. Therefore, we must continue to standardize data, systems, and business processes – and we must make tough strategic choices.

Closely linked with our efforts to improve internal efficiencies, we are working aggressively toward financial improvement and audit readiness. The Air Force is developing a plan to achieve the Secretary of Defense's direction to accelerate audit readiness of the General Fund Statement of Budgetary Resources, and we are dedicating additional resources to audit readiness in FY 2012 and FY 2013. Improving the accuracy, reliability, and timeliness of financial information supports better decision making at every level, while audit readiness further ensures confidence in our financial reporting and financial management.

The 2011 Annual Financial Statement reflects the dedication and commitment of the Air Force to effectively and responsibly manage our resources. As we carry out our responsibility to defend the Nation, we will continue to serve with integrity, dedication, and a commitment to excellence.

  
Michael B. Donley



November 2011



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

The Fiscal Year (FY) 2011 Annual Financial Statement of the U.S. Air Force presents our financial position and results of operations. It allows Congress, senior defense leaders, and the public to assess our management performance while highlighting our efforts to continuously improve financial management processes and systems. Our goal is to obtain auditable financial statements in order to enable better management of taxpayer resources. We have made great strides towards this goal, including receiving our first unqualified opinion on a statement line item. In August 2011, KPMG, LLP, affirmed the internal controls over the *Budget Authority – Appropriation* line of the Statement of Budgetary Resources are designed to operate effectively to prevent, detect, and correct material misstatements. In October 2011, we received a clean opinion on Funds Balance with Treasury (FBWT) reconciliation from Price Waterhouse Cooper.

We have asserted the existence and completeness of military equipment (e.g. aerospace vehicles and externally carried pods) and operating materials and supplies (e.g. cruise missiles, aerial drones, and targets). We expect to begin an independent examination for elements of our military equipment in the first quarter of FY 2012. However, the Air Force acknowledges it has material weaknesses in other areas and is aggressively working to implement our corrective action plans.

Our ability to achieve audit readiness depends in part on our ability to field our Enterprise Resource Planning Systems (ERPs), such as the Defense Enterprise Accounting and Management System (DEAMS). In fielding our ERPs, we have benefited greatly from being slightly behind the other Services. We have closely observed their deployments and leveraged lessons learned. We are pushing forward, consistent with guidance from the Office of Management and Budget (OMB) and others, to deploy these ERPs in smaller pieces in order to improve accountability.

With our Nation's serious fiscal challenges, we must streamline our financial management processes for greater efficiency and effectiveness in executing wartime requirements. Accordingly, producing auditable financial statements becomes even more critical in demonstrating accountability for taxpayer dollars. The Secretary of Defense recently directed acceleration of our plan to achieve audit readiness of the Statement of Budgetary Resources (SBR) by 2014. I have chartered a cross functional team to build a detailed acceleration plan for Secretary Panetta's review. While we work to accelerate the SBR, it is imperative that we continue to improve our business practices, asset accountability, and training of our work force to gain full audit readiness by 2017.

The Air Force is committed to good stewardship of the resources entrusted to us and to achieving a clean financial audit. I am confident that we have a sound plan and dedicated Airmen who will make this goal a reality.

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

Jamie M. Morin



## Air Force Vision

"The United States Air Force will be a trusted, reliable joint partner with our sister services known for integrity in all of our activities, including supporting the joint mission first and foremost. We will provide compelling air, space, and cyber capabilities for use by the Combatant Commanders. We will excel as stewards of all Air Force resources in service to the American people, while providing precise and reliable Global Vigilance, Reach and Power for the nation."

## Air Force Mission

The mission of the United States Air Force is to  
*fly, fight and win...in air, space and cyberspace.*

# Management Discussion and Analysis

## **Air Force in Action—FY 2011**

The United States faces diverse and complex security challenges that require a range of agile and flexible capabilities. From the ongoing conflicts in Afghanistan and Iraq, to potential confrontation with aggressive state and non-state actors, to providing humanitarian assistance, the United States Air Force continues to provide capabilities across the full spectrum of potential military operations. Over 36,000 deployed Airmen are engaged in many diverse mission areas, from training the Iraq and Afghanistan police, providing medical supplies in Afghanistan, to assisting with transportation and security details. 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:

- Continue to strengthen the 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

### ***Continue to strengthen the nuclear enterprise***

Air Force Global Strike Command achieved full operational capability (FOC) on September 30, 2010, moving all Air Force nuclear-capable bombers and Intercontinental Ballistic Missiles (ICBMs) under one command. The Air Force Nuclear Weapons Center continues to pursue vital and deliberate sustainment of the nuclear enterprise through efforts such as the Air Force Comprehensive Assessment of Nuclear Sustainment process. Bomber force modernization continued in an effort to maintain a viable force beyond 2030. We have completed the transition to four B-52 operational squadrons with the addition of the 69th Bomb Squadron at Minot Air Force Base, North Dakota. ICBM also continued with investments in new test equipment and launch facility environment control systems.

### ***Partner with the joint and coalition team to win today's fight***

Today's engagements require Airmen to perform their duties effectively and achieve influence in culturally complex environments around the globe. The Air Force continues to emphasize extensive language skills and regional knowledge in its growing cadre of Regional Affairs Strategists. These personnel work with partner nations as attachés and Security Cooperation Officers, filling positions requiring in-depth understanding of the interagency processes key to building partnerships.

### ***Develop and care for Airmen and their families***

The Air Force is proud of its commitment to supporting its Airmen and families. It maintains an enduring emphasis on Airmen and families by actively engaging the entire Air Force Community: Total Force Airmen, Department of the Air Force civilians, single and married personnel, primary and extended family members, retirees, and on and off-base community partners. We continue to strengthen our community by expanding child care through different programs such as the Extended Duty Program, Home Community Care, Missile Care, and Supplemental Child Care initiative. In FY 2011, we launched the Food Transformation Initiative to address Airmen's concerns with dining facility closings, lack of healthy food options, and insufficient hours of operation. The Air Force continues to expand our efforts to improve resiliency of Airmen and their families before, during, and after deployments and has significantly expanded capabilities to ensure support and reintegration of our Total Force.

### ***Modernize our air and space inventories, organizations and training***

Air superiority is crucial in modern warfare. It enables air, land and maritime operations in support of our Joint, Interagency and Coalition partners. For over five decades, Air Force investments, expertise and sacrifice in achieving air superiority have ensured that friendly ground forces operate without threat of attack from enemy aircraft. Airspace control remains vitally important in all operating environments. Ongoing air defense modernizations efforts include:

- Upgrading to a fifth-generation fleet with F-22 modifications to provide fleet commonality and ensure the viability of our legacy weapons systems
- Modernizing our legacy fleet of F-15 fighter aircraft with AESA radars to ensure their viability well into the future
- Enhancing electronic warfare including EC-130H Compass Call fleet upgrades, and a flight deck and mission crew simulator to increase training capacity

### ***Recapture acquisition excellence***

The Air Force continues to strive for acquisition excellence by increasing the rigor and transparency of its processes and by stabilizing requirements and funding. We have taken a multi-faceted approach to recapturing acquisition excellence to include:

- Rebuilding the acquisition workforce
- Delivering a fully implemented Acquisition Improvement Plan to guide and shape current and future efforts
- Creating a foundation for a robust Continuous Process Improvement function within acquisition



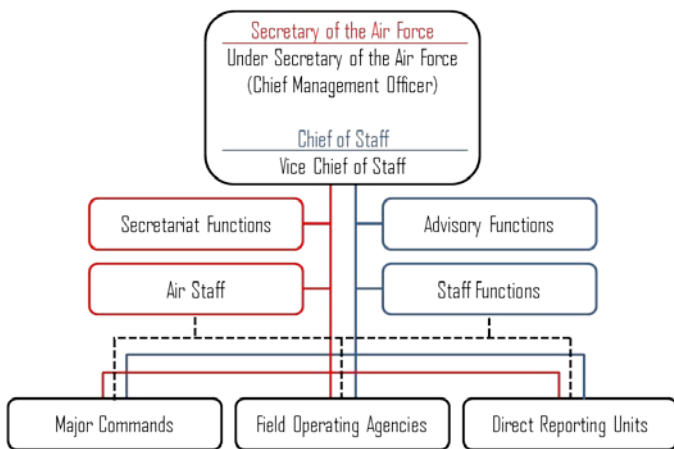
## Management Discussion and Analysis

- Implementing approximately 75 efficiency initiatives that range in scope and impact throughout the acquisition enterprise

### 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 (see Figure 1). Immediately subordinate to the departmental headquarters are the Major Commands (MAJCOMs), Field Operating Agencies (FOAs), Direct Reporting Units (DRUs), and the Auxilliary.

Figure 1: Air Force Organization Chart



### Major Command Structure

Most units of the Air Force are assigned to a specific major command (MAJCOM), led by a general officer. MAJCOMs have extensive functional responsibilities as will be shown on the following pages. They may be subdivided into Numbered Air Forces (NAF) with each responsible for one or more wings or independent groups.

Wings are the primary units of the working Air Force and are responsible for maintaining an Air Force base or carrying out a specific mission. Wings may be commanded by a general officer or a colonel. There are different types of wings, based on objective: operational, air base, or specialized mission. A wing may have several squadrons in more than one dependent group. Wings typically contain an operations group, a maintenance group, a support group and a medical group.

The majority of individual officers and Airmen are assigned to a squadron, which may be composed of several flights.

Additionally, there are other types of organizations in the Air Force structure such as centers, field operating agencies and direct reporting units.



### Air Combat Command (ACC)

Mission: *Aim High... fly, fight, and win...*

integrating capabilities across air, space, and cyberspace to deliver precise, coercive effects in defense of our nation and its global interests.

**Responsibilities:** ACC is the lead command for the combat Air Force. The command organizes, trains, equips and deploys combat-ready forces to support combatant commanders around the globe. Additionally, ACC is the air component headquarters to U.S. Northern, Southern and Central commands and supports the in-place air components of U.S. European and Pacific commands. ACC also provides air defense forces to North American Aerospace Defense Command. To accomplish the objectives of the National Defense Strategy, the command operates fighter; attack; bomber; intelligence, surveillance and reconnaissance; combat search and rescue; battle-management; electronic-combat and unmanned aircraft system platforms. In addition, ACC conducts information operations and provides command, control, communications and intelligence systems to theater commanders and combat forces.

Command Personnel: 132,089



### Air Education and Training Command (AETC)

**Mission:** Develop America's Airmen today, for tomorrow. With a vision to deliver unrivaled air, space and cyberspace education and training, the command recruits Airmen and provides basic military training, initial and advanced technical training, flying training, medical training, space and missile training, cyber training, and professional military and degree-granting professional education. The command also conducts joint, readiness and Air Force security assistance training.

**Responsibilities:** Sustains the combat capability of the operational Air Force with highly trained and motivated Airmen, recalls individual ready Reservists and manages mobility and contingency tasking support for combatant commanders.

Command Personnel: 74,948



### Air Force Global Strike Command (AFGSC)

**Missions:** Develop and provide combat-ready forces for nuclear deterrence and global strike operations ... *Safe, Secure, Effective*, to support the President of the United States and combatant commanders.

**Responsibilities:** Organize, train and equip the Air Force's three intercontinental ballistic missile wings, two B-52 Stratofortress wings and the only B-2 Spirit wing. The three weapons systems make up two-thirds of the nation's strategic nuclear triad by providing the land-based and airborne nuclear deterrent forces.



America's alert ICBMs are ready to launch on any given day, and America's ICBM team plays a critical role in maintaining global stability and ensuring the nation's safety and security. The B-2 Spirit is a long-range nuclear and conventional stealth bomber. The bomber can fly at high subsonic speeds at altitudes that can reach 50,000 feet. Its unrefueled range is at least 6,000 nautical miles. In a short time, the B-2 brings massive firepower anywhere on the globe through the most challenging defenses.

The B-52 Stratofortress is a long-range, nuclear and conventional heavy bomber that can perform a variety of missions. The bomber can fly at high subsonic speeds at altitudes reaching 50,000 feet. It has an unrefueled combat range in excess of 8,800 miles. It can carry precision-guided ordnance with worldwide precision navigation.

AFGSC is also the Air Force's lead command for and largest operator of UH-1N Huey helicopters, with a focus on replacing the platform with one more suitable to the post-9/11 requirements of providing security to the fielded ICBM force.

**Command Personnel:** 22,999



### Air Force Materiel Command (AFMC)

**Mission:** Deliver war-winning technology, acquisition support, sustainment and expeditionary capabilities to the warfighter.

**Responsibilities:** Conducts research, development and test and evaluation, and provides acquisition management services and logistics support necessary to keep Air Force weapon systems ready for war.

**Command Personnel:** 84,562



### Air Force Reserve Command (AFRC)

**Mission:** To *fly, fight* and *win*...in air, space and cyberspace.

**Responsibilities:** AFRC provides the Air Force with about 20 percent of its capability with only about 4 percent of the total Air Force budget, while spanning a wide variety of missions. It's the only Department of Defense unit that conducts fixed-wing aerial spray missions. It flies hurricane hunter missions for the National Weather Service. It is administratively responsible for the Air Force's individual mobilization augmentee program.

**Command Personnel:** 70,088



### Air Force Space Command (AFSPC)

**Mission:** Provide an integrated constellation of space and cyberspace capabilities at the speed of need.

**Responsibilities:** Organizing, equipping, training and maintaining mission-ready space and cyberspace forces and

capabilities for North American Aerospace Defense Command, U.S. Strategic Command and other combatant commands world-wide. AFSPC oversees Air Force network operations to provide capabilities in, through, and from cyberspace; manages a global network of satellites, and is responsible for space system development and acquisition. It executes spacelift to launch satellites with a variety of expendable launch systems and operates them to provide space capabilities in support of combatant commanders around the clock. It provides positioning, navigation, timing, communications, missile warning, weather and intelligence warfighting support.

AFSPC operates sensors that provide direct attack warning and assessment to U.S. Strategic Command and North American Aerospace Defense Command.

The command develops, acquires, fields, operates and sustains space systems and fields and sustains cyber systems.

**Command Personnel:** 43,048



### Air Mobility Command (AMC)

**Mission:** Provide global air mobility ... right effects, right place, right time.

**Responsibilities:** AMC Airmen — active duty, Air National Guard, Air Force Reserve and civilians — provide airlift and aerial refueling for all of America's armed forces. They also provide aeromedical evacuation and Global Reach laydown. The command has many special duty and operational support aircraft and plays a crucial role in providing humanitarian support at home and around the world.

**Command Personnel:** 129,870



### Air National Guard (ANG)

**Mission:** The Air National Guard has both a federal and state mission. The dual mission, a provision of the U. S. Constitution, results in each guardsman holding membership in the National Guard of his or her state and in the National Guard of the United States.

**Federal Mission:** Maintain well-trained, well-equipped units available for prompt mobilization during war and provide assistance during national emergencies, such as natural disasters or civil disturbances. During peace, the combat-ready units and support units are assigned to Air Force major commands to carry out missions compatible with training, mobilization readiness, humanitarian and contingency operations. ANG provides almost half of the Air Force's tactical airlift support, combat communications functions, aeromedical evacuation and aerial refueling. In addition, ANG has total responsibility for air defense of the entire United States.



## Management Discussion and Analysis

State Mission: When ANG units are not mobilized or under federal control, they report to the governor of their respective state, territory or the commanding general of the District of Columbia National Guard. Under state law, ANG provides protection of life and property, and preserves peace, order and public safety through emergency relief support during natural disasters, search and rescue operations, support to civil defense authorities, maintenance of vital public services and counterdrug operations.

**Command Personnel:** 107,230



### Pacific Air Forces (PACAF)

**Mission:** Provide Pacific Command integrated expeditionary Air Force capabilities to defend the homeland, promote stability, dissuade/deter aggression, and swiftly defeat enemies.

**Responsibilities:** Organizes, trains, equips and maintains resources prepared to conduct a broad spectrum of air operations —from humanitarian relief to decisive combat employment — in the Department of Defense’s largest area of responsibility. Conducts multinational exercises and hosts international exchange events to foster partnerships for regional security and stability in an area covering 13 time zones and 100 million square miles, with 60 percent of the world’s population, one-third of the world’s economic activity and five of the six largest armed forces.

**Command Personnel:** 43,078



### U.S. Air Forces in Europe (USAFE)

**Mission:** Execute the U.S. European Command mission with forward-based air power to provide forces for global operations, ensure strategic access, assure allies, deter aggression and build partnerships.

**Responsibilities:** Build and maintain partnerships, promote regional stability, provide forces for global operations, support combatant command missions, develop and care for Airmen and their families, sustain forward-based infrastructure, ensure strategic access to U.S. forces, assure allies and deter aggression.

**Command Personnel:** 35,149



### Air Force Special Operations Command (AFSOC)

**Mission:** America’s specialized air power — a step ahead in a changing world, delivering special operations power anytime, anywhere.

**Responsibilities:** Responsible to U.S. Special Operations Command for the readiness of Air Force special operations forces to conduct the war on terrorism and to disrupt, defeat

and destroy terrorist networks that threaten the United States, its citizens and interests worldwide. The command’s mission areas include shaping and stability operations; battlefield air operations; information operations; intelligence, surveillance and reconnaissance; specialized air and space mobility; precision engagement and agile combat support.

**Command Personnel:** 17,168

### 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.



### Civil Air Patrol (CAP)

**Mission:** Support America’s communities with emergency response, diverse aviation and ground service, youth development and promotion of air and space power.

**Responsibilities:** Civil Air Patrol provides operational capabilities in support of aerial and ground search and rescue disaster relief and counterdrug and homeland security missions. It conducts 90 percent of all inland search-and-rescue missions tasked by the Air Force Rescue Coordination Center. It builds strong citizens for the future by providing leadership training, technical education, scholarships and career education to young men and women, ages 12 to 21, in the CAP cadet program. It promotes and supports aerospace education, both for its members and the general public, and conducts a national school enrichment program from K-12.

**Personnel:** 61,133

### Field Operating Agency (FOA)

A 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 perform field activities beyond the scope of any of the MAJCOMs. Examples of FOAs include the Air Force Audit Agency, Air Force Center for Engineering and the Environment, Air Force Financial Services Center, Air Force Services Agency, and Air Force Weather Agency, among others.

### 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.

Figure 2: Major Air Force Installations - CONUS

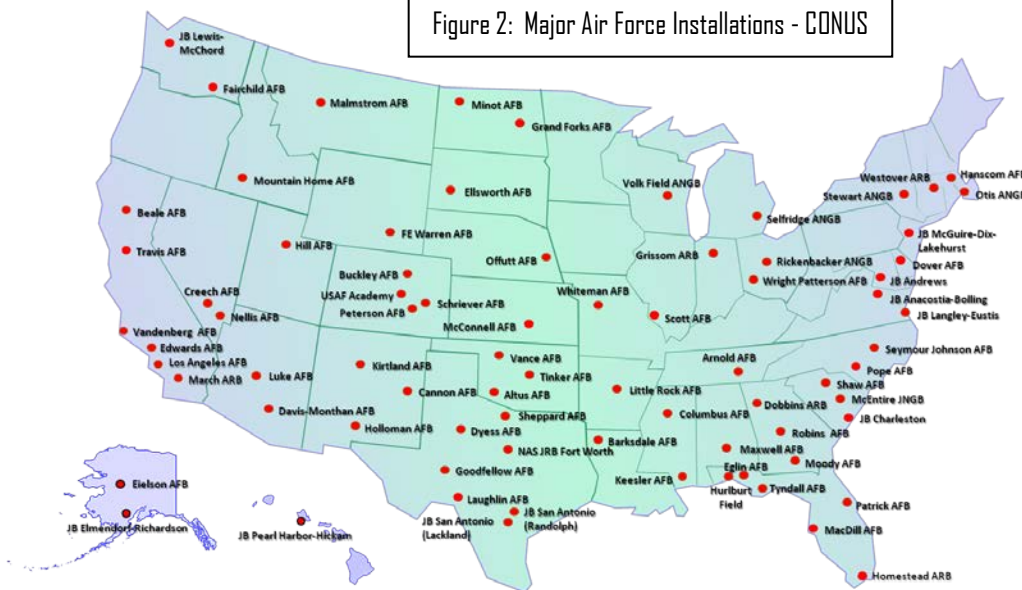


Table I: Major Air Force Installations - OCONUS

Germany	Saudi Arabia
Geilenkirchen AB	US Mil Training Mission
Ramstein AB	
Spangdahlem AB	South Korea
	Kunsan AB
Italy	Osan AB
Aviano AB	
	Turkey
Japan	Incirlik AB
Kadena AB	Izmir AB
Misawa AB	
Yokota AB	UK
	RAF Lakenheath
Portugal	RAF Mildenhall
Lajes Field	RAF Molesworth

The Air Force is a global force, spanning facilities both in the United States and around the world, as shown in Figure 2 and Table 1.

- CONUS: 77
- OCONUS: 16

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

The Air Force consists of over 690,000 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.

### Management Assertions

We remain mindful of our Nation's budgetary challenges and fiscal constraints, because fiscal responsibility is a national security imperative. This environment requires that we balance our capabilities between current combat operations and the need to address emerging threats and challenges. We continue to pursue cost-effective systems that leverage existing capabilities and maximize interoperability and integration of legacy and future systems. The following

sections provide our assurances related to the Federal Financial Management Improvement Act (FFMIA) and the Federal Managers' Financial Integrity Act (FMFIA).

#### Chief Financial Officer (CFO) Compliance

The Chief Financial Officers' Act provides direction for achieving a clean audit through leadership commitment, modernized government financial management systems, and strengthened financial reporting. Sound financial management helps to ensure the maximum combat capability for each taxpayer dollar. The Air Force is committed to achieving the legislative requirement for a clean audit by 2017. While 2017 is a challenging deadline for a military organization as large and diverse as the Air Force, the strong engagement of Air Force leadership, additional financial resources provided in recent years, and focus on fielding effective financial systems will help achieve it. We are focusing our efforts on the information most relevant to decision makers, and the Air Force Financial Improvement Plan is closely aligned with the DoD strategy to achieve a clean audit.

#### Internal Controls

The Air Force operates a robust Manager's Internal Control Program in compliance with OMB Circular A-123. This program employs a comprehensive system of continuous evaluation of internal controls and is fully integrated with functional program control assessments used to help ensure that the goals of the Department of the Air Force are achieved each year. Under the guidance of the Office of the Under Secretary of Defense (Comptroller), the Secretary of the Air Force reports a level of assurance over its internal controls in three distinct areas: Internal Control over Nonfinancial Operations (ICONO), Internal Control over Financial Reporting (ICOFR), and Internal Control over Financial Systems (ICOFS).



### *Internal Control Over Financial Reporting*

As directed in the Under Secretary of Defense (Comptroller) memo dated August 11, 2009, the Air Force's ICOFR review focused on the strategic prioritization of the SBR and the existence and completeness (E&C) of mission-critical assets. The Air Force evaluated the effectiveness of internal controls over the key Procure to Pay business processes utilizing the Department's newest financial management system, the Defense Enterprise Accounting Management System (DEAMS). This system, currently deployed to a pilot location, will serve as the future enterprise system solution to help the Air Force achieve financial statement audit readiness. This effort involved documenting key processes and internal controls, performing risk assessments, and testing and analyzing the effectiveness of the key controls. In addition, the Air Force also completed ICOFR reviews as a part of existence and completeness audit ready assertions for Military Equipment and elements of Operating Materials and Supplies. During FY 2011, the Air Force validated the corrective actions to mitigate the ICOFR material weakness over the Fund Balance with Treasury Reconciliation and asserted to the process' audit readiness. We continue to track and report on eight previously identified ICOFR material weaknesses that are included in the Secretary's Annual Statement of Assurance.

### *Continuous Improvement*

This year the Air Force started to meet the first set of milestones in support of the Under Secretary of Defense (Comptroller) priorities of audit readiness of the SBR and the E&C of mission-critical assets. As the Air Force conducted the prescribed phases of discovery and evaluation for assessable units within the Air Force audit readiness strategy, there were several issues that surfaced, corrective actions were developed, and a way forward to audit readiness was identified. The continual evolution of the Air Force audit readiness strategy incorporates lessons learned, identifies best practices from past assertions and the other Services, leverages the knowledge of the personnel in the field that perform the current processes, and integrates with the ERP systems of the future to ensure audit readiness is sustained. The existing governance structure continued to monitor progress, address obstacles and work collectively as an enterprise to ensure audit readiness is a priority and remains one until complete Air Force audit readiness is achieved.

### *Progress Towards Auditability*

#### Statement of Budgetary Resources:

The Air Force continues to employ a strategy to achieve audit readiness of the SBR that is focused on the lifecycle of appropriated funds. The Air Force, in coordination with Defense Finance and Accounting Service (DFAS), developed a methodology for audit readiness of the SBR focused around four assessable units that cover the fund receipt and distribution, obligation, outlays, reimbursement and

reconciliation processes that ultimately impact all of the sections of the SBR.

The Air Force asserted the assessable unit of Budget Authority in the 4<sup>th</sup> Quarter of FY 2010. The submission of the Budget Authority assertion affirmed that the internal controls over the reporting of the SBR line items of Appropriations Received, Non-Expenditure Transfers, Rescissions, as well as the Funds Distribution to Major Commands are designed and operating effectively to prevent or detect and correct material misstatements. The assertion has been audited by an Independent Public Accounting (IPA) firm, and the IPA concurs with the Air Force's assertion.

Additionally, in the 1<sup>st</sup> Quarter of FY 2011, the Air Force (in partnership with DFAS) asserted audit readiness on the FBWT reconciliation process using the CCAS-AF tool. This limited scope assertion focuses on the critical key reconciliation capability that the Air Force must demonstrate in order to assess the remaining control objectives for the FBWT line item. The Air Force is consistently reconciling over 99.9 percent of FBWT at the detail level each month. Based on the Air Force assertion and consistency of meeting the DoD metric, our internal mitigation work is complete.

The Air Force is now focused on the execution of Budgetary Resources and the Funds Distribution process to base-level entities. As discovery and evaluation are conducted, the Air Force expects to shift the assertion dates for these assessable units to the left (i.e., completion earlier than currently planned). However, some of the Air Force interim milestone assertions are dependent on the successful implementation of the Air Force ERPs.

#### Existence and Completeness

The Air Force continues to execute a consistent strategy to achieve E&C audit readiness for mission-critical assets, with a specific focus on the validation of physical inventory documentation. The Air Force is also leveraging existing E&C field work performed by the AFAA to shorten the time required to draft primary assertion documentation and provide supporting physical inventory documentation and working papers.

The Air Force asserted E&C for military equipment in the 1<sup>st</sup> Quarter of FY 2010. The Air Force assertion incorporated two sub-assessable units: aerospace vehicles and externally carried pods. The E&C assertion was supported by physical inventory testing of selected aircraft assets in the Reliability and Maintainability Information System (REMIS). The test results indicate that the Air Force has highly effective internal controls over military equipment asset (aircraft) accountability. An audit by DoDIG is expected to begin in FY 2012.

The Air Force asserted E&C for cruise missiles and aerial drones and targets, two sub-assessable units of OM&S, in the

3<sup>rd</sup> Quarter of FY 2011. The E&C assertion was supported by physical inventory testing by AFAA for a representative sample of the entire populations for both sub-assessable units found in REMIS. The test results indicate that the Air Force has effective internal controls over the accountability for cruise missiles, drones and aerial target assets.

Successful execution of the Air Force strategy for E&C audit readiness, as well as other audit readiness initiatives, requires close coordination with Air Force functional staff throughout all Air Force Commands.

#### *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 was 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 with eight scheduled software releases. Increment 1, Release 1 supported a technology demonstration at Scott AFB, Illinois, involving USTRANSCOM; Headquarters, Air Mobility Command; and Air Force Active Duty, selected Air National Guard and Air Force Reserve tenant organizations on or associated with Scott AFB.

During FY 2007 an expanded Release 1 successfully demonstrated the system's capability to support commitment accounting. In May of 2010 an operational version of Release 1 was deployed at Scott AFB, taking the full Oracle I-Procurement functionality to those same units.

Scheduled software Releases 4-6 under Increment 1 will expand DEAMS capability to the remaining AMC bases, Surface Deployment and Distribution Command (SDDC) and Military Sealift Command (MSC). By FY 2017 DEAMS Increment 2, through a series of software support releases, is scheduled to have deployed DEAMS to the remaining Air Force MAJCOMs, their installations and supported tenant organizations providing full financial management and reporting capabilities to the Air Force.

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 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.

#### *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 508,000.

#### *Operations & 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 2011 appropriation supported 93 installations, including operations at two space lift ranges, and funded approximately 1.2 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 2011 program expanded, modified and upgraded weapons systems (F-22 Common Configuration, Flight Data Recorder, C-17 block retrofit, etc.).

#### *Research, Development, Test and Evaluation (RDT&E)*

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 FY 2011 initiatives include:

- Begin KC-X tanker development
- Invest in critical technology and competitive concept exploration for Long Range Strike
- Protect critical Science & Technology focus on advanced propulsion, sensors, directed energy and C2
- Continue GPS IIIA development



## Management Discussion and Analysis

- Develop, integrate, and test Space-Based Infrared Systems (SBIRS) GEO 1 & 2

### *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 2011 appropriation supported renovation of 404 substandard housing units.

### *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 actions. Some costs do not qualify for BRAC funding as costs resulting from closure or realignment. The FY 2011 BRAC program was approximately \$300 million.

## **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). 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.

### *Consolidated Sustainment Activity Group (CSAG)*

CSAG is an AFWCF business activity chartered for operation in FY 2009. The CSAG consolidates the Depot Maintenance Activity Group (DMAG) and the Material Support Division (MSD) from the Supply Management Activity Group (SMAG) 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.

The **CSAG 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.

CSAG Maintenance Division is managed by AFMC and employs over 24,000 personnel supporting four industrial locations:

- Ogden Air Logistics Center (OO-ALC), UT
- Oklahoma City Air Logistics Center (OC-ALC), OK
- Warner Robins Air Logistics Center (WR-ALC), GA
- Aerospace Maintenance and Regeneration Group (AMARG), Tucson, AZ

The **CSAG Supply Division** is primarily responsible for Air Force-managed, depot-level reparable 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.

### *Contract Depot Maintenance*

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. Effective 1 July 2011, any remaining Contract Depot Maintenance lines of

accounting were converted to Organic (CSAG-Maintenance Division) fund codes. Contract Depot Maintenance financials continued to be reported thru the end of FY 2011 with no activity.

This change brings the user and provider of contract depot maintenance services closer together and removes the WCF from its role as the "middleman."

#### *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 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 Air Force SMAG-R manages weapon system spare parts, medical-dental supplies and equipment, and other supply items used in non-weapon system applications.

The **General Support Division (GSD)** manages nearly 1.1 million 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 GSD also manages many items related to installation, maintenance, and administrative functions.

The **Medical-Dental Division (MDD)** manages nearly 9,000 different items for 74 Medical Treatment Facilities (MTF) worldwide. All supply and equipment requirements generated by Air Force MTFs are procured through this division. MDD also maintains the War Readiness Materiel (WRM) requirement. WRM provides initial war fighting capability until re-supply lines can sustain wartime demands for medical and dental supplies and equipment.

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.

#### *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 WCFs, other government agencies and foreign countries.

#### *Air Force Working Capital Fund Financial Performance Measures*

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. The NOR objective of an activity group is to break even over a two year period. 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 seven to ten days of operational costs as well as cash adequate to meet six months of capital disbursements.

### **Financing the Fight**

The Air Force must take the necessary steps today that will allow future generations to continue to provide consistent, credible and effective air, space and cyber capabilities on which our Nation depends. Our ability to do so is constrained by the increasing costs to design and build platforms and by the accelerating costs of personnel benefits and other must-pay operational bills in a particularly challenging budget environment. We will ensure we maximize combat capability out of each taxpayer dollar by identifying waste, implementing efficiencies, pursuing continuous process improvement initiatives and making smart investments. We will provide the necessary capability, capacity and versatility required to prevail today and in the future as we continue "financing the fight."

#### References:

"The Book 2011," *Airman: Official magazine of the U.S. Air Force*, Vol. LV, Number 3, March 2011  
 Department of the Air Force. "2011 United States Air Force Posture Statement." *United States Air Force*, February 2011  
 Department of the Air Force. "United States Air Force FY 2012 Budget Overview." *United States Air Force*, February 2011+



# **Fiscal Year 2011**

## **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 2011

The FY 2011 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, 2011, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2010.

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, 2011 and 2010 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, 2011 and 2010. 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, 2011 and 2010.

#### **Combined Statement of Budgetary Resources**

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2011 and 2010, the status of these resources at September 30, 2011 and 2010, and the outlay of budgetary resources for the years ended September 30, 2011 and 2010.

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."



**General Fund**  
Principal Statements

**Department of Defense  
Department of the Air Force  
CONSOLIDATED BALANCE SHEET  
As of September 30, 2011 and 2010  
(\$ in Thousands)**

	<u>2011 Consolidated</u>	<u>Restated 2010 Consolidated</u>
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 110,088,325	\$ 107,566,991
Investments (Note 4)	1,077	1,080
Accounts Receivable (Note 5)	588,063	415,493
Other Assets (Note 6)	85,368	93,765
Total Intragovernmental Assets	<u>\$ 110,762,833</u>	<u>\$ 108,077,329</u>
Cash and Other Monetary Assets (Note 7)	\$ 95,583	\$ 108,828
Accounts Receivable, Net (Note 5)	366,409	459,788
Inventory and Related Property, Net (Note 9)	48,650,905	49,698,922
General Property, Plant and Equipment, Net (Note 10)	134,784,123	128,025,934
Other Assets (Note 6)	12,108,803	11,565,221
<b>TOTAL ASSETS</b>	<u><u>\$ 306,768,656</u></u>	<u><u>\$ 297,936,022</u></u>
<b>STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,553,974	\$ 2,375,974
Other Liabilities (Note 15 & 16)	2,029,335	2,181,138
Total Intragovernmental Liabilities	<u>\$ 4,583,309</u>	<u>\$ 4,557,112</u>
Accounts Payable (Note 12)	\$ 3,013,935	\$ 3,719,734
Military Retirement and Other Federal	1,126,143	1,109,362
Employment Benefits (Note 17)		
Environmental and Disposal Liabilities (Note 14)	10,564,623	8,839,352
Other Liabilities (Note 15 and Note 16)	5,478,873	6,402,702
<b>TOTAL LIABILITIES</b>	<u><u>\$ 24,766,883</u></u>	<u><u>\$ 24,628,262</u></u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>		
<b>NET POSITION</b>		
Unexpended Appropriations - Other Funds	114,254,051	108,832,210
Cumulative Results of Operations - Earmarked Funds	12,425	18,568
Cumulative Results of Operations - Other Funds	167,735,297	164,456,982
<b>TOTAL NET POSITION</b>	<u><u>\$ 282,001,773</u></u>	<u><u>\$ 273,307,760</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 306,768,656</u></u>	<u><u>\$ 297,936,022</u></u>

The accompanying notes are an integral part of these financial statements.

**General Fund**  
Principal Statements

**Department of Defense  
Department of the Air Force  
CONSOLIDATED STATEMENT OF NET COST  
For the periods ended September 30, 2011 and 2010  
(\$ in Thousands)**

	2011 Consolidated	Restated 2010 Consolidated
<b>Program Costs</b>		
Gross Costs	\$ 166,451,900	\$ 187,004,658
Military Personnel	36,391,504	36,221,498
Operations, Readiness & Support	62,207,918	56,229,265
Procurement	38,706,085	63,191,812
Research, Development, Test & Evaluation	28,007,745	30,012,123
Family Housing & Military Construction	1,138,648	1,349,960
	(8,751,985)	(5,913,669)
(Less: Earned Revenue)	(8,751,985)	(5,913,669)
Net Cost before Losses/(Gains) from Actuarial Assumption for Military Retirement Benefits	157,699,915	181,090,989
Net Program Costs Including Assumption Changes	157,699,915	181,090,989
<b>Net Cost of Operations</b>	\$ 157,699,915	\$ 181,090,989

The accompanying notes are an integral part of these financial statements.



**General Fund**  
Principal Statements

**Department of Defense**  
**Department of the Air Force**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended September 30, 2011 and 2010  
(\$ in Thousands)

	2011			
	Earmarked Funds	2011 All Other Funds	2011 Eliminations	2011 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>				
<b>Beginning Balances</b>	\$ 18,568	\$ 179,970,391	\$ 0	\$ 179,988,959
<b>Prior Period Adjustments:</b>				
Corrections of errors (+/-)	0	(15,513,410)	0	(15,513,410)
<b>Beginning balances, as adjusted</b>	18,568	164,456,981	0	164,475,549
<b>Budgetary Financing Sources:</b>				
Appropriations used	0	159,703,254	0	159,703,254
Nonexchange revenue	913	0	0	913
Donations and forfeitures of cash and cash equivalents	4,728	0	0	4,728
Transfers-in/out without reimbursement	0	0	0	0
<b>Other Financing Sources:</b>				
Transfers-in/out without reimbursement (+/-)	0	867,507	0	867,507
Imputed financing from costs absorbed by others	0	855,639	0	855,639
Other (+/-)	1	(459,954)	0	(459,953)
<b>Total Financing Sources</b>	5,642	160,966,446	0	160,972,088
<b>Net Cost of Operations (+/-)</b>	11,785	157,688,130	0	157,699,915
<b>Net Change</b>	(6,143)	3,278,316	0	3,272,173
<b>Cumulative Results of Operations</b>	<u>\$ 12,425</u>	<u>\$ 167,735,297</u>	<u>\$ 0</u>	<u>\$ 167,747,722</u>
<b>UNEXPENDED APPROPRIATIONS</b>				
<b>Beginning Balances</b>	\$ 0	\$ 108,832,210	\$ 0	\$ 108,832,210
<b>Beginning balances, as adjusted</b>	0	108,832,210	0	108,832,210
<b>Budgetary Financing Sources:</b>				
Appropriations received	0	167,631,093	0	167,631,093
Appropriations transferred-in/out	0	772,813	0	772,813
Other adjustments (rescissions, etc)	0	(3,278,811)	0	(3,278,811)
Appropriations used	0	(159,703,254)	0	(159,703,254)
<b>Total Budgetary Financing Sources</b>	0	5,421,841	0	5,421,841
<b>Unexpended Appropriations</b>	0	114,254,051	0	114,254,051
<b>Net Position</b>	<u>\$ 12,425</u>	<u>\$ 281,989,348</u>	<u>\$ 0</u>	<u>\$ 282,001,773</u>

The accompanying notes are an integral part of these financial statements.

General Fund  
Principal StatementsDepartment of Defense  
Department of the Air Force  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
For the periods ended September 30, 2011 and 2010  
(\$ in Thousands)

	2010		Restated	
	Earmarked Funds	2010 All Other Funds	2010 Eliminations	2010 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>				
<b>Beginning Balances</b>	\$ 10,432	\$ 184,330,402	\$ 0	\$ 184,340,834
<b>Prior Period Adjustments:</b>				
Corrections of errors (+/-)	0	1,094,196	0	1,094,196
<b>Beginning balances, as adjusted</b>	10,432	185,424,598	0	185,435,030
<b>Budgetary Financing Sources:</b>				
Appropriations used	0	157,921,032	0	157,921,032
Nonexchange revenue	1,432	0	0	1,432
Donations and forfeitures of cash and cash equivalents	10,757	0	0	10,757
Transfers-in/out without reimbursement	0	297,535	0	297,535
<b>Other Financing Sources:</b>				
Transfers-in/out without reimbursement (+/-)	0	202,939	0	202,939
Imputed financing from costs absorbed by others	0	857,824	0	857,824
Other (+/-)	(1)	839,991	0	839,990
<b>Total Financing Sources</b>	12,188	160,119,321	0	160,131,509
<b>Net Cost of Operations (+/-)</b>	4,052	181,086,937	0	181,090,989
<b>Net Change</b>	8,136	(20,967,616)	0	(20,959,480)
<b>Cumulative Results of Operations</b>	\$ 18,568	\$ 164,456,982	\$ 0	\$ 164,475,550
<b>UNEXPENDED APPROPRIATIONS</b>				
<b>Beginning Balances</b>	\$ 0	\$ 105,252,117	\$ 0	\$ 105,252,117
<b>Beginning balances, as adjusted</b>	0	105,252,117	0	105,252,117
<b>Budgetary Financing Sources:</b>				
Appropriations received	0	165,409,977	0	165,409,977
Appropriations transferred-in/out	0	(210,801)	0	(210,801)
Other adjustments (rescissions, etc)	0	(3,698,051)	0	(3,698,051)
Appropriations used	0	(157,921,032)	0	(157,921,032)
<b>Total Budgetary Financing Sources</b>	0	3,580,093	0	3,580,093
<b>Unexpended Appropriations</b>	0	108,832,210	0	108,832,210
<b>Net Position</b>	\$ 18,568	\$ 273,289,192	\$ 0	\$ 273,307,760

The accompanying notes are an integral part of these financial statements.



## General Fund Principal Statements

### Department of Defense Department of the Air Force COMBINED STATEMENT OF BUDGETARY RESOURCES For the periods ended September 30, 2011 and 2010 (\$ in Thousands)

	2011 Combined	2010 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
Unobligated balance, brought forward, October 1	\$ 36,090,271	\$ 29,211,348
Recoveries of prior year unpaid obligations	4,488,152	4,573,888
Budget authority		
Appropriation	167,636,733	165,422,165
Spending authority from offsetting collections		
Earned		
Collected	9,719,161	10,302,406
Change in receivables from Federal sources	826,464	219,051
Change in unfilled customer orders		
Advance received	142,899	9,782
Without advance from Federal sources	(762,658)	292,336
Subtotal	<u>177,562,599</u>	<u>176,245,740</u>
Nonexpenditure transfers, net, anticipated and actual	772,813	86,734
Permanently not available	(3,278,813)	(3,698,050)
<b>Total Budgetary Resources</b>	<u>\$ 215,635,022</u>	<u>\$ 206,419,660</u>
<b>Status of Budgetary Resources:</b>		
Obligations incurred:		
Direct	\$ 167,256,189	\$ 159,256,720
Reimbursable	<u>10,371,812</u>	<u>11,072,669</u>
Subtotal	177,628,001	170,329,389
Unobligated balance:		
Apportioned	33,990,184	32,529,681
Exempt from apportionment	<u>11,170</u>	<u>13,729</u>
Subtotal	34,001,354	32,543,410
Unobligated balance not available	4,005,667	3,546,861
<b>Total status of budgetary resources</b>	<u>\$ 215,635,022</u>	<u>\$ 206,419,660</u>
<b>Change in Obligated Balance:</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 74,007,637	\$ 76,097,415
Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>(2,968,685)</u>	<u>(2,457,299)</u>
Total unpaid obligated balance	71,038,952	73,640,116
Obligations incurred net (+/-)	177,628,001	170,329,389
Less: Gross outlays	(172,446,017)	(167,845,279)
Obligated balance transferred, net		
Actual transfers, uncollected customer payments from Federal sources (+/-)	0	(2)
Total Unpaid obligated balance transferred, net	0	(2)
Less: Recoveries of prior year unpaid obligations, actual	(4,488,153)	(4,573,888)
Change in uncollected customer payments from Federal sources (+/-)	(63,806)	(511,385)
Obligated balance, net, end of period		
Unpaid obligations	74,701,468	74,007,637
Less: Uncollected customer payments from Federal sources (-)	<u>(3,032,491)</u>	<u>(2,968,686)</u>
Total, unpaid obligated balance, net, end of period	71,668,977	71,038,951
<b>Net Outlays</b>		
<b>Net Outlays:</b>		
Gross outlays	172,446,017	167,845,279
Less: Offsetting collections	(9,862,060)	(10,312,190)
Less: Distributed Offsetting receipts	(154,152)	(250,035)
<b>Net Outlays</b>	<u>\$ 162,429,805</u>	<u>\$ 157,283,054</u>

The accompanying notes are an integral part of these financial statements.

# General Fund

Fiscal Year 2011

## 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.



## General Fund

Notes to the Principal 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; the Office of Management and Budget (OMB) Circular No. 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 implement fully all elements of USGAAP and the OMB Circular No. 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 Materials and Supplies; (5) General Property, Plant, and Equipment; (6) Government-Furnished Material and Contractor-Acquired Material; (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 "Aim High...Fly, Fight, 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 We Do. In addition, the Air Force is committed to providing 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, operation and maintenance, research and development, procurement, and military construction.

These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available online at <http://www.defenselink.mil/recovery>.

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



## General Fund

## Notes to the Principal Statements

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. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. 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 U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB. Based on an agreement with OMB, funds for Security Assistance programs are reported separately from Air Force financial statements and notes.

The Air Force receives allocation transfers for EOP (Foreign Military Sales – Military Assistance Program) meeting the OMB exception; however, activities for this fund are reported separately from the DoD financial statements.

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

AF 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



## General Fund

### Notes to the Principal Statements

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 Air Force's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The Air Force's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Air Force's sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), 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 Air Force 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 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.

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 Materials & 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 expensed 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 DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

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, borrowings from the U.S. Treasury and the Federal Financing Bank, 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. Cash and 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.



## General Fund

### Notes to the Principal Statements

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

The Air Force conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) 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 accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

#### **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.”

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 2011 and FY 2010, 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 excess, obsolete, and unserviceable OM&S at a net realizable value of \$0 pending development of an effective means of valuing such materiel.

#### **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, DoD 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 Working Capital Fund, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DoD'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.



## General Fund

### Notes to the Principal Statements

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 stage of completion are reported as Construction in Progress.

#### **1.S. Contingencies and Other Liabilities**

The Statement of Federal Financial Accounting Standards (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.

Other liabilities also 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 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. 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 in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

#### **1.X. 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.

#### **1.Y. Military Retirements and Other Federal Employment Benefits**

Not applicable.

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

Not applicable.



**General Fund**

Notes to the Principal Statements

**Note 2. Nonentity Assets**

As of September 30 (Amounts in thousands)	2011	Restated 2010
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 126,641	\$ 115,067
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 126,641	\$ 115,067
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 95,583	\$ 108,828
B. Accounts Receivable	296,028	299,716
C. Other Assets	184,825	184,825
D. Total Nonfederal Assets	\$ 576,436	\$ 593,369
<b>3. Total Nonentity Assets</b>	\$ 703,077	\$ 708,436
<b>4. Total Entity Assets</b>	\$ 306,065,578	\$ 297,227,586
<b>5. Total Assets</b>	\$ 306,768,655	\$ 297,936,022

**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.

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.



## General Fund

## Notes to the Principal Statements

**Note 3. Fund Balance with Treasury**

As of September 30	2011	2010
(Amounts in thousands)		
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 109,948,002	\$ 107,434,225
B. Revolving Funds	0	0
C. Trust Funds	11,635	15,728
D. Special Funds	2,046	1,971
E. Other Fund Types	126,641	115,067
F. Total Fund Balances	\$ 110,088,324	\$ 107,566,991
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 111,739,128	\$ 109,262,653
B. Fund Balance per Agency	110,088,324	107,566,991
<b>3. Reconciling Amount</b>	\$ 1,650,804	\$ 1,695,662

**Relevant Information for Comprehension**

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 \$ (1.6) billion with U.S. Treasury, which is comprised of the net value of the following:

\$23 million in allocation transfers from Air force to the Department of Transportation. These funds are reported in Fund Balance with Treasury (FBWT) by Air Force but are not included in FBWT at Treasury, because Treasury reports these balances under Department of Transportation.

\$23.7 million in allocation transfers to Air Force from the Department of Agriculture and the Foreign Military Sales-Military Assistance Program (MAP). An allocation transfer occurs when the Treasury appropriates funds to one federal entity, which then transfers the authority to execute its funds to another federal entity. Treasury reports these funds as Air Force in the FBWT, but Air Force does not include in its FBWT because the Departments of Agriculture and MAP report these balances in their financial statements.

\$1.7 million in withdrawal of the FBWT for unavailable receipt accounts at September 30, 2011. These funds are included in FBWT per Treasury but are not included in FBWT per Air Force.

\$1.5 billion in withdrawal of the FBWT in the cancelling appropriations at September 30, 2011. These funds are included in FBWT per Treasury but are not included in FBWT per Air Force.

\$188.3 million of unavailable receipt accounts due to fiduciary activity consisting of the Savings Deposit Program (SDP). The U.S. Treasury reported these funds as Air Force FBWT, but activity recorded within the SDP must be excluded from the Air Force FBWT.

\$0.4 million in allocation transfers from Department of Transportation to Air Force. Treasury reports these funds as Air Force in the fund balance with Treasury (FBWT), but Air Force does not include in its FBWT because the Department of Transportation reports these balances in their financial statements.



**General Fund**

Notes to the Principal Statements

**Status of Fund Balance with Treasury**

As of September 30	2011		2010	
(Amounts in thousands)				
<b>1. Unobligated Balance</b>				
A. Available	\$	34,001,355	\$	32,543,409
B. Unavailable		4,005,666		3,546,861
<b>2. Obligated Balance not yet Disbursed</b>	\$	74,701,468	\$	74,007,637
<b>3. Nonbudgetary FBWT</b>	\$	413,385	\$	438,832
<b>4. NonFBWT Budgetary Accounts</b>	\$	(3,033,550)	\$	(2,969,748)
<b>5. Total</b>	\$	110,088,324	\$	107,566,991

**Relevant Information for Comprehension**

The Status of 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 deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT. The items reported as Nonbudgetary FBWT account comprise the FBWT for suspense, deposit and receipt accounts.

NonFBWT Budgetary Accounts reduce the Status of 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 \$4 billion is not available for new obligations since the period for new obligations established by law has expired.

General Fund  
Notes to the Principal Statements

**Note 4. Investments and Related Interest**

As of September 30	2011				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
<b>1. Intragovernmental Securities</b>					
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	1,077	Effective Interest	(5)	1,072	1,072
5. Total Nonmarketable, Market-Based	1,077		(5)	1,072	1,072
B. Accrued Interest	6			6	6
C. Total Intragovernmental Securities	\$ 1,083		\$ (5)	\$ 1,078	\$ 1,078

**2. Other Investments**

A. Total Other Investments	\$ 0		\$ 0	\$ 0	N/A
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As of September 30	2010				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
<b>3. Intragovernmental Securities</b>					
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	Effective Interest	(6)	1,073	1,087
5. Total Nonmarketable, Market-Based	1,079		(6)	1,073	1,087
B. Accrued Interest	7			7	7
C. Total Intragovernmental Securities	\$ 1,086		\$ (6)	\$ 1,080	\$ 1,094

**4. Other Investments**

A. Total Other Investments	\$ 0		\$ 0	\$ 0	N/A
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## General Fund

### Notes to the Principal Statements

#### Relevant Information for Comprehension

The U.S. Treasury securities are issued to the earmarked funds as evidence of its receipt and are an asset to the Air Force and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash generated from earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. 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 will finance them from 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 Funds) primarily represents the Air Force Gift Fund investment in U.S. Treasury Securities.

## General Fund

## Notes to the Principal Statements

**Note 5. Accounts Receivable**

As of September 30	2011		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
<b>1. Intragovernmental Receivables</b>	\$ 588,063	N/A	\$ 588,063
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 672,052	\$ (305,644)	\$ 366,408
<b>3. Total Accounts Receivable</b>	\$ 1,260,115	\$ (305,644)	\$ 954,471

As of September 30	2010		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
<b>1. Intragovernmental Receivables</b>	\$ 415,493	N/A	\$ 415,493
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 599,380	\$ (139,592)	\$ 459,788
<b>3. Total Accounts Receivable</b>	\$ 1,014,873	\$ (139,592)	\$ 875,281

**Relevant Information for Comprehension**

The accounts receivable represent the Air Force's claim for payment from other entities. The Air Force only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

There was a change in the method of accounting for the Allowance for Estimated Uncollectibles due from the public. During FY 2010, and for the first quarter of FY 2011, the allowance was computed based on the average annual write off over a five-year period. In the second quarter of FY 2011, an analysis of collection experience by fund type was adopted as the new method for calculating this allowance.



**General Fund**

Notes to the Principal Statements

**Note 6. Other Assets**

As of September 30 (Amounts in thousands)	2011	2010
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 85,368	\$ 93,765
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 85,368	\$ 93,765
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 11,854,206	\$ 11,288,053
B. Advances and Prepayments	69,772	92,343
C. Other Assets (With the Public)	184,825	184,825
D. Total Nonfederal Other Assets	\$ 12,108,803	\$ 11,565,221
<b>3. Total Other Assets</b>	\$ 12,194,171	\$ 11,658,986

**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 Federal Government 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 balance of Outstanding Contract Financing Payments includes both \$10.9 billion in contract financing payments and \$875.7 million in estimated future payments to contractors. These future payments are made to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

**Note 7. Cash and Other Monetary Assets**

As of September 30 (Amounts in thousands)	2011		2010	
<b>1. Cash</b>	\$	77,946	\$	95,365
<b>2. Foreign Currency</b>		17,638		13,463
<b>3. Other Monetary Assets</b>		0		0
<b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	\$	95,584	\$	108,828

**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 Air Force Disbursing Officers as agents of U.S. Treasury. The total balance of \$95.5 million is restricted.

**Note 8. Direct Loans and Loan Guarantees**

Not applicable



**General Fund**

Notes to the Principal Statements

**Note 9. Inventory and Related Property**

As of September 30 (Amounts in thousands)	2011	2010
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materials & Supplies, Net	48,650,905	49,698,922
3. Stockpile Materiel, Net	0	0
<b>4. Total</b>	<b>\$ 48,650,905</b>	<b>\$ 49,698,922</b>

**Relevant Information for Comprehension**

**General Composition of OM&S**

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

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

**Restrictions on the Use of OM&S**

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

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

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

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

The category Held as Excess, Obsolete, and Unserviceable includes all materials that managers determine to be more costly to repair than to replace. Items retained for management purposes which are beyond economic repair are coded "condemned." 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 (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. The category Held for Repair represents suspended, unserviceable (but repairable) items recorded at MAC or standard price.

**Operating Materiel and Supplies (OM&S) Value**

The OM&S data reported on the financial statements are derived from logistics systems designed for materials management purposes. Some of these systems do not maintain the historical cost data necessary to comply with the



**General Fund**

## Notes to the Principal Statements

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 material that has not yet been issued to the end user. Once issued, the material is expensed. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost beneficial to expense OM&S when purchased (purchase method).

**Other Air Force Disclosures**

In the past, the Air Force provided only minimal OM&S accounting data that can be used to prepare the financial statements but has made considerable strides in improving the systems to provide actual transactions for completing the financial statements. However, in some cases, the data provided still consists of only beginning and ending balances for each of the asset accounts Held for Use; Excess, Obsolete, and 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.



**General Fund**

Notes to the Principal Statements

**Inventory, Net**

Not applicable

**Operating Materials and Supplies, Net**

As of September 30	2011			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

**1. OM&S Categories**

A. Held for Use	\$ 37,183,077	\$ 0	\$ 37,183,077	SP, LAC, MAC
B. Held for Repair	11,467,828	0	11,467,828	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	551,424	(551,424)	0	NRV
<b>D. Total</b>	<b>\$ 49,202,329</b>	<b>\$ (551,424)</b>	<b>\$ 48,650,905</b>	

As of September 30	2010			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

**1. OM&S Categories**

A. Held for Use	\$ 38,568,458	\$ 0	\$ 38,568,458	SP, LAC, MAC
B. Held for Repair	11,130,464	0	11,130,464	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	628,175	(628,175)	0	NRV
<b>D. Total</b>	<b>\$ 50,327,097</b>	<b>\$ (628,175)</b>	<b>\$ 49,698,922</b>	

**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 Materiel, Net**

Not applicable.

**General Fund**  
Notes to the Principal Statements

<b>Note 10.</b>	<b>General Property, Plant &amp; Equipment, Net</b>
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As of September 30	2011				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
<b>1. Major Asset Classes</b>					
A. Land	N/A	N/A	\$ 408,291	N/A	\$ 408,291
B. Buildings, Structures, and Facilities	S/L	20 Or 40	64,474,698	\$ (32,831,874)	31,642,824
C. Leasehold Improvements	S/L	Lease Term	18,460	(5,020)	13,440
D. Software	S/L	2-5 Or 10	620,744	(382,707)	238,037
E. General Equipment	S/L	5 Or 10	45,957,562	(36,506,073)	9,451,489
F. Military Equipment	S/L	Various	296,659,522	(209,083,245)	87,576,277
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	Lease Term	372,563	(338,806)	33,757
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	5,420,007	N/A	5,420,007
J. Other			0	0	0
K. Total General PP&E			<u>\$ 413,931,847</u>	<u>\$ (279,147,725)</u>	<u>\$ 134,784,122</u>

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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



## General Fund

### Notes to the Principal Statements

As of September 30	Restated 2010				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
<b>1. Major Asset Classes</b>					
A.Land	N/A	N/A	\$ 404,614	N/A \$	404,614
B.Buildings, Structures, and Facilities	S/L	20 Or 40	57,590,797 \$	(30,869,458)	26,721,339
C.Leasehold Improvements	S/L	Lease Term	0	0	0
D.Software	S/L	2-5 Or 10	609,086	(363,203)	245,883
E.General Equipment	S/L	5 or 10	43,050,104	(34,347,120)	8,702,984
F.Military Equipment	S/L	Various	289,068,304	(201,859,638)	87,208,666
G.Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H.Assets Under Capital Lease	S/L	Lease Term	393,002	(341,086)	51,916
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	4,690,532	N/A	4,690,532
J. Other			0	0	0
K.Total General PP&E			<u>\$ 395,806,439</u>	<u>\$ (267,780,505)</u>	<u>\$ 128,025,934</u>

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

**General Fund**

Notes to the Principal Statements

**Heritage Assets and Stewardship Land**

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	8,952	258	634	8,576
Archeological Sites	Each	2,195	219	0	2,414
Museum Collection Items (Objects, Not Including Fine Art)	Each	125,756	3,899	46	129,609
Museum Collection Items (Objects, Fine Art)	Each	11,031	108	0	11,139

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	1,682	0	113	1,569
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	7,607	52	0	7,659
	Licensed and Permitted	233	15	0	248
9130	Land				
9140	Public Land	192	0	1	191
9210	Land Easement	162	0	2	160
9220	In-leased Land	92	1	0	93
9230	Foreign Land	321	0	25	296
Grand Total					10,216
TOTAL - All Other Lands					2,366
TOTAL – Stewardship Lands					7,850

**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.

Due to lack of historical data, in the past the Air Force estimated historical values for capitalized military equipment using current departmental internal records. Currently, the Air Force uses actual acquisition cost for capitalizing military equipment. A Prior Period Adjustment (PPA) was made during FY 2011 to correct acquisition costs that had been incorrectly entered into the asset record keeping system. FY 2010 amounts have been restated to reflect correct Acquisition Values, Accumulated Depreciation, and Net Book Values. Refer to Note 26 for additional information.

**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.



## General Fund

### Notes to the Principal Statements

#### Heritage Assets and Stewardship Land

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. As this mission has been executed, Air Force has become a large-scale owner of historic buildings, structures, archeological 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. Air Force policy is to promote and preserve indefinitely the identifiable human, environmental or civic value of such land

The Air Force has 7,850,000 acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in an acceptable condition, based on designated use.

Heritage Assets within the Air Force consist of buildings and structures, archeological sites, museum collection items (objects, not including fine art), and museum collection items (fine art). The Air Force's accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. Although the underlying accounting and recordkeeping systems track the quantities of these assets, and, in some cases, their historical cost, information regarding their fair market value is not readily available.

**Buildings and Structures:** Buildings and Structures are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use Heritage Assets. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA) by each base's civil engineering group as part of their overall responsibility. The Air Force reported 8,576 buildings and structures on Air Force installations and sites to be Heritage Assets at the end of FY 2011. This number shows that 258 Heritage Assets were added to the AF inventory in FY 2011. The increase reflects the ongoing annual responsibility of Air Force to survey and evaluate the NRHP eligibility of buildings and structures as they approach 50 years of age, as required by the NHPA. There were 634 Heritage Assets deleted in FY 2011 due to non-Heritage Assets being listed as Heritage Assets on the FY 2010 report. FY 2010 ending balance total should have been 8,318. This adjustment was determined after several refinements of the data queries were done in 2011. The number of Heritage Asset buildings and structures is nearly 6% of the total building inventory, which equals 143,218 buildings and structures owned or controlled by the Air Force.

Heritage Asset buildings and structures are maintained by each base civil engineering group and are considered to be in good condition. These buildings and structures are subject to the NHPA, Section 106 review and consultation requirements whenever Air Force undertakings might affect their historic characteristics. Section 106 reviews ensure State Historic Preservation Officers, tribal, and other party concerns are taken into account when Air Force decides to adversely affect Heritage Asset buildings and structures.

**Archeological Sites:** Prehistoric and historic archaeological sites that have been identified, evaluated, and determined to be eligible for or are listed on the NRHP in accordance with Section 110 NHPA. The Air Force reports 2,414 archeological sites on or eligible for listing on the National Register at the end of FY 2011. This number reflects an increase of 219 during FY 2011. This cohort of archaeological Heritage Assets is a subset of just nearly 18,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories.

**Museum Collection Items, Objects Not Including Fine Art:** This represents the number of objects which meet the criteria for historical property as defined in Air Force Instruction 84-103 and that have been evaluated, accessioned, and

## General Fund

## Notes to the Principal Statements

catalogued in the Air Force national historical collection. The National Museum of the United States Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements delegated by the Secretary of the Air Force for management of the Air Force's national historic collection. The NMUSAF is fully accredited by the American Association of Museums.

During the period 1 October 2010 – 30 September 2011 there have been 3,899 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. Among the new accessions are significant artifacts donated by past Air Force Chief of Staff General Ronald R. Fogleman as well as a C-130E "Hercules" aircraft with a distinguished combat record including two Air Force Cross decorations for crewmen. Forty-six objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historic collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY 2011 restoration was completed on the museum's HH-3 "Jolly Green Giant" rescue helicopter with a notable combat history which is now a centerpiece exhibit in the SEA War Gallery. Detailed restoration work continues on the Douglas A-1H "Skyraider", the iconic B-17D "Swoose", and B-17F "Memphis Belle".

**Museum Collection Items, Fine Art:** The art collection contains original oils, drawings, sketches and sculptures. For FY 2011, the Air Force Art Program has received 20 additions from the Air Force Art Program and 88 pieces of fine art from the National Museum of the United States Air Force. These paintings were in direct result of the artists visiting bases and operations throughout the Air Force. Included in the above number are fine art paintings inclusive of the NMUSAF holding.

The collection is maintained and kept in good condition. Each year during the annual inventory, Air Force Art Program Office (AFAPO) requests the condition of the paintings to assure the maintenance continues to be a constant.

### Assets Under Capital Lease

As of September 30	2011	Restated 2010
(Amounts in thousands)		
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 372,563	\$ 393,002
B. Equipment	0	0
C. Accumulated Amortization	(338,806)	(341,086)
D. Total Capital Leases	<u>\$ 33,757</u>	<u>\$ 51,916</u>



**General Fund**

Notes to the Principal Statements

**Note 11. Liabilities Not Covered by Budgetary Resources**

As of September 30 (Amounts in thousands)	2011	2010
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	355,740	396,280
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 355,740</b>	<b>\$ 396,280</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 410,321	\$ 732,645
B. Military Retirement and Other Federal Employment Benefits	1,118,609	1,101,149
C. Environmental Liabilities	9,596,842	7,920,935
D. Other Liabilities	3,000,313	2,695,267
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 14,126,085</b>	<b>\$ 12,449,996</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 14,481,825</b>	<b>\$ 12,846,276</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 10,285,058</b>	<b>\$ 11,781,986</b>
<b>5. Total Liabilities</b>	<b>\$ 24,766,883</b>	<b>\$ 24,628,262</b>

**Relevant Information for Comprehension**

Liabilities Not Covered by Budgetary Resources includes 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 Federal Employees' Compensation Act (FECA) liabilities to the Department of Labor and other unfunded employment related liabilities.

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.



General Fund  
Notes to the Principal Statements

**Note 12. Accounts Payable**

As of September 30	2011		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$ 2,553,974	\$ N/A	\$ 2,553,974
2. Nonfederal Payables (to the Public)	3,013,900	35	3,013,935
<b>3. Total</b>	<b>\$ 5,567,874</b>	<b>\$ 35</b>	<b>\$ 5,567,909</b>

As of September 30	2010		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$ 2,375,974	\$ N/A	\$ 2,375,974
2. Nonfederal Payables (to the Public)	3,719,716	18	3,719,734
<b>3. Total</b>	<b>\$ 6,095,690</b>	<b>\$ 18</b>	<b>\$ 6,095,708</b>

**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 intra-agency seller-side accounts receivable. Accounts Payable were adjusted by accruing additional accounts payable and expenses.

**Note 13. Debt**

Not applicable



**General Fund**

Notes to the Principal Statements

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

As of September 30

2011

2010

(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)	\$ 6,246,261	\$ 3,122,970
2. Active Installations—Military Munitions Response Program (MMRP)	351,864	1,891,588
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	15,489	14,772
2. Environmental Closure Requirements	1,253,417	1,253,417
3. Environmental Response at Operational Ranges	0	0
4. Asbestos	888,960	888,960
5. Non-Military Equipment	34,175	34,175
6. Other	0	0

C. Base Realignment and Closure Installations

1. Installation Restoration Program	1,646,347	1,583,186
2. Military Munitions Response Program	13,073	7,303
3. Environmental Corrective Action / Closure Requirements	78,635	6,579
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	36,402
3. Other Weapons Systems	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**

\$ 10,564,623    \$ 8,839,352

**Relevant Information for Comprehension****Other Information Related to Environmental Liabilities**

An environmental liability is a probable and measurable future outflow or expenditure of resources that exists 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 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 are:

- Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- Superfund Amendments and Reauthorization Act (SARA)
- Clean Water Act
- Safe Drinking Water Act
- Clean Air Act
- Resource Conservation and Recovery Act (RCRA)
- Toxic Substances Control Act (TSCA)
- Medical Waste Tracking Act
- Atomic Energy Act
- Nuclear Waste Policy Act
- Low Level Radioactive Waste Policy Amendments 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 cleanup is done in coordination with regulatory agencies, other responsible parties, and current property owners.

**Method 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 uses the models to estimate



## General Fund

### Notes to the Principal Statements

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 Liability 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, the Air Force expenses cleanup costs associated with that portion of the asset life that has passed since the General PP&E was placed into service. The Air Force systematically recognizes the remaining cost 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 associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The Air Force expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

#### **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 and regulations, changes in agreements with regulatory agencies, and advances in technology.

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

The environmental liabilities for the Air Force are based on accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

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 required restoration is unknown.

## General Fund

## Notes to the Principal Statements

**Note 15. Other Liabilities**

As of September 30

	2011		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 775,017	\$ 0	\$ 775,017
B. Deposit Funds and Suspense Account Liabilities	286,744	0	286,744
C. Disbursing Officer Cash	282,156	0	282,156
D. Judgment Fund Liabilities	46,327	0	46,327
E. FECA Reimbursement to the Department of Labor	107,062	145,379	252,441
F. Custodial Liabilities	0	294,281	294,281
G. Employer Contribution and Payroll Taxes Payable	35,059	0	35,059
H. Other Liabilities	57,310	0	57,310
I. Total Intragovernmental Other Liabilities	\$ 1,589,675	\$ 439,660	\$ 2,029,335
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 1,038,388	\$ 0	\$ 1,038,388
B. Advances from Others	43,375	0	43,375
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	130,133	0	130,133
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	2,645,982	0	2,645,982
H. Capital Lease Liability	7,155	28,128	35,283
I. Contract Holdbacks	101,974	0	101,974
J. Employer Contribution and Payroll Taxes Payable	226,373	0	226,373
K. Contingent Liabilities	875,791	354,027	1,229,818
L. Other Liabilities	27,547	0	27,547
M. Total Nonfederal Other Liabilities	\$ 5,096,718	\$ 382,155	\$ 5,478,873
<b>3. Total Other Liabilities</b>	\$ 6,686,393	\$ 821,815	\$ 7,508,208



## General Fund

### Notes to the Principal Statements

As of September 30

		2010		
		Current Liability	Noncurrent Liability	Total

(Amounts in thousands)

#### 1. Intragovernmental

A. Advances from Others	\$	778,925	\$	0	\$	778,925
B. Deposit Funds and Suspense Account Liabilities		323,765		0		323,765
C. Disbursing Officer Cash		300,055		0		300,055
D. Judgment Fund Liabilities		43,850		0		43,850
E. FECA Reimbursement to the Department of Labor		131,294		168,437		299,731
F. Custodial Liabilities		0		293,314		293,314
G. Employer Contribution and Payroll Taxes Payable		88,406		0		88,406
H. Other Liabilities		53,092		0		53,092
I. Total Intragovernmental Other Liabilities	\$	1,719,387	\$	461,751	\$	2,181,138

#### 2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	2,389,341	\$	0	\$	2,389,341
B. Advances from Others		32,344		0		32,344
C. Deferred Credits		0		0		0
D. Deposit Funds and Suspense Accounts		115,160		0		115,160
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		2,572,254		0		2,572,254
H. Capital Lease Liability		8,262		59,992		68,254
I. Contract Holdbacks		128,311		0		128,311
J. Employer Contribution and Payroll Taxes Payable		263,907		0		263,907
K. Contingent Liabilities		648,851		117,558		766,409
L. Other Liabilities		66,722		0		66,722
M. Total Nonfederal Other Liabilities	\$	6,225,152	\$	177,550	\$	6,402,702

#### 3. Total Other Liabilities

	\$	7,944,539	\$	639,301	\$	8,583,840
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**Relevant Information for Comprehension**

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

Nonfederal Other Liabilities reflect accrued moving allowance and miscellaneous expenses to contractors.

Contingent Liabilities include \$875.7 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 include 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.



**General Fund**

Notes to the Principal Statements

**Capital Lease Liability**

As of September 30

2011

Asset Category

Land and Buildings

Equipment

Other

Total

(Amounts in thousands)

**1. Future Payments Due**

A. 2012	\$	36,786	\$	0	\$	0	\$	36,786
B. 2013		13,088		0		0		13,088
C. 2014		9,462		0		0		9,462
D. 2015		8,688		0		0		8,688
E. 2016		8,688		0		0		8,688
F. After 5 Years		0		0		0		0
G. Total Future Lease Payments Due	\$	76,712	\$	0	\$	0	\$	76,712
H. Less: Imputed Interest Executory Costs		41,429		0		0		41,429
I. Net Capital Lease Liability	\$	35,283	\$	0	\$	0	\$	35,283

**2. Capital Lease Liabilities Covered by Budgetary Resources**

\$ 35,283

**3. Capital Lease Liabilities Not Covered by Budgetary Resources**

\$ 0

As of September 30

2010

Asset Category

Land and Buildings

Equipment

Other

Total

(Amounts in thousands)

**1. Future Payments Due**

A. 2011	\$	36,786	\$	0	\$	0	\$	36,786
B. 2012		13,088		0		0		13,088
C. 2013		9,462		0		0		9,462
D. 2014		8,688		0		0		8,688
E. 2015		8,688		0		0		8,688
F. After 5 Years		0		0		0		0
G. Total Future Lease Payments Due	\$	76,712	\$	0	\$	0	\$	76,712
H. Less: Imputed Interest Executory Costs		8,458		0		0		8,458
I. Net Capital Lease Liability	\$	68,254	\$	0	\$	0	\$	68,254

**2. Capital Lease Liabilities Covered by Budgetary Resources**

\$ 63,104

**3. Capital Lease Liabilities Not Covered by Budgetary Resources**

\$ 5,150



**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 contingent liabilities in Note 15, Other Liabilities.

Claims and litigation from Civil Law having a reasonably possible liability are estimated at \$346.7 million. 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 Force's legal representation letters and management summary schedule.

The amount of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment is \$747.1 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 has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present the Air Force's contingent liabilities.

The estimated probable liability amount of \$1.2 billion was recognized in Note 15 as contingent liabilities.

The recognized contingent liability includes \$875.8 million in estimated future contract financing payments that will be paid to contractors upon delivery and government acceptance. See Note 15 for additional details.

In addition, Air Force recognized the total estimated probable liability for claims and litigation against the Air Force, handled by the Civil Law and Litigation Directorate, as of September 30, 2011, valued at \$354 million, included in Nonfederal Contingent Liabilities. As of September 30, 2011, the Air Force was party to 6,051 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.



**General Fund**

Notes to the Principal Statements

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

As of September 30

(Amounts in thousands)

**1. Pension and Health Benefits**

	2011		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0

**2. Other Benefits**

A. FECA	\$ 1,118,609	\$ 0	\$ 1,118,609
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	7,534	(7,534)	0
E. Total Other Benefits	\$ 1,126,143	\$ (7,534)	\$ 1,118,609

**3. Total Military Retirement and Other Federal Employment Benefits:**

	\$ 1,126,143	\$ (7,534)	\$ 1,118,609
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As of September 30

(Amounts in thousands)

**1. Pension and Health Benefits**

	2010		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0

**2. Other Benefits**

A. FECA	\$ 1,101,150	\$ 0	\$ 1,101,150
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	8,213	(8,213)	0
E. Total Other Benefits	\$ 1,109,363	\$ (8,213)	\$ 1,101,150

**3. Total Military Retirement and Other Federal Employment Benefits:**

	\$ 1,109,363	\$ (8,213)	\$ 1,101,150
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**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 but not reported 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**

3.535% in Year 1  
4.025% 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 [Cost of Living Adjustment (COLA)] and medical inflation factors [Consumer Price Index Medical CPIM] were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2011 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:

<b><u>CBY</u></b>	<b><u>COLA</u></b>	<b><u>CPIM</u></b>
2011	N/A	N/A
2012	2.10%	3.07%
2013	2.53%	3.62%
2014	1.83%	3.66%
2015	1.93%	3.73%
2016	2.00%	3.73%
and thereafter		

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 2011 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 2011 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.



**General Fund**

Notes to the Principal Statements

**Note 18. General Disclosures Related to the Statement of Net Cost**

**Intragovernmental Costs and Exchange Revenue**

As of September 30	2011	Restated 2010
(Amounts in thousands)		
<b>Military Retirement Benefits</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 0	\$ 0
B. Nonfederal Cost	0	0
C. Total Cost	<u>\$ 0</u>	<u>\$ 0</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 0	\$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	<u>\$ 0</u>	<u>\$ 0</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 0</u>	<u>\$ 0</u>
<b>Civil Works</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 0	\$ 0
B. Nonfederal Cost	0	0
C. Total Cost	<u>\$ 0</u>	<u>\$ 0</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 0	\$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	<u>\$ 0</u>	<u>\$ 0</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 0</u>	<u>\$ 0</u>
<b>Military Personnel</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 8,872,534	\$ 8,719,745
B. Nonfederal Cost	27,518,970	27,501,753
C. Total Cost	<u>\$ 36,391,504</u>	<u>\$ 36,221,498</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (107,779)	\$ (364,604)
B. Nonfederal Revenue	(68,735)	(22,476)
C. Total Revenue	<u>\$ (176,514)</u>	<u>\$ (387,080)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 36,214,990</u>	<u>\$ 35,834,418</u>

## General Fund

## Notes to the Principal Statements

<b>Operations, Readiness &amp; Support</b>			
1. Gross Cost			
A. Intragovernmental Cost	\$	761,642	\$ (3,335,533)
B. Nonfederal Cost		61,446,276	59,564,798
C. Total Cost	\$	62,207,918	\$ 56,229,265
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(1,906,351)	\$ (544,721)
B. Nonfederal Revenue		(375,944)	(667,716)
C. Total Revenue	\$	(2,282,295)	\$ (1,212,437)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	59,925,623	\$ 55,016,828
<b>Procurement</b>			
1. Gross Cost			
A. Intragovernmental Cost	\$	18,771,999	\$ 17,482,770
B. Nonfederal Cost		17,322,741	45,709,042
C. Total Cost	\$	36,094,740	\$ 63,191,812
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(430,430)	\$ (367,457)
B. Nonfederal Revenue		(275,309)	(472,616)
C. Total Revenue	\$	(705,739)	\$ (840,073)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	35,389,001	\$ 62,351,739
<b>Research, Development, Test &amp; Evaluation</b>			
1. Gross Cost			
A. Intragovernmental Cost	\$	11,292,973	\$ 12,044,026
B. Nonfederal Cost		16,714,772	17,968,097
C. Total Cost	\$	28,007,745	\$ 30,012,123
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(2,907,727)	\$ (3,410,252)
B. Nonfederal Revenue		(53,283)	(57,264)
C. Total Revenue	\$	(2,961,010)	\$ (3,467,516)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	25,046,735	\$ 26,544,607



## General Fund

### Notes to the Principal Statements

<b>Family Housing &amp; Military Construction</b>			
1. Gross Cost			
A. Intragovernmental Cost	\$	128,898	\$ 54,317
B. Nonfederal Cost		1,009,750	1,295,643
C. Total Cost	\$	1,138,648	\$ 1,349,960
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(15,082)	\$ (6,563)
B. Nonfederal Revenue		0	0
C. Total Revenue	\$	(15,082)	\$ (6,563)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits			
	\$	0	\$ 0
Total Net Cost	\$	1,123,566	\$ 1,343,397
<b>Consolidated</b>			
1. Gross Cost			
A. Intragovernmental Cost	\$	39,828,046	\$ 34,965,325
B. Nonfederal Cost		124,012,509	152,039,333
C. Total Cost	\$	163,840,555	\$ 187,004,658
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(5,367,369)	\$ (4,693,597)
B. Nonfederal Revenue		(773,271)	(1,220,072)
C. Total Revenue	\$	(6,140,640)	\$ (5,913,669)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits			
	\$	0	\$ 0
4. Costs Not Assigned to Programs			
	\$	0	\$ 0
5. (Less: Earned Revenues) Not Attributed to Programs			
	\$	0	\$ 0
Total Net Cost	\$	157,699,915	\$ 181,090,989

### Relevant Information for Comprehension

In 2010 Operations, Readiness & Support reported an abnormal balance for Intragovernmental cost in the amount of \$3.3 billion. This is in relation to transfers to and from other government entities. Because of business practices, sometimes transfers from other Intergovernmental entities are recorded against program cost instead of revenue.

Due to a Prior Period Adjustment, total net cost for 2010 increased by \$16.6 billion. The increase was created by a decrease in Operations Readiness & Support program cost of \$133 thousand and an increase in Procurement program cost of \$16.6 billion. See Note 26 for additional information.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are 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."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government.

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

The Air Force's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenue. Expenses are generally adjusted by accruing additional accounts payable and expenses. Intradepartment revenues and expenses are then eliminated.

The Air Force does not meet accounting standards. 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.

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

Other Financing Sources, Other is comprised of unsupported adjustments to reconcile reported intragovernmental transfers, the majority of which are recorded at the Air Force Component level, as the respective federal partners could not be identified nor the transfers reconciled.

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of \$5.6 million. The difference is due to additional resources included in the Appropriations line item on the SBR. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources, for further information.

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 intraentity activity between Earmarked Funds and All Other Funds are reported on the same lines. The eliminations column contains all appropriate elimination entries, which net to zero within each respective line, except for intraentity imputed financing costs.

For Fiscal Year 2010, there is an increase in the amount of \$1.1 billion to the Beginning Balance due to a Prior Period Adjustment related to Military Equipment. This accounts for variances in years prior to 2010. There is also an increase of \$16.6 billion in Net Cost of Operations for Fiscal Year 2010 related to Military Equipment logistical system issues. The total change in "Net Position" for fiscal year end 2010 amounts to \$15.5 billion.

During fiscal year 2011, the issues were corrected and Air Force Financial Reporting organization was able to reconcile detailed asset lists from logistical systems to the financial statements. To assure that future financial statements are presented fairly, the Air Force Financial Reporting organization will continue to reconcile Military Equipment on a quarterly basis. See Note 26 for additional information.



**General Fund**

Notes to the Principal Statements

**Note 20. Disclosures Related to the Statement of Budgetary Resources**

As of September 30 (Amounts in thousands)	2011	2010
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 79,038,813	\$ 76,521,166
2. Available Borrowing and Contract Authority at the End of the Period	0	0

**Relevant Information for Comprehension**

**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 is funds not subject to apportionment. The amounts of direct and reimbursable obligations incurred are stated in the table.

	Category A	Category B	Exempt
Direct	\$97.5 billion	\$70.1 billion	\$7.3 million
Reimbursable	\$6.9 billion	\$3.4 billion	\$0.2 million

**Intraentity Transactions**

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

**Permanent Indefinite Appropriations**

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

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

Wildlife Conservation Fund [16 USC 670(a)]

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

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

**Appropriations Received**

Appropriations on the Statement of Budgetary Resources differ from those reported on the Statement of Changes in Net Position (SCNP) because Appropriations Received on the SCNP do not include dedicated appropriations and earmarked receipts. Dedicated appropriations and earmarked receipts are accounted for as either nonexchange revenue or donations and forfeitures of cash and cash equivalents. This resulted in a \$5.6 million difference.



**Note 21. Reconciliation of Net Cost of Operations to Budget**

As of September 30

2011

Restated  
2010

(Amounts in thousands)

**Resources Used to Finance Activities:**

## Budgetary Resources Obligated:

1. Obligations incurred	\$	177,628,001	\$	170,329,389
2. Less: Spending authority from offsetting collections and recoveries (-)		(14,414,018)		(15,397,463)
3. Obligations net of offsetting collections and recoveries	\$	163,213,983	\$	154,931,926
4. Less: Offsetting receipts (-)		(154,152)		(250,035)
5. Net obligations	\$	163,059,831	\$	154,681,891

## Other Resources:

6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		867,507		202,939
8. Imputed financing from costs absorbed by others		855,639		857,824
9. Other (+/-)		(459,953)		839,990
10. Net other resources used to finance activities	\$	1,263,193	\$	1,900,753
11. Total resources used to finance activities	\$	164,323,024	\$	156,582,644

**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 (-)	\$	(2,517,648)	\$	2,680,287
12b. Unfilled Customer Orders		(619,759)		302,117
13. Resources that fund expenses recognized in prior Periods (-)		(416,750)		(59,848)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		154,152		250,035
15. Resources that finance the acquisition of assets (-)		(15,963,606)		(7,638,134)
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 (+/-)		(407,554)		(1,042,928)
17. Total resources used to finance items not part of the Net Cost of Operations	\$	(19,771,165)	\$	(5,508,471)
18. Total resources used to finance the Net Cost of Operations	\$	144,551,859	\$	151,074,173



## General Fund

### Notes to the Principal Statements

As of September 30

2011

Restated  
2010

(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	\$	73,728	\$	112,556
20. Increase in environmental and disposal liability		1,725,271		22,158
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		0		0
23. Other (+/-)		307,815		487,268
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	2,106,814	\$	621,982

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	15,128,148	\$	13,290,350
26. Revaluation of assets or liabilities (+/-)		(1,761,057)		2,776,078
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		0		0
27c. Operating Material and Supplies Used		27,907,673		24,316,312
27d. Other		(30,233,522)		(10,987,906)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	11,041,242	\$	29,394,834

<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	\$	13,148,056	\$	30,016,816
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<b>30. Net Cost of Operations</b>	\$	157,699,915	\$	181,090,989
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**Relevant Information for Comprehension**

Due to Air Force financial system limitations, budgetary data do not agree with proprietary expenses and capitalized assets. 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 (\$264.3) million in the Other Components Not Requiring or Generating Resources category.

The following Reconciliation of Net Cost of Operations to Budget 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 consist of other gains to adjust intragovernmental transfers in.

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

Other Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period consist of expenses due to Air Force active military personnel.

Other Components not Requiring or Generating Resources include expenses for Operations and Maintenance, Procurement, Military Construction and Family Housing.

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

The Air Force collected \$62.9 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**

<b>BALANCE SHEET</b> As of September 30 (Amounts in thousands)	2011				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
<b>ASSETS</b>					
Fund balance with Treasury	\$ 0	\$ 0	\$ 13,681	\$ 0	\$ 13,681
Investments	0	0	1,077	0	1,077
Accounts and Interest Receivable	0	0	1	0	1
Other Assets	0	0	5	0	5
<b>Total Assets</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 14,764</b>	<b>\$ 0</b>	<b>\$ 14,764</b>
<b>LIABILITIES and NET POSITION</b>					
Military Retirement Benefits and Other Federal Employment Benefits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Liabilities	0	0	2,339	0	2,339
<b>Total Liabilities</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 2,339</b>	<b>\$ 0</b>	<b>\$ 2,339</b>
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	12,425	0	12,425
<b>Total Liabilities and Net Position</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 14,764</b>	<b>\$ 0</b>	<b>\$ 14,764</b>
<b>STATEMENT OF NET COST</b> For the period ended September 30 (Amounts in thousands)					
Program Costs	\$ 0	\$ 0	\$ 12,001	\$ 0	\$ 12,001
Less Earned Revenue	0	0	(216)	0	(216)
<b>Net Program Costs</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 11,785</b>	<b>\$ 0</b>	<b>\$ 11,785</b>
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
<b>Net Cost of Operations</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 11,785</b>	<b>\$ 0</b>	<b>\$ 11,785</b>

**General Fund**

Notes to the Principal Statements

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30 (Amounts in thousands)	2011				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0	\$ 0	\$ 18,568	\$ 0	\$ 18,568
Net Cost of Operations	0	0	11,785	0	11,785
Budgetary Financing Sources	0	0	5,642	0	5,642
Other Financing Sources	0	0	0	0	0
Change in Net Position	\$ 0	\$ 0	\$ (6,143)	\$ 0	\$ (6,143)
Net Position End of Period	\$ 0	\$ 0	\$ 12,425	\$ 0	\$ 12,425

**Relevant Information for Comprehension**

**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.



# United States Air Force

## General Fund

### Notes to the Principal Statements

<b>BALANCE SHEET</b> As of September 30 (Amounts in thousands)	2010				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total

#### ASSETS

Fund balance with Treasury	\$	0	\$	0	\$	17,700	\$	0	\$	17,700
Investments		0		0		1,080		0		1,080
Accounts and Interest Receivable		0		0		0		0		0
Other Assets		0		0		5		0		5
<b>Total Assets</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>18,785</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>18,785</b>

#### LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$	0	\$	0	\$	0	\$	0	\$	0
Other Liabilities		0		0		217		0		217
<b>Total Liabilities</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>217</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>217</b>

Unexpended Appropriations		0		0		0		0		0
Cumulative Results of Operations		0		0		18,568		0		18,568
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>18,785</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>18,785</b>

#### STATEMENT OF NET COST

For the period ended September 30  
(Amounts in thousands)

Program Costs	\$	0	\$	0	\$	4,106	\$	0	\$	4,106
Less Earned Revenue		0		0		(54)		0		( 54)
Net Program Costs	\$	0	\$	0	\$	4,052	\$	0	\$	4,052
Less Earned Revenues Not Attributable to Programs		0		0		0		0		0
<b>Net Cost of Operations</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>4,052</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>4,052</b>

General Fund

Notes to the Principal Statements

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30 (Amounts in thousands)	2010				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0	\$ 0	\$ 10,432	\$ 0	\$ 10,432
Net Cost of Operations	0	0	4,052	0	4,052
Budgetary Financing Sources	0	0	12,188	0	12,188
Other Financing Sources	0	0	0	0	0
Change in Net Position	\$ 0	\$ 0	\$ 8,136	\$ 0	\$ 8,136
Net Position End of Period	\$ 0	\$ 0	\$ 18,568	\$ 0	\$ 18,568



**General Fund**

Notes to the Principal Statements

**Note 24. Fiduciary Activities**

**Schedule of Fiduciary Activity**

For the period ended September 30	2011		2010	
(Amounts in thousands)				
1. Fiduciary net assets, beginning of year	\$	30,624	\$	25,444
2. Fiduciary revenues		0		0
3. Contributions		53,933		46,166
4. Investment earnings		3,434		2,701
5. Gain (Loss) on disposition of investments, net		0		0
6. Administrative and other expenses		0		0
7. Distributions to and on behalf of beneficiaries		(50,639)		(43,688)
8. Increase/(Decrease) in fiduciary net assets	\$	6,728	\$	5,179
<b>9. Fiduciary net assets, end of period</b>	<b>\$</b>	<b>37,352</b>	<b>\$</b>	<b>30,623</b>

**Schedule of Fiduciary Net Assets**

For the period ended September 30	2011		2010	
(Amounts in thousands)				
<b>FIDUCIARY ASSETS</b>				
1. Cash and cash equivalents	\$	37,353	\$	30,624
2. Investments		0		0
3. Other Assets		0		0
<b>FIDUCIARY LIABILITIES</b>				
4. Less: LIABILITIES	\$	0	\$	0
<b>5. TOTAL FIDUCIARY NET ASSETS</b>	<b>\$</b>	<b>37,353</b>	<b>\$</b>	<b>30,624</b>

**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.



## General Fund

## Notes to the Principal Statements

**Note 25. Other Disclosures**

As of September 30	2011 Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
<b>1. ENTITY AS LESSEE-Operating Leases</b>				
Future Payments Due				
Fiscal Year				
2012	39,404	0	109,861	149,265
2013	31,094	0	110,959	142,053
2014	45,577	0	112,069	157,646
2015	43,122	0	113,190	156,312
2016	48,433	0	114,322	162,755
After 5 Years	0	0	115,465	115,465
<b>Total Future Lease Payments Due</b>	<b>\$ 207,630</b>	<b>\$ 0</b>	<b>\$ 675,866</b>	<b>\$ 883,496</b>

**Relevant Information for Comprehension**

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

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



## General Fund

### Notes to the Principal Statements

#### Note 26. Restatements

On 1 October 2008, the AF began using the Reliability & 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 (CAMS-ME) to REMIS resulted in a variation significant enough to require a prior period adjustment (PPA) that was done in 2009.

During fiscal year 2010, adjustments were made to correct acquisition costs that had been incorrectly entered into the asset record keeping system. These adjustments were due to the Military Equipment Valuation (MEV) which was a Department of Defense (DoD)-wide effort to implement federal accounting standards requiring military equipment, including modifications and upgrades, to be treated as capitalized assets on the DoD financial statements. When original acquisition costs were first entered, estimates were used until adequate supporting documentation could be obtained. The MEV adjustments included removing modification records from the system determined not to meet the capitalization rules, adding modification records not in the system, and increasing/decreasing acquisition cost to match supporting documentation.

In addition to the issue with the MEV, the asset system was unable to provide adequate support for the financial statements. In the process of obtaining adequate support, it was discovered that financial data was incorrectly being sent to the financial reporting system from the logistical systems. Research was done to determine the cause of the problem and steps were taken to correct the issues.

The overstatement of the financials as of September 30, 2010 totaled \$15.5 billion. This was created by an overstatement of Military Equipment of \$8.7 billion and the understatement of accumulated depreciation of \$6.8 billion. The overstatement is broken down by fiscal year 2010 and pre fiscal year 2010, overstating fiscal year 2010 by \$16.6 billion and understating pre fiscal year 2010 by \$1.1 billion. The adjustments created changes in the Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Net Position.

The Balance Sheet was affected by a decrease in “General Property, Plant and Equipment, Net” by \$15.5 billion for fiscal year 2010. This also reduced “Cumulative Result of Operations- Other Funds” by \$15.5 billion.

The Consolidated Statement of Changes in Net Cost had a decrease in program cost “Operations, Readiness & Support” of \$133 and an increase in program cost “Procurement” of \$16.6 billion. The net result was an increase in Net Cost of Operation by \$16.6 billion for fiscal year 2010.

On the Consolidated Statement of Change in Net Position, an increase of \$1.1 billion was listed under Prior Period Adjustments “Corrections of errors” for 2010 and added to the adjusted beginning balance total. The Net Cost of Operations for 2010 was increased by \$16.6 billion thus reducing the Cumulative Results of operations. The ending balance in Net Position was also decreased by \$15.5 billion for fiscal year 2010. In order to account for the 2010 restated financial statements in 2011, the \$15.5 billion from 2010 is entered under Prior Period Adjustment “Corrections of errors” to adjust the Beginning balance total.

During fiscal year 2011, the issues were corrected and Air Force Financial Reporting organization was able to reconcile detailed asset lists from logistical systems to the financial statements. To assure that future financial statements are presented fairly, the Air Force Financial Reporting organization will continue to reconcile Military Equipment on a quarterly basis.

# **General Fund**

Fiscal Year 2011

Required Supplementary  
Stewardship Information



**General Fund**

Required Supplementary Stewardship Information

**STEWARSHIP 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.

<b>NONFEDERAL PHYSICAL PROPERTY</b>					
Yearly Investment in State and Local Governments					
For the Current and Four Preceding Fiscal Years					
(\$ in millions)					
Categories	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
1. Transferred Assets:					
National Defense Mission Related	0	0	0	0	0
2. Funded Assets:					
National Defense Mission Related	\$ 12.0	\$ 11.5	\$ 19.6	\$ 2.8	\$ 8.5
<b>Totals</b>	<b>\$ 12.0</b>	<b>\$ 11.5</b>	<b>\$ 19.6</b>	<b>\$ 2.8</b>	<b>\$ 8.5</b>

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 Federal GAAP 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.

<b>INVESTMENTS IN RESEARCH AND DEVELOPMENT</b>					
Yearly Investment in Research and Development					
For the Current and Four Preceding Fiscal Years					
(\$ in millions)					
Categories	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
1. Basic Research	\$ 498	\$ 449	\$ 418	\$ 389	\$ 383
2. Applied Research	1,187	1,074	1,069	1,051	1,032
3. Development:					
Advanced Technology Development	514	658	635	611	937
Advanced Component Development and Prototypes	1,608	1,858	2,022	2,423	2,310
System Development and Demonstration	2,739	3,101	3,542	3,654	4,094
Research, Development, Test and Evaluation					
Management Support	1,075	1,237	1,296	1,323	1,286
Operational Systems Development	19,189	15,380	14,793	12,459	11,481
<b>Totals</b>	<b>\$ 26,810</b>	<b>\$ 23,757</b>	<b>\$ 23,775</b>	<b>\$ 21,910</b>	<b>\$ 21,523</b>

**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 uses 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. 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



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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, 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**

AFRL-funded researchers recently achieved several unique breakthroughs in atomic layer deposition, or ALD, a method that puts down a layer of "paint" one-atom thick. The ALD method offers a tremendous range of applications including coating aircraft canopies, particles and nano-particles; creating insulators in integrated circuits; and controlling catalysts and sensors. The ALD application process also offers the revolutionary ability to coat micro-electro-mechanical systems the size of a micron or smaller.

AFRL also funded research in laser light technology that will help the Military create new forms of metal that may guide, attract, and repel liquids and cool small electronic devices. The research team discovered a way to transform a shiny piece of metal into one that is pitch black, not by paint, but by using incredibly intense bursts of laser light. The resulting black metal absorbs all radiation that shines upon it. With the creation of this black metal, an entirely new class of material becomes available which may open up an entirely new horizon for various applications. Additional research has centered on creating technology that may enable the Air Force to create an additional kind of metal by using the femtosecond laser to alter the surface of metal and create unique nano - and micro-scale structures.

#### **Applied Research**

The Real-time Active Imaging in 3-D at Extended Range (RAIDER) system is a turreted, 3-D imaging ladar providing terrain mapping and high resolution imaging for combat identification. The system was completed, integrated in the flight turret and successfully conducted multiple missions in support of the CLEAN SWEEP program. RAIDER demonstrated high confidence identification of a wide variety of targets in diverse backgrounds completing the CLEAN SWEEP integrated capability for wide area detection, identification and prosecution of military vehicles.

Munitions scientists from the Air Force Research Laboratory (AFRL) and Lawrence Livermore National Laboratory (LLNL) aggressively designed and tested an advanced warhead to provide precision lethality with low collateral damage. AFRL's 5-month Precision Lethality Mk82 (PL82) Risk Reduction program accelerated Technology Readiness Level (TRL) growth from 5 to 6 through successful warhead blast and target penetration demonstrations. This quickly provided the technical maturity needed for immediate transition to the BLU-

129/B Quick Reaction Capability (QRC) program at the Air Armament Center (AAC), Eglin Air Force Base, Florida, and has been designated as the BLU-129/B warhead.

### **Advanced Technology Development**

The Counter-Electronics High Power Microwave Advanced Missile Project (CHAMP) successfully executed the pointing demonstration during a flight test recently at the Utah Test and Training Range. A major milestone, the test demonstrated the navigational and pointing accuracy of CHAMP's aerial platform and integrated high power microwave (HPM) beam, which can disrupt or damage targeted electronic circuits and components, as well as its ability to correctly trigger the payload with great timing accuracy. CHAMP provides the warfighter a non-lethal, low collateral damage capability against targets and helps keep post-conflict reconstruction costs to a minimum.

Gotcha Radar Exploitation Program (GREP) Data Collect Demonstration: The main goal of the Gotcha Radar Exploitation Program (GREP) data collect demonstration that took place on 26 and 29 September 2011 was to generate real-time (1 second to generate a frame of each of the following) video synthetic aperture radar (SAR), coherent change detection (CCD), and non-coherent change detection (NCD) on a 1.25 km by 1.25 km spot at 1/3 m resolution. This goal was accomplished. It was also possible to generate real time (1 frame per second) video SAR on a 4 km by 4 km spot at 1/3 m resolution and display this video on a touchscreen display. By drawing a box on the screen it was possible (within 30-45 seconds) to do a three dimensional reconstruction using all of the available data up to that point in the demonstration (i.e., all 360 degrees or less). Data transmission from the radar to the Desch supercomputer was accomplished by using the AOptix (optical) datalink. All of this data was kept so further analysis could be done in the future. This system provides a step to the capability to use real-time SAR video to look at change detection and two and three dimensional imaging which could be very useful to the warfighter. Furthermore, by keeping the data, forensic analysis can be done if an incident happens and it is necessary to ascertain what, or who, caused the incident.

### **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



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prepared in parallel with the SR system concept of operations (CONOPS); both are on track for MRB and JROC approval in 1<sup>st</sup> 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), SAR, and high-resolution terrain information (HRTI) capabilities from a space-based platform. Initial launch capability is planned for 4<sup>th</sup> 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 10<sup>th</sup> year of a 17-year Engineering and Manufacturing Development (EMD) effort. President's Budget, FY 2011, significantly restructured the F-35 program, decreasing procurement by 122 aircraft across the FYDP and extending EMD to March 2016. Following a Critical Nunn-McCurdy breach in March 2010, the program initiated a detailed bottoms-up Technical Baseline Review (TBR). The program office spent much of 2011 rebaselining the entire F-35 program, informed by the TBR and SECDEF guidance. As part of this effort, the program reassessed block capabilities, test priorities, and major milestones to complete EMD. In addition, this led to a complete rework of the integrated master schedule (IMS). The results of the IMS will inform the Services on their effort to reassess initial operational capability (IOC) dates. Significant program accomplishments in FY 2011 include:

- 19 of 20 flight and ground test aircraft have been produced and delivered
- 8 flight test aircraft ferried: 1 STOVL, 2 CTOLs, 3 CVs; 2 Low Rate Initial Production (LRIP) CTOL aircraft ferried to Edwards AFB to augment the test and evaluation program
- First training aircraft ferried to Eglin AFB on 14 Jul 11
- 604 of 559 planned flight test sorties and 4830 of 4350 planned test points as of 31 Aug 2011
- LRIP Lot 4 contracts for 10 AF CTOLs, 16 Navy STOVLs, and 4 Navy CVs awarded to Lockheed in Nov 10.

The Space Based Infrared System (SBIRS) program is designed to replace the Defense Support Program (DSP) satellite constellation, meeting an increased set of requirements. The SBIRS system includes spacecraft in geosynchronous orbit (GEO) and hosted payloads in highly elliptical earth orbits (HEO), consolidated ground control stations, and mobile processors. The state-of-the-art SBIRS sensors provide timely, highly accurate missile warning, missile defense, battlespace awareness and technical intelligence data to deployed warfighters, national leadership, and U.S. allies. These high sensitivity sensors collect and downlink infrared events in multiple spectral wavebands in order to simultaneously support multiple mission areas. SBIRS will deliver unprecedented, global and persistent infrared surveillance capabilities for the United States and its allies.

FY 2011 marked a significant milestone for the SBIRS program with the launch of the first geosynchronous satellite, GEO-1, on May 7, 2011, from Cape Canaveral Air Force Station, Fla., joining the HEO-1&2 satellites already on orbit. The spacecraft has been fully deployed and is functioning normally in geosynchronous orbit. The spacecraft bus and payload are undergoing testing to characterize and tune the integrated GEO system in



preparation for operational acceptance and system certification in 2012. GEO-2 is scheduled for delivery in FY 2012 and launch in FY 2013.

### **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 testing at the Air Force Major Range and Test Facility Base (MRTFB) Activities.

The effort to enhance the TSPI post processing software to accept data from multiple reference receivers continued. The software modifications are needed to utilize a network of reference receivers to provide precise correction data for post mission processing. This effort will provide a much needed capability to automatically process reference receiver data over expanded coverage areas. The development of the technology to re-architect the ground sensor processing software is complete. This effort allows the software to be transported from obsolete computers. A proof of concept for an Auto-tuning capability has been developed and will be reviewed to understand the utility of the concept. Development of the data visualization package is in progress. Code is nearing completion. The data visualization capability is a critical enabler to reduce post processing data turnaround time necessary to meet F-35 fly rates.

The program successfully completed the factory ATP and the hardware delivered. The contractor completed documentation. EMI/EMC and Environmental testing is complete. System software and static tests are complete. The program resolved EMI/EMC issues and provided the capability to be used on ground movers in austere environments.

The Digital Integrated Air Defense System (DIADS) is a digital, mission-level Integrated Air Defense System (IADS) simulation incorporating a software representation of the fusion algorithms used by modern enemy air defense systems deployed or projected to be operational in the 21<sup>st</sup> century. It is unique in its detailed implementation of threat representative Command and Control (C2) algorithms and its ability to simulate the threat's perception of the "air picture." DIADS can function as a stand-alone constructive digital simulation, operate in real-time with man-in-the-loop (MITL) and/or synthetic operators, or integrate with actual hardware using hardware-in-the-loop (HITL) interfaces.

The DIADS Upgrades program builds off the simulation produced during the DIADS Laboratory Capabilities Program. The upgrade program focuses on upgrading the architecture of DIADS in a phased approach by re-engineering one component at a time. The upgrade program adds new players and enhances existing IADS C2 players based on the latest intelligence. The program also uses standard DoD radar and surface to air missile models as part of the upgrade to minimize duplication of effort and insure consistent modeling. The DIADS Upgrades program actively seeks out commercial off the shelf (COTS) and government off the shelf (GOTS) software to replace existing DIADS components that have reached the end of their useful life or are no longer compatible with the modern computing hardware used to support the architecture upgrade. The program exclusively uses COTS hardware to support the simulation upgrade.

DIADS personnel continued data analysis for validation of the new tracker within DIADS to support the MALD-J program. DIADS has received non-jamming data and is completing steps to receive jamming data.

DIADS also supported F-22 ACS Inc 3.1 FOT&E Event throughout June 2011. DIADS personnel identified key workarounds to issues as they arose, enabled effective assessments on weapons systems, and provided support and troubleshooting for key test consoles.



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#### **Operational Systems Development**

The Air Force's operational system efforts include projects in support of development acquisition programs or upgrades. 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. 173 aircraft have been delivered through end of FY 2011. Increment 2 is resident in delivered aircraft and represents the first upgrade over initial operational capability. 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. FY 2011 activities included initiation of FOT&E for the Increment 3.1 suite and development of the Increment 3.2A 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.

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 4<sup>th</sup> 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 is going-on on the F/A-18C/D and F-15C/D. EMD was accomplished 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 2<sup>nd</sup> Quarter, FY 2009 and will continue through FY 2024. Operational testing began in Jan 10 with a combined DT/OT program to mature missile and aircraft operational flight programs (OFP). Three of three DT/OT shots were successfully accomplished – one a direct hit and two lethal fuzes. Operational Test Readiness Review (OTRR) has been delayed until several issues have been resolved and the program receives Program Executive Officer (PEO) approval to proceed.

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 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 were delivered in FY10, with the final 100 scheduled for delivery in FY11.

**Reaper (MQ-9) UAV Program** completed Block 30 Ground Control Station (GCS) development that provides new STORM cockpit with touch screen interfaces, adjustable rudder pedals, ergonomic seat, improved High

Definition displays, and Human Machine Interface (HMI) improvements for safety of flight. Fielding begins in FY12. The MQ-9 Reaper UAV program is continuing development of 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 FY13. Follow-on development will provide a capability for instantaneous JDAM-quality data for all pixels within the EO/IR image.

In December 2011 the **Global Hawk (RQ-4) flight test program** completed Initial Operational Test and Evaluation (IOT&E). The Air Force provided the RQ-4B Global Hawk Block 30 to the Warfighter prior to the completion of an IOT&E report because the Warfighter requested and needed that capability. Most findings identified during IOT&E were quickly addressed to support a fielding decision and were resolved by the time the report was published. The Block 40 aircraft continued developmental flight tests with the Radar Technology Insertion Program (RTIP) sensor in 2011. The first production Block 40 aircraft was delivered in September 2011. In support of JUON 336, the Battlefield Airborne Communications Node (BACN) development and flight testing was completed and the first BACN equipped Global Hawk was deployed to CENTCOM in October 2011.

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 began modifying its first LRIP aircraft in Nov 2010. RDT&E activities for Block 40/45 also included the development of maintenance and crew training systems. The Next Generation Identification Friend or Foe (NGIFF) effort provides AWACS with a secure Mode 5 capability. NGIFF worked to resolve discrepancies in the Block 30/35 variant noted during flight test in preparation for a Milestone C in 2012. The Block 40/45 variant continued software development and added Mode S. The AWACS program completed technology development for the Diminishing Manufacturing Sources (DMS) Replacement of Avionics for Global Operations and Navigation (DRAGON) modification and awarded the Phase 1 EMD contract in July 2011. Phase 2 EMD will be awarded in FY12. DRAGON's EMD effort is a cooperative development effort with the NATO AWACS program, which will provide aircraft that satisfy international airspace and air traffic control mandates. The AWACS program is also continuing risk reduction efforts on multiple fronts to satisfy the high bandwidth and Beyond Line of Sight (BLOS) requirements of the battle space. These efforts will assure that AWACS remains a relevant combat partner on the joint battlefield.



# **General Fund**

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**Department of Defense  
Department of the Air Force  
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES  
For the periods ended September 30, 2011 and 2010  
(\$ in Thousands)**

	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction	Operations, Readiness & Support	2011 Combined	2010 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>							
<b>BUDGETARY RESOURCES</b>							
Unobligated balance, brought forward, October 1	\$ 4,825,674	\$ 26,339,667	\$ 348,084	\$ 2,587,932	\$ 1,988,914	\$ 36,090,271	\$ 29,211,348
Recoveries of prior year unpaid obligations	646,599	862,150	261,357	102,271	2,615,776	4,488,152	4,573,888
Budget authority							
Appropriation	27,001,787	42,957,084	36,193,645	1,582,844	59,901,373	167,636,733	165,422,165
Spending authority from offsetting collections							
Earned							
Collected	3,037,762	635,490	461,749	16,102	5,568,057	9,719,161	10,302,406
Change in receivables from Federal sources	(54,360)	(10,304)	32,110	0	859,018	826,464	219,051
Change in unfilled customer orders							
Advance received	47,227	19,762	0	(15,605)	91,515	142,899	9,782
Without advance from Federal sources	(405,573)	(89,529)	35	(2,450)	(265,141)	(762,658)	292,336
Subtotal	29,626,843	43,512,503	36,687,539	1,580,891	66,154,822	177,562,599	176,245,740
Nonexpenditure transfers, net, anticipated and actual	1,277,777	(529,279)	(121,160)	(81,424)	226,899	772,813	86,734
Permanently not available	(569,004)	(1,345,770)	(234,206)	(130,858)	(998,974)	(3,278,813)	(3,698,050)
<b>Total Budgetary Resources</b>	<b>\$ 35,807,889</b>	<b>\$ 68,839,271</b>	<b>\$ 36,941,614</b>	<b>\$ 4,058,812</b>	<b>\$ 69,987,437</b>	<b>\$ 215,635,022</b>	<b>\$ 206,419,660</b>
<b>Status of Budgetary Resources:</b>							
<b>Obligations incurred:</b>							
Direct	\$ 26,823,534	\$ 41,499,425	\$ 36,163,578	\$ 1,730,711	\$ 61,038,940	\$ 167,256,189	\$ 159,256,720
Reimbursable	2,995,602	451,267	487,651	5,505	6,431,787	10,371,812	11,072,669
Subtotal	29,819,136	41,950,692	36,651,229	1,736,216	67,470,727	177,628,001	170,329,389
Unobligated balance:							
Apportioned	5,567,536	25,861,681	126,580	2,171,600	262,788	33,990,184	32,529,681
Exempt from apportionment	0	0	0	0	11,170	11,170	13,729
Subtotal	5,567,536	25,861,681	126,580	2,171,600	273,958	34,001,354	32,543,410
Unobligated balance not available	421,216	1,026,899	163,804	150,997	2,242,750	4,005,667	3,546,861
<b>Total status of budgetary resources</b>	<b>\$ 35,807,888</b>	<b>\$ 68,839,272</b>	<b>\$ 36,941,613</b>	<b>\$ 4,058,813</b>	<b>\$ 69,987,435</b>	<b>\$ 215,635,022</b>	<b>\$ 206,419,660</b>
<b>Change in Obligated Balance:</b>							
<b>Obligated balance, net</b>							
Unpaid obligations, brought forward, October 1	\$ 11,430,709	\$ 28,820,443	\$ 2,727,881	\$ 3,677,885	\$ 27,350,719	\$ 74,007,637	\$ 76,097,415
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(883,116)	(80,332)	(69,049)	0	(1,936,188)	(2,968,685)	(2,457,299)
Total unpaid obligated balance	10,547,593	28,740,111	2,658,832	3,677,885	25,414,531	71,038,952	73,640,116
Obligations incurred net (+/-)	29,819,136	41,950,692	36,651,229	1,736,216	67,470,727	177,628,001	170,329,389
Less: Gross outlays	(29,078,083)	(38,882,752)	(37,122,312)	(2,469,560)	(64,893,311)	(172,446,017)	(167,845,279)
Obligated balance transferred, net							
Actual transfers, uncollected customer payments from Federal sources (+/-)	0	0	0	0	0	0	(2)
Total Unpaid obligated balance transferred, net	0	0	0	0	0	0	(2)
Less: Recoveries of prior year unpaid obligations, actual	(646,599)	(862,150)	(261,357)	(102,271)	(2,615,776)	(4,488,153)	(4,573,888)
Change in uncollected customer payments from Federal sources (+/-)	459,934	99,832	(32,145)	2,450	(593,876)	(63,806)	(511,385)
Obligated balance, net, end of period							
Unpaid obligations	11,525,163	31,026,233	1,995,442	2,842,271	27,312,359	74,701,468	74,007,637
Less: Uncollected customer payments (+/-) from Federal sources (-)	(423,182)	19,500	(101,194)	2,450	(2,530,064)	(3,032,491)	(2,968,686)
Total, unpaid obligated balance, net, end of period	11,101,981	31,045,733	1,894,248	2,844,721	24,782,295	71,668,977	71,038,951
<b>Net Outlays</b>							
<b>Net Outlays:</b>							
Gross outlays	29,078,083	38,882,752	37,122,312	2,469,560	64,893,311	172,446,017	167,845,279
Less: Offsetting collections	(3,084,989)	(655,252)	(461,749)	(497)	(5,659,571)	(9,862,060)	(10,312,190)
Less: Distributed Offsetting receipts	0	0	0	0	(154,152)	(154,152)	(250,035)
<b>Net Outlays</b>	<b>\$ 25,993,094</b>	<b>\$ 38,227,500</b>	<b>\$ 36,660,563</b>	<b>\$ 2,469,063</b>	<b>\$ 59,079,588</b>	<b>\$ 162,429,805</b>	<b>\$ 157,283,054</b>



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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.

STEWARDSHIP PLANT, PROPERTY, AND EQUIPMENT (PP&E)

HERITAGE ASSETS For Fiscal Year Ended September 30, 2011					
Heritage Asset Categories	Measurement Quantity	As of 9/30/10	Additions	Deletions	As of 9/30/11
Buildings and Structures	Each	8,952	258	634	8,576
Archaeological Sites	Sites	2,195	219	0	2,414
Museum Collection Items (Objects, Not Including Fine Art)	Each	125,756	3,899	46	129,609
Museum Collection Items (Fine Art)	Each	11,031	108	0	11,139

Heritage Assets are items of historical, natural, cultural, educational, or artistic significance (e.g., aesthetic), or items with significant architectural characteristics.

1. Buildings and Structures

Buildings and Structures are those that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), and include multi-use Heritage Assets. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA) by each base’s civil engineering group as part of their overall responsibility. The Air Force reported 8,576 buildings and structures on Air Force installations and sites to be Heritage Assets as of Aug 2011. This number shows that 258 Heritage Assets were added to the AF inventory in FY11 (638 were deleted because the FY 2010 ending number was revised downward after several refinements of the data query in 2011). The increase reflects the ongoing annual responsibility of Air Force to survey and evaluate the NRHP eligibility of buildings and structures as they approach 50 years of age, as required by the NHPA. The number of Heritage Asset buildings and structures is nearly 6% of the total building inventory, which equals 143,218 buildings and structures owned or controlled by the Air Force.

Heritage Asset buildings and structures are maintained by each base civil engineering group and are considered to be in good condition. These buildings and structures are subject to National Historic Preservation Act, Section 106 review and consultation requirements whenever Air Force undertakings might affect their historic characteristics. Section 106 reviews ensure State Historic Preservation Officers, tribal, and other party concerns are taken into account when Air Force decides to adversely affect Heritage Asset buildings and structures.

2. Archaeological Sites

Prehistoric and historic archaeological sites have been identified, evaluated, and determined to be eligible for, or are listed on the National Register of Historic Places in accordance with Section 110 National Historical Preservation Act. The Air Force reports 2,414 archeological sites on or eligible for listing on the National

Register as of Aug 2011, up 219 from FY 2010. This cohort of archaeological Heritage Assets is a subset of nearly 18,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its territories.

### **3. Museum Collection Items, Objects Not Including Fine Art**

This represents the number of objects that meet the criteria for historical property as defined in Air Force Instruction 84-103 and that have been evaluated, accessioned, and catalogued in the Air Force national historical collection. The National Museum of the United States Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements delegated by the Secretary of the Air Force for management of the Air Force's national historic collection. The NMUSAF is fully accredited by the American Association of Museums.

From 1 October 2010 to 30 September 2011, there have been 3,899 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. Among the new accessions are significant artifacts donated by past Air Force Chief of Staff General Ronald R. Fogleman, as well as a C-130E "Hercules" aircraft with a distinguished combat record including two Air Force Cross decorations for crewmen. There were 46 objects deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historic collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY 2011, restoration was completed on the museum's HH-3 "Jolly Green" rescue helicopter, which is now a centerpiece exhibit in the SEA War Gallery. Detailed restoration work continues on the Douglas A-1H "Skyraider" as well the iconic B-17D "Swoose" and B-17F "Memphis Belle."

### **4. Museum Collection Items, Fine Art**

The art collection contains original oils, drawings, sketches and sculptures. The additions are a direct result of the artists visiting bases and operations throughout the Air Force. This represents 20 additions from the Air Force Art Program and 88 pieces of fine art from the National Museum of the United States Air Force. Included in the number above are fine art paintings inclusive of the National Museum of the United States Air Force holdings.

The collection is maintained and kept in good condition. Each year during the annual inventory, the Air Force Art Program Office requests the condition of the paintings as well. Maintenance continues to be a constant.



**General Fund**

Required Supplementary Information

**Stewardship Land**

<b>STEWARDSHIP LAND</b>					
<b>For Fiscal Year Ended September 30, 2011</b>					
<b>(Acres in Thousands)</b>					
<b>Facility Code</b>	<b>Facility Title</b>	<b>As of 9/30/10</b>	<b>Additions</b>	<b>Deletions</b>	<b>As of 9/30/10</b>
9110	Government Owned Land	1,682	0	113	1,569
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	7,607	52	0	7,659
9130	Licensed and Permitted Land	233	15	0	248
9140	Public Land	192	0	1	191
9210	Land Easement	162	0	2	160
9220	In-leased Land	92	1	0	93
9230	Foreign Land	321	0	25	296
<b>Grand Total</b>					<b>10,216</b>
<b>Total - All Lands</b>					<b>2,366</b>
<b>Total - Stewardship Lands</b>					<b>7,850</b>

Stewardship Land represents land rights owned by the Federal Government but not acquired for, or in connection with, items of General Property, Plant, and Equipment (PP&E). “Acquired for or in connection with” is defined as including land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E. Without exception, all land provided to the Air Force from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use.

The Air Force has 7,850,000 acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in acceptable condition, based on designated use.



**REAL PROPERTY DEFERRED MAINTENANCE**

<b>Real Property Deferred Maintenance For Fiscal Year Ended September 30, 2011 (\$ in Millions)</b>			
<b>Property Type</b>	<b>Plant Replacement Value</b>	<b>Required Work (Deferred Maintenance)</b>	<b>Percentage</b>
Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	\$215,185	\$22,321	10%
Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	\$12,186	\$268	2%
Category 3: Buildings, Structures, and Utilities (Heritage Assets)	\$9,206	\$1,118	12%

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

The figures in column one were calculated based off of the current aggregate Plant Replacement Value (PRV) of all facilities (buildings, structures, and utilities) in the Air Force Real Property inventory of which the DoD has ownership interest broken down by enduring, excess, and heritage. The deferred maintenance figures in column two consist of the known maintenance and repair requirements needed to correct facility deficiencies in our inventory.

The calculation method is the same as the previous report for deferred maintenance; however, the PRV figures have been calculated slightly differently. The previous report calculated PRV for just those facilities with known maintenance and repair requirements. Upon close examination of the reporting requirements in the DoD FMR Vol. 06b-12, we included the PRV of all facilities with DoD ownership interest. Therefore, the PRV figures have increased.

Ownership interest is defined as those assets that Air Force holds title to, as opposed to those assets owned by foreign governments, leased facilities, out-grants, or other federal and non-federal entities.

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.



## General Fund

### Required Supplementary Information

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 2011 accumulated deferred sustainment based on Q-Ratings is \$22.3 billion as noted above. Although a backlog of \$22.3 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.

<b>Military Equipment Deferred Maintenance For Fiscal Year Ended September 30, 2011 (\$ in Thousands)</b>			
<b>Major Categories</b>	<b>OP30 Amounts</b>	<b>Adjustments</b>	<b>Total</b>
1. Aircraft	\$ 1,614,516	(\$758,677 )	\$ 855,839
2. Automotive Equipment	25,182	(87)	25,095
3. Combat Vehicles	0	0	0
4. Construction Equipment	0	0	0
5. Electronic and Communications Systems	283,637	(18,346)	265,291
6. Missiles	41,075	0	41,075
7. Ships	0	0	0
8. Ordnance Weapons and Munitions	11,601	0	11,601
9. General Purpose Equipment	15,647	(1,000)	14,647
10. All Other Items Not Identified to Above Categories	27,510	0	27,510
<b>Total</b>	<b>\$ 2,019,168</b>	<b>(\$778,110)</b>	<b>\$1,241,058</b>

The figures presented are projected deferred maintenance amounts for FY 2011 as reported in the FY 2012 Program Budget Review. FY 2011 Overseas Contingency Operations (OCO) supplemental funding is included in the Adjustments column. Adjusted totals do not include Deferred Funding for Contract Logistics Support (CLS) which contains depot maintenance, but do include Deferred Funding for Depot Purchased Equipment Maintenance (DPEM).

**General Fund**  
Fiscal Year 2011  
Audit Opinion



## General Fund Audit Opinion



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

November 9, 2011

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

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2011 and FY 2010  
Basic Financial Statements (Report No. DODIG-2012-010)

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, 2011 and 2010, 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. 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 General Fund FY 2011 and FY 2010 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 2011 and FY 2010 Basic 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, 2011. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing 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 U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended,<sup>\*</sup> 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

<sup>\*</sup>OMB Memorandum No. 09-33, Technical amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

material weaknesses may affect the reliability of certain information contained in the Basic Financial Statements. 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.

As discussed in Note 26, Air Force restated its financial statements as of September 30, 2010, to correct General Plant, Property, and Equipment and Cumulative Results of Operations. The previously issued financial statements were materially misstated; however, our auditor's report is unchanged because of the disclaimer of opinion on the September 30, 2010 financial statements.

### Summary of Internal Control

In planning our work, we considered the 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 material weaknesses continued to exist in the following areas.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



## **General Fund**

### Audit Opinion

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 did not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies and material weaknesses in internal control.

The Air Force reported the above weaknesses in its FY 2011 Statement of Assurance, except for the material weaknesses involving Fund Balance with Treasury, 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 determining 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 the 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 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.

## **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.

**General Fund**  
Audit Opinion

We provided a draft of this report to the Assistant Secretary of the Air Force (Financial Management and Comptroller), who did not provide technical comments to our report. Air Force officials expressed their continuing commitment to addressing the problems this report outlines.



Amy J. Frontz, CPA  
Principal Assistant Inspector General  
for Audit

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, which could adversely affect the Air Force financial management operations.

### *Previously Identified Material Weaknesses*

Management acknowledged that previously identified material weaknesses 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. This statement 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 did not substantially comply with Federal financial management system requirements. The design of the Air Force financial management and feeder systems did 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, the 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 the Fund Balance with Treasury between the Air Force accounting records and the corresponding balances reported by Treasury. The Air Force did not have assurance that it can reconcile its reported balance of Fund Balance with Treasury to the balance the Treasury maintains because it currently did not receive transaction-level data from other DoD Components processing collection and disbursement data on its behalf. Air Force management completed an assertion subsequent to 2011 fiscal year-end, that it has developed internal reconciliation processes to mitigate this weakness in accordance with the DoD Financial Improvement and Audit Readiness Guidance. We will conduct audit procedures on management’s assertion during fiscal year 2012.



**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 were valued using standard prices, and it did not always use the consumption method to recognize the related expense. Accordingly, management was not certain that the Operating Materials and Supplies balances reported in its Basic Financial Statements were 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, additional corrective actions including improving supporting documentation were required prior to the validation of real property financial reporting. This validation was required to ensure real property reporting did not materially misstate General Property, Plant, and Equipment.

**Government Property in Possession of Contractors**

Statement of Federal Financial Accounting Standards No. 23, "Accounting for Property, Plant, and Equipment," requires that entities report on its Balance Sheet the property owned by reporting entities in the possession of federal contractors. The Air Force has acknowledged that its balance did 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 did not reliably report the value of its property and material in the possession of contractors.

**Environmental Liabilities**

The Air Force was not 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 that 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 did not accumulate cost information in accordance with U.S. GAAP. It presented 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.



## General Fund

### Audit Opinion

#### **Intragovernmental Eliminations**

Air Force accountants could not always identify intragovernmental trading partners when recording transactions. Thus, the Air Force could not properly eliminate all transactions among its internal organizational elements. In addition, the Air Force could not 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.

#### **Accounting Entries**

The Air Force acknowledged that it continued to enter material amounts of accounting adjustments without adequate detailed transaction support. Additionally, there were material transactions that the Air Force has not properly recorded in the accounting records underlying the Basic Financial Statements or the 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. The Air Force did 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 could not ensure 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 resulted in the inability to properly reconcile and support the validity of Accounts Receivable.

#### **Accounts Payable Financial Reporting**

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

#### **Reimbursable Programs**

Statement of Federal Financial Accounting Concepts (SFFAC) 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. SFFAC No. 1 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 was not always able to identify logistical, contractual, or labor costs incurred in support of reimbursable orders; therefore, such costs were 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 determining 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 complied 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 system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2011, 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 system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2011.

### ***Antideficiency Act***

Section 1341, title 31, United States Code (31 U.S.C. § 1341[1990]) limits the 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 and 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 (2004), 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 2011, the Air Force General Fund reported three cases of violation of ADA. Therefore, the Air Force did not comply with 31 U.S.C. § 1341.



## General Fund

### Audit Opinion

## Audit Disclosures

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us on April 1, 2011, that the Air Force financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that 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: Government Performance and Results Act, Improper Payments Information Act, Federal Credit Reform Act, Pay 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 recommendations.

# Working Capital Fund

## Principal Statements

### Fiscal Year 2011

The FY 2011 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, 2011, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2010.

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, 2011 and 2010 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, 2011 and 2010. 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, 2011 and 2010.

#### **Combined Statement of Budgetary Resources**

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2011 and 2010, the status of these resources at September 30, 2011 and 2010, and the outlay of budgetary resources for the years ended September 30, 2011 and 2010.

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."



## Working Capital Fund

### Principal Statements

**Department of Defense  
Air Force Working Capital Fund  
CONSOLIDATED BALANCE SHEET  
As of September 30, 2011 and 2010  
(\$ in Thousands)**

	<u>2011 Consolidated</u>	<u>2010 Consolidated</u>
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 670,929	\$ 311,557
Accounts Receivable (Note 5)	933,040	819,796
Other Assets (Note 6)	111,126	0
Total Intragovernmental Assets	\$ 1,715,095	\$ 1,131,353
Accounts Receivable, Net (Note 5)	3,710	13,057
Inventory and Related Property, Net (Note 9)	26,813,221	28,294,357
General Property, Plant and Equipment, Net (Note 10)	1,458,929	1,353,836
Other Assets (Note 6)	336,601	525,087
<b>TOTAL ASSETS</b>	<b>\$ 30,327,556</b>	<b>\$ 31,317,690</b>
<b>STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 226,029	\$ 144,788
Other Liabilities (Note 15 & 16)	55,730	18,180
Total Intragovernmental Liabilities	\$ 281,759	\$ 162,968
Accounts Payable (Note 12)	\$ 694,713	\$ 715,535
Military Retirement and Other Federal	214,927	198,905
Employment Benefits (Note 17)		
Other Liabilities (Note 15 and Note 16)	239,258	429,769
<b>TOTAL LIABILITIES</b>	<b>\$ 1,430,657</b>	<b>\$ 1,507,177</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>		
<b>NET POSITION</b>		
Unexpended Appropriations - Other Funds	36,975	24,173
Cumulative Results of Operations - Other Funds	28,859,924	29,786,340
<b>TOTAL NET POSITION</b>	<b>\$ 28,896,899</b>	<b>\$ 29,810,513</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 30,327,556</b>	<b>\$ 31,317,690</b>

The accompanying notes are an integral part of these financial statements.

## Working Capital Fund Principal Statements

### Department of Defense Air Force Working Capital Fund CONSOLIDATED STATEMENT OF NET COST For the periods ended September 30, 2011 and 2010 (\$ in Thousands)

	<u>2011 Consolidated</u>	<u>2010 Consolidated</u>
<b>Program Costs</b>		
Gross Costs	\$ 13,099,620	\$ 11,822,543
Operations, Readiness & Support	13,099,620	11,822,543
	<hr/>	<hr/>
(Less: Earned Revenue)	(11,852,895)	(10,328,350)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	1,246,725	1,494,193
Net Program Costs Including Assumption Changes	1,246,725	1,494,193
<b>Net Cost of Operations</b>	<u>\$ 1,246,725</u>	<u>\$ 1,494,193</u>

The accompanying notes are an integral part of these financial statements.



## Working Capital Fund

Principal Statements

**Department of Defense  
Air Force Working Capital Fund  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
For the periods ended September 30, 2011 and 2010  
(\$ in Thousands)**

	2011 Earmarked Funds	2011 All Other Funds	2011 Eliminations	2011 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>				
<b>Beginning Balances</b>	\$ 0	\$ 29,786,340	\$ 0	\$ 29,786,340
<b>Beginning balances, as adjusted</b>	0	29,786,340	0	29,786,340
<b>Budgetary Financing Sources:</b>				
Appropriations used	0	54,059	0	54,059
Transfers-in/out without reimbursement	0	0	0	0
<b>Other Financing Sources:</b>				
Transfers-in/out without reimbursement (+/-)	0	(10,561)	0	(10,561)
Imputed financing from costs absorbed by others	0	191,388	0	191,388
Other (+/-)	0	85,423	0	85,423
<b>Total Financing Sources</b>	0	320,309	0	320,309
<b>Net Cost of Operations (+/-)</b>	0	1,246,725	0	1,246,725
<b>Net Change</b>	0	(926,416)	0	(926,416)
<b>Cumulative Results of Operations</b>	0	28,859,924	0	28,859,924
<b>UNEXPENDED APPROPRIATIONS</b>				
<b>Beginning Balances</b>	\$ 0	\$ 24,173	\$ 0	\$ 24,173
<b>Beginning balances, as adjusted</b>	0	24,173	0	24,173
<b>Budgetary Financing Sources:</b>				
Appropriations received	0	66,861	0	66,861
Other adjustments (rescissions, etc)	0	0	0	0
Appropriations used	0	(54,059)	0	(54,059)
<b>Total Budgetary Financing Sources</b>	0	12,802	0	12,802
<b>Unexpended Appropriations</b>	0	36,975	0	36,975
<b>Net Position</b>	0	28,896,899	0	28,896,899

The accompanying notes are an integral part of these financial statements.



**Working Capital Fund**  
Principal Statements

**Department of Defense**  
**Air Force Working Capital Fund**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
For the periods ended September 30, 2011 and 2010  
(\$ in Thousands)

	2010 Earmarked Funds	2010 All Other Funds	2010 Eliminations	2010 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>				
<b>Beginning Balances</b>	\$ 0	\$ 31,669,370	\$ 0	\$ 31,669,370
<b>Beginning balances, as adjusted</b>	0	31,669,370	0	31,669,370
<b>Budgetary Financing Sources:</b>				
Appropriations used	0	46,100	0	46,100
Transfers-in/out without reimbursement	0	(297,535)	0	(297,535)
<b>Other Financing Sources:</b>				
Transfers-in/out without reimbursement (+/-)	0	(310,795)	0	(310,795)
Imputed financing from costs absorbed by others	0	188,664	0	188,664
Other (+/-)	0	(15,271)	0	(15,271)
<b>Total Financing Sources</b>	0	(388,837)	0	(388,837)
<b>Net Cost of Operations (+/-)</b>	0	1,494,193	0	1,494,193
<b>Net Change</b>	0	(1,883,030)	0	(1,883,030)
<b>Cumulative Results of Operations</b>	0	29,786,340	0	29,786,340
<b>UNEXPENDED APPROPRIATIONS</b>				
<b>Beginning Balances</b>	\$ 0	\$ 1,016	\$ 0	\$ 1,016
<b>Beginning balances, as adjusted</b>	0	1,016	0	1,016
<b>Budgetary Financing Sources:</b>				
Appropriations received	0	69,443	0	69,443
Other adjustments (rescissions, etc)	0	(186)	0	(186)
Appropriations used	0	(46,100)	0	(46,100)
<b>Total Budgetary Financing Sources</b>	0	23,157	0	23,157
<b>Unexpended Appropriations</b>	0	24,173	0	24,173
<b>Net Position</b>	0	29,810,513	0	29,810,513

The accompanying notes are an integral part of these financial statements.



## Working Capital Fund

### Principal Statements

**Department of Defense**  
**Air Force Working Capital Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2011 and 2010**  
**(\$ in Thousands)**

	2011 Combined	2010 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
Unobligated balance, brought forward, October 1	\$ 532,408	\$ 373,638
Recoveries of prior year unpaid obligations	103,939	33,765
Budget authority		
Appropriation	66,861	69,443
Contract authority	7,989,074	7,757,396
Spending authority from offsetting collections		
Earned		
Collected	13,036,493	11,598,599
Change in receivables from Federal sources	113,710	(13,963)
Change in unfilled customer orders		
Advance received	(12,139)	(11,153)
Without advance from Federal sources	<u>(387,634)</u>	<u>206,018</u>
Subtotal	20,806,365	19,606,340
Nonexpenditure transfers, net, anticipated and actual	0	(297,535)
Permanently not available	<u>(8,511,828)</u>	<u>(7,103,433)</u>
<b>Total Budgetary Resources</b>	<u>\$ 12,930,884</u>	<u>\$ 12,612,775</u>
<b>Status of Budgetary Resources:</b>		
Obligations incurred:		
Reimbursable	<u>\$ 12,375,556</u>	<u>\$ 12,080,367</u>
Subtotal	12,375,556	12,080,367
Unobligated balance:		
Apportioned	555,328	0
Exempt from apportionment	<u>0</u>	<u>532,408</u>
Subtotal	555,328	532,408
<b>Total status of budgetary resources</b>	<u>\$ 12,930,884</u>	<u>\$ 12,612,775</u>
<b>Change in Obligated Balance:</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 7,824,540	\$ 7,522,917
Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>(3,893,169)</u>	<u>(3,701,113)</u>
Total unpaid obligated balance	3,931,371	3,821,804
Obligations incurred net (+/-)	12,375,556	12,080,367
Less: Gross outlays	(12,731,843)	(11,744,979)
Less: Recoveries of prior year unpaid obligations, actual	(103,939)	(33,765)
Change in uncollected customer payments from Federal sources (+/-)	273,922	(192,055)
Obligated balance, net, end of period		
Unpaid obligations	7,364,314	7,824,540
Less: Uncollected customer payments from Federal sources (-)	<u>(3,619,247)</u>	<u>(3,893,168)</u>
Total, unpaid obligated balance, net, end of period	3,745,067	3,931,372
<b>Net Outlays</b>		
<b>Net Outlays:</b>		
Gross outlays	12,731,843	11,744,979
Less: Offsetting collections	<u>(13,024,352)</u>	<u>(11,587,446)</u>
<b>Net Outlays</b>	<u>\$ (292,509)</u>	<u>\$ 157,533</u>

The accompanying notes are an integral part of these financial statements.

# Working Capital Fund

Fiscal Year 2011

## 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.



## Working Capital Fund

Notes to the Principal 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; the Office of Management and Budget (OMB) Circular No. 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 No. 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 material and equipment may not be accurately reported; (5) AFWCF General Property, Plant, and Equipment (PP&E) may not be accurately valued; (6) Operating Materials 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) Continue to strengthen the 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 CSAG is supply management of reparable and consumable items, and maintenance activities. The 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.

**Working Capital Fund**  
Notes to the Principal Statements

Supply Division activities of CSAG are authorized to procure and manage reparable 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 reparables and non-depot level reparables.

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 nearly 1.1 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 nearly 9 thousand different 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 AFWCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of AFWCF 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 AFWCF 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.



## Working Capital Fund

### Notes to the Principal Statements

#### **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 OM&S, the consumption method is used. Under the consumption method, OM&S would be expensed 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 DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

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. Cash and Foreign Currency**

Not applicable.

**Working Capital Fund**  
Notes to the Principal Statements**1.K. Accounts Receivable**

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

**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."

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 excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of \$0 pending development of an effective means of valuing such material.

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 it 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, 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; therefore, DoD is primarily using the capitalization threshold of \$100 thousand for General PP&E, and most real property.

The WCF capitalizes all PP&E used in the performance of its mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.



## Working Capital Fund

### Notes to the Principal Statements

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.



**Working Capital Fund**  
Notes to the Principal Statements

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. 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 in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

**1.X. Fiduciary Activities**

Not applicable.

**1.Y. Military Retirement and Other Federal Employment Benefits**

Not applicable.

**1.Z. Significant Events**

Not applicable.



**Working Capital Fund**

Notes to the Principal Statements

**Note 2. Nonentity Assets**

As of September 30	2011		2010	
(Amounts in thousands)				
<b>1. Intragovernmental Assets</b>				
A. Fund Balance with Treasury	\$	0	\$	0
B. Accounts Receivable		0		0
C. Other Assets		0		0
D. Total Intragovernmental Assets	\$	0	\$	0
<b>2. Nonfederal Assets</b>				
A. Cash and Other Monetary Assets	\$	0	\$	0
B. Accounts Receivable		296		693
C. Other Assets		0		0
D. Total Nonfederal Assets	\$	296	\$	693
<b>3. Total Nonentity Assets</b>	\$	296	\$	693
<b>4. Total Entity Assets</b>	\$	30,327,260	\$	31,316,997
<b>5. Total Assets</b>	\$	30,327,556	\$	31,317,690

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.

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 and administrative fees that will be forwarded to the General Fund of the U.S. Treasury upon collection.

**Working Capital Fund**  
Notes to the Principal Statements

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of September 30	2011	2010
(Amounts in thousands)		
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0	\$ 0
B. Revolving Funds	670,929	311,557
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	\$ 670,929	\$ 311,557
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 1,026,251	\$ 944,664
B. Fund Balance per AFWCF	670,929	311,557
<b>3. Reconciling Amount</b>		
	\$ 355,322	\$ 633,107

The reconciling amount represents \$355.3 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.



**Working Capital Fund**

Notes to the Principal Statements

**Status of Fund Balance with Treasury**

As of September 30	2011		2010	
(Amounts in thousands)				
<b>1. Unobligated Balance</b>				
A. Available	\$	555,328	\$	532,408
B. Unavailable		0		0
<b>2. Obligated Balance not yet Disbursed</b>	\$	7,364,315	\$	7,824,540
<b>3. Nonbudgetary FBWT</b>	\$	0	\$	0
<b>4. NonFBWT Budgetary Accounts</b>	\$	(7,248,714)	\$	(8,045,391)
<b>5. Total</b>	\$	670,929	\$	311,557

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support 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 of funds temporarily precluded from obligation by law. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The AFWCF has no restrictions on unobligated balances.

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 deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT. The AFWCF currently does not have a Nonbudgetary FBWT.

NonFBWT Budgetary Accounts reduces the Status of FBWT. The amount reported as NonFBWT Budgetary Accounts is comprised of contract authority, unfilled orders without advance from customers, and accounts receivable.

**Note 4. Investments and Related Interest**

AFWCF has no Investments and Related Interest.

**Working Capital Fund**  
Notes to the Principal Statements

<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of September 30	2011		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
ts in thousands)			
<b>1. Intragovernmental Receivables</b>	\$ 933,040	N/A	\$ 933,040
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 12,405	\$ (8,695)	\$ 3,710
<b>3. Total Accounts Receivable</b>	\$ 945,445	\$ (8,695)	\$ 936,750

As of September 30	2010		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
<b>1. Intragovernmental Receivables</b>	\$ 819,796	N/A	\$ 819,796
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 13,057	\$ 0	\$ 13,057
<b>3. Total Accounts Receivable</b>	\$ 832,853	\$ 0	\$ 832,853

The accounts receivable represent the AFWCF's claim for payment from other entities. The AFWCF only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.



**Working Capital Fund**

Notes to the Principal Statements

**Note 6. Other Assets**

As of September 30 (Amounts in thousands)	2011	2010
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 4	\$ 0
B. Other Assets	111,122	0
C. Total Intragovernmental Other Assets	\$ 111,126	\$ 0
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 164,286	\$ 194,341
B. Advances and Prepayments	172,083	130,371
C. Other Assets (With the Public)	232	200,375
D. Total Nonfederal Other Assets	\$ 336,601	\$ 525,087
<b>3. Total Other Assets</b>	\$ 447,727	\$ 525,087

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Government 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 balance in Outstanding Contract Financing Payments includes \$139.7 million in contract financing payments and an additional \$24.6 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

The \$111.1 million in Intragovernmental Other Assets - Other Assets and the \$.2 million balance in Nonfederal Other Assets – Other Assets (With the Public) are comprised of 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**

AFWCF has no Cash and Other Monetary Assets.

**Note 8. Direct Loans and Loan Guarantees**

AFWCF has no Direct Loans and Loan Guarantee Programs.

**Working Capital Fund**  
Notes to the Principal Statements

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of September 30 (Amounts in thousands)	2011	2010
1. Inventory, Net	\$ 26,675,393	\$ 28,171,171
2. Operating Materials & Supplies, Net	137,828	123,186
3. Stockpile Materiel, Net	0	0
<b>4. Total</b>	<b>\$ 26,813,221</b>	<b>\$ 28,294,357</b>

### 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 reparable 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.



**Working Capital Fund**

Notes to the Principal Statements

**Inventory, Net**

As of September 30	2011			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	

(Amounts in thousands)

**1. Inventory Categories**

A. Available and Purchased for Resale	\$	16,726,636	\$	(17,269)	16,709,367	LAC,MAC
B. Held for Repair		13,916,093		(3,987,787)	9,928,306	LAC,MAC
C. Excess, Obsolete, and Unserviceable		171,099		(171,099)	0	NRV
D. Raw Materials		0		0	0	MAC,SP,LA
E. Work in Process		37,720		0	37,720	AC
<b>F. Total</b>	<b>\$</b>	<b>30,851,548</b>	<b>\$</b>	<b>(4,176,155)</b>	<b>26,675,393</b>	

As of September 30	2010			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	

(Amounts in thousands)

**1. Inventory Categories**

A. Available and Purchased for Resale	\$	17,703,154	\$	(14,657)	17,688,497	LAC,MAC
B. Held for Repair		14,754,093		(4,298,962)	10,455,131	LAC,MAC
C. Excess, Obsolete, and Unserviceable		136,355		(136,355)	0	NRV
D. Raw Materials		0		0	0	MAC,SP,LA
E. Work in Process		27,543		0	27,543	AC
<b>F. Total</b>	<b>\$</b>	<b>32,621,145</b>	<b>\$</b>	<b>(4,449,974)</b>	<b>28,171,171</b>	

**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



**Working Capital Fund**  
Notes to the Principal Statements

**Operating Materials and Supplies, Net**

As of September 30	2011			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

**1. OM&S Categories**

A. Held for Use	\$ 137,828	\$ 0	\$ 137,828	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
<b>D. Total</b>	<b>\$ 137,828</b>	<b>\$ 0</b>	<b>\$ 137,828</b>	

As of September 30	2010			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

**1. OM&S Categories**

A. Held for Use	\$ 123,186	\$ 0	\$ 123,186	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
<b>D. Total</b>	<b>\$ 123,186</b>	<b>\$ 0</b>	<b>\$ 123,186</b>	

**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 Materials and Supplies**

Operating Materials 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 Materiel, Net**

AFWCF has no Stockpile Materiel.



## Working Capital Fund

Notes to the Principal Statements

### Note 10. General Property, Plant & Equipment, Net

As of September 30	2011				
	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	SL	20 Or 40	1,195,805	\$ (707,649)	488,156
C.Leasehold Improvements	S/L	Lease Term	0	0	0
D.Software	S/L	2-5 Or 10	1,150,082	(1,010,668)	139,414
E.General Equipment	S/L	5 Or 10	2,819,068	(2,012,299)	806,769
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	24,590	N/A	24,590
J. Other			0	0	0
K.Total General PP&E			\$ 5,189,545	\$ (3,730,616)	\$ 1,458,929

As of September 30	2010				
	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	1,012,030	\$ (691,103)	320,927
C.Leasehold Improvements	S/L	lease term	0	0	0
D.Software	S/L	2-5 Or 10	1,149,812	(952,917)	196,895
E.General Equipment	S/L	5 or 10	2,752,843	(1,942,028)	810,815
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	25,199	N/A	25,199
J. Other			0	0	0
K.Total General PP&E			\$ 4,939,884	\$ (3,586,048)	\$ 1,353,836

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.

**Working Capital Fund**  
Notes to the Principal Statements

### Assets Under Capital Lease

AFWCF has no Assets Under Capital Lease.

### Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2011	2010
(Amounts in thousands)		
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	48,504	0
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 48,504</b>	<b>\$ 0</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0	\$ 0
B. Military Retirement and Other Federal Employment Benefits	214,927	198,905
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 214,927</b>	<b>\$ 198,905</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 263,431</b>	<b>\$ 198,905</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 1,167,226</b>	<b>\$ 1,308,272</b>
<b>5. Total Liabilities</b>	<b>\$ 1,430,657</b>	<b>\$ 1,507,177</b>

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

The \$48.5 million in Intragovernmental Liabilities - Other Liabilities is comprised of the portion of the total Air Force Federal Employee's Compensation Act (FECA) liability allocated to the AFWCF.

Military Retirement and Other Federal Employment Benefits consists of FECA actuarial liabilities not due and payable during the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.



**Working Capital Fund**

Notes to the Principal Statements

**Note 12. Accounts Payable**

As of September 30	2011		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$ 226,029	\$ N/A	\$ 226,029
2. Nonfederal Payables (to the Public)	694,713	0	694,713
<b>3. Total</b>	<b>\$ 920,742</b>	<b>\$ 0</b>	<b>\$ 920,742</b>

As of September 30	2010		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$ 144,788	\$ N/A	\$ 144,788
2. Nonfederal Payables (to the Public)	715,535	0	715,535
<b>3. Total</b>	<b>\$ 860,323</b>	<b>\$ 0</b>	<b>\$ 860,323</b>

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 intraagency seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

**Note 13. Debt**

AFWCF has no Debt.

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

AFWCF has no Environmental Liabilities or Disposal Liabilities.

**Working Capital Fund**  
Notes to the Principal Statements

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of September 30

	2011		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 0	\$ 0	\$ 0
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	20,571	27,932	48,503
F. Custodial Liabilities	296	0	296
G. Employer Contribution and Payroll Taxes Payable	6,931	0	6,931
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	\$ 27,798	\$ 27,932	\$ 55,730
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 139,025	\$ 0	\$ 139,025
B. Advances from Others	25,022	0	25,022
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	1,199	0	1,199
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	24,605	24,605
L. Other Liabilities	49,407	0	49,407
M. Total Nonfederal Other Liabilities	\$ 214,653	\$ 24,605	\$ 239,258
<b>3. Total Other Liabilities</b>	\$ 242,451	\$ 52,537	\$ 294,988



## Working Capital Fund

Notes to the Principal Statements

As of September 30

		2010	
	Current Liability	Noncurrent Liability	Total

(Amounts in thousands)

### 1. Intragovernmental

A. Advances from Others	\$	217	\$	0	\$	217
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		693		0		693
G. Employer Contribution and Payroll Taxes Payable		17,270		0		17,270
H. Other Liabilities		0		0		0
I. Total Intragovernmental Other Liabilities	\$	18,180	\$	0	\$	18,180

### 2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	198,884	\$	0	\$	198,884
B. Advances from Others		33,529		0		33,529
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		2,947		0		2,947
J. Employer Contribution and Payroll Taxes Payable		0		0		0
K. Contingent Liabilities		0		27,437		27,437
L. Other Liabilities		166,972		0		166,972
M. Total Nonfederal Other Liabilities	\$	402,332	\$	27,437	\$	429,769

### 3. Total Other Liabilities

	\$	420,512	\$	27,437	\$	447,949
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**Working Capital Fund**  
Notes to the Principal Statements

The \$49.4 million in the Nonfederal Other Liabilities balance consist of accrued liabilities established in the Consolidated Sustainment Activity Group (CSAG) Supply as an offset to the asset established when foreign government provide funds to buy their respective share of inventory that is owned and managed by the Air Force under a Cooperative Logistics Supply Support Agreement (CLSSA).

Contingent liabilities include \$24.6 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 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 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**

AFWCF has no Capital Leases.

**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.



**Working Capital Fund**

Notes to the Principal Statements

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

As of September 30

(Amounts in thousands)

**1. Pension and Health Benefits**

	2011			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	
A. Military Retirement Pensions	\$ 0	\$ 0	\$	0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0		0
C. Military Medicare-Eligible Retiree Health Benefits	0	0		0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$	0

**2. Other Benefits**

A. FECA	\$ 214,927	\$ 0	\$	214,927
B. Voluntary Separation Incentive Programs	0	0		0
C. DoD Education Benefits Fund	0	0		0
D. Other	0	0		0
E. Total Other Benefits	\$ 214,927	\$ 0	\$	214,927

**3. Total Military Retirement and Other Federal Employment Benefits:**

	\$ 214,927	\$ 0	\$	214,927
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As of September 30

(Amounts in thousands)

**1. Pension and Health Benefits**

	2010			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	
A. Military Retirement Pensions	\$ 0	\$ 0	\$	0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0		0
C. Military Medicare-Eligible Retiree Health Benefits	0	0		0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$	0

**2. Other Benefits**

A. FECA	\$ 198,905	\$ 0	\$	198,905
B. Voluntary Separation Incentive Programs	0	0		0
C. DoD Education Benefits Fund	0	0		0
D. Other	0	0		0
E. Total Other Benefits	\$ 198,905	\$ 0	\$	198,905

**3. Total Military Retirement and Other Federal Employment Benefits:**

	\$ 198,905	\$ 0	\$	198,905
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**Working Capital Fund**  
Notes to the Principal Statements

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 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 benefit payments have been discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2011
3.56% in Year 1
4.03% 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 (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2011 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:

CBY	COLA	CPIM
2011	N/A	N/A
2012	2.10%	3.07%
2013	2.53%	3.62%
2014	1.83%	3.66%
2015	1.93%	3.73%
2016+	2.00%	3.73%
and thereafter		

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 2011 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 2011 projection to the average pattern for the projections of the most recent three years.



**Working Capital Fund**

Notes to the Principal Statements

**Note 18. General Disclosures Related to the Statement of Net Cost**

**Intragovernmental Costs and Exchange Revenue**

As of September 30	2011	2010
(Amounts in thousands)		
<b>Operations, Readiness &amp; Support</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,711,508	\$ 1,579,885
B. Nonfederal Cost	11,388,112	10,242,658
C. Total Cost	<u>\$ 13,099,620</u>	<u>\$ 11,822,543</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (11,501,527)	\$ (10,196,806)
B. Nonfederal Revenue	(351,368)	(131,544)
C. Total Revenue	<u>\$ (11,852,895)</u>	<u>\$ (10,328,350)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 1,246,725</u>	<u>\$ 1,494,193</u>
<b>Consolidated</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,711,508	\$ 1,579,885
B. Nonfederal Cost	11,388,112	10,242,658
C. Total Cost	<u>\$ 13,099,620</u>	<u>\$ 11,822,543</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (11,501,527)	\$ (10,196,806)
B. Nonfederal Revenue	(351,368)	(131,544)
C. Total Revenue	<u>\$ (11,852,895)</u>	<u>\$ (10,328,350)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
4. Costs Not Assigned to Programs	\$ 0	\$ 0
5. (Less: Earned Revenues) Not Attributed to Programs	\$ 0	\$ 0
Total Net Cost	<u>\$ 1,246,725</u>	<u>\$ 1,494,193</u>

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are 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.

**Working Capital Fund**  
Notes to the Principal Statements

Intragovernmental costs and revenue are represent 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. Intradepartmental revenues and expenses are then eliminated.

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 and historical data are made as required by generally accepted accounting principles. These estimates reverse as actual costs or revenues are recorded.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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The \$85.4 million in Other Financing Sources, Other consists primarily of other gains and losses due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of September 30 (Amounts in thousands)	2011	2010
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 6,429,727	\$ 6,758,887
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The AFWCF reported reimbursable obligations of \$12.4 billion in category B.

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



**Working Capital Fund**

Notes to the Principal Statements

**Note 21. Reconciliation of Net Cost of Operations to Budget**

As of September 30

2011

2010

(Amounts in thousands)

**Resources Used to Finance Activities:**

**Budgetary Resources Obligated:**

1. Obligations incurred	\$	12,375,556	\$	12,080,367
2. Less: Spending authority from offsetting collections and recoveries (-)		(12,854,369)		(11,813,266)
3. Obligations net of offsetting collections and recoveries	\$	(478,813)	\$	267,101
4. Less: Offsetting receipts (-)		0		0
5. Net obligations	\$	(478,813)	\$	267,101

**Other Resources:**

6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		(10,561)		(310,795)
8. Imputed financing from costs absorbed by others		191,388		188,664
9. Other (+/-)		85,423		(15,271)
10. Net other resources used to finance activities	\$	266,250	\$	(137,402)
<b>11. Total resources used to finance activities</b>	\$	(212,563)	\$	129,699

**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 (-)	\$	329,160	\$	(482,739)
12b. Unfilled Customer Orders		(399,773)		194,866
13. Resources that fund expenses recognized in prior Periods (-)		(1,731)		0
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		0		0
15. Resources that finance the acquisition of assets (-)		(5,907,746)		(5,240,399)
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 (+/-)		(74,862)		326,066
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	\$	(6,054,952)	\$	(5,202,206)
<b>18. Total resources used to finance the Net Cost of Operations</b>	\$	(6,267,515)	\$	(5,072,507)

**Working Capital Fund**  
Notes to the Principal Statements

As of September 30

2011

2010

(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 (-)		259		(12,368)
23. Other (+/-)		66,258		5,195
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	66,517	\$	(7,173)

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	179,031	\$	152,225
26. Revaluation of assets or liabilities (+/-)		2,732,182		1,851,847
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		9,261,101		8,871,549
27c. Operating Material and Supplies Used		7,531		29,515
27d. Other		(4,732,122)		(4,331,263)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	7,447,723	\$	6,573,873

<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	<b>\$</b>	<b>7,514,240</b>	<b>\$</b>	<b>6,566,700</b>
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<b>30. Net Cost of Operations</b>	<b>\$</b>	<b>1,246,725</b>	<b>\$</b>	<b>1,494,193</b>
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## Working Capital Fund

### Notes to the Principal Statements

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

A \$253.9 million adjustment was made to the Resources That Finance the Acquisition of Assets in order to align the note schedule with the amount reported on the Statement of Net Cost.

The following Reconciliation of Net Cost of Operations to Budget 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 \$85.4 million in Resources Used to Finance Activities, Other consists primarily of other gains and losses due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Resources Used to Finance Items not Part of the Net Cost of Operations, Other is comprised of:

1. Other gains and losses totaling \$85.4 million due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.
2. Property transfers out to DoD agencies totaling \$10.6 million.

Components Requiring or Generating Resources in Future Period, Other represents the change in the Federal Employees Compensation Act (FECA) unfunded liability.

Components not Requiring or Generating Resources, Other is comprised of \$4.7 billion for Consolidated Sustainment Activity Group - Maintenance Division work-in-process offsets.

**Working Capital Fund**  
Notes to the Principal Statements**Note 22. Disclosures Related to Incidental Custodial Collections**

The AFWCF collected \$257.8 thousand of incidental custodial revenues generated primarily from nonentity interest, penalties and administrative fees collected for out-of-service debts. These funds are not available for use by AFWCF. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

**Note 23. Earmarked Funds**

AFWCF has no Earmarked Funds.

**Note 24. Fiduciary Activities**

AFWCF has no Fiduciary Activities.

**Note 25. Other Disclosures**

AFWCF has no Other Disclosures.

**Note 26. Restatements**

AFWCF has no Restatements.



# **Working Capital Fund**

Fiscal Year 2011

Required Supplementary Information



**Working Capital Fund**  
Required Supplementary Information

**Department of Defense**  
**Air Force Working Capital Fund**  
**STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES**  
**For the periods ended September 30, 2011 and 2010**  
**(\$ in Thousands)**

	Operations, Readiness & Support	2011 Combined	2010 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>			
<b>BUDGETARY RESOURCES</b>			
Unobligated balance, brought forward, October 1	\$ 532,408	\$ 532,408	\$ 373,638
Recoveries of prior year unpaid obligations	103,939	103,939	33,765
Budget authority			
Appropriation	66,861	66,861	69,443
Contract authority	7,989,074	7,989,074	7,757,396
Spending authority from offsetting collections			
Earned			
Collected	13,036,492	13,036,493	11,598,599
Change in receivables from Federal sources	113,711	113,710	(13,963)
Change in unfilled customer orders			
Advance received	(12,139)	(12,139)	(11,153)
Without advance from Federal sources	<u>(387,634)</u>	<u>(387,634)</u>	<u>206,018</u>
Subtotal	20,806,365	20,806,365	19,606,340
Nonexpenditure transfers, net, anticipated and actual	0	0	(297,535)
Permanently not available	<u>(8,511,827)</u>	<u>(8,511,828)</u>	<u>(7,103,433)</u>
<b>Total Budgetary Resources</b>	<b>\$ <u>12,930,885</u></b>	<b>\$ <u>12,930,884</u></b>	<b>\$ <u>12,612,775</u></b>
<b>Status of Budgetary Resources:</b>			
Obligations incurred:			
Reimbursable	\$ <u>12,375,556</u>	\$ <u>12,375,556</u>	\$ <u>12,080,367</u>
Subtotal	12,375,556	12,375,556	12,080,367
Unobligated balance:			
Apportioned	555,328	555,328	0
Exempt from apportionment	<u>0</u>	<u>0</u>	<u>532,408</u>
Subtotal	555,328	555,328	532,408
<b>Total status of budgetary resources</b>	<b>\$ <u>12,930,884</u></b>	<b>\$ <u>12,930,884</u></b>	<b>\$ <u>12,612,775</u></b>
<b>Change in Obligated Balance:</b>			
Obligated balance, net			
Unpaid obligations, brought forward, October 1	\$ 7,824,540	\$ 7,824,540	\$ 7,522,917
Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>(3,893,168)</u>	<u>(3,893,169)</u>	<u>(3,701,113)</u>
Total unpaid obligated balance	3,931,372	3,931,371	3,821,804
Obligations incurred net (+/-)	12,375,556	12,375,556	12,080,367
Less: Gross outlays	(12,731,843)	(12,731,843)	(11,744,979)
Less: Recoveries of prior year unpaid obligations, actual	(103,939)	(103,939)	(33,765)
Change in uncollected customer payments from Federal sources (+/-)	273,923	273,922	(192,055)
Obligated balance, net, end of period			
Unpaid obligations	7,364,314	7,364,314	7,824,540
Less: Uncollected customer payments (+/-) from Federal sources (-)	<u>(3,619,244)</u>	<u>(3,619,247)</u>	<u>(3,893,168)</u>
Total, unpaid obligated balance, net, end of period	3,745,070	3,745,067	3,931,372
<b>Net Outlays</b>			
<b>Net Outlays:</b>			
Gross outlays	12,731,843	12,731,843	11,744,979
Less: Offsetting collections	<u>(13,024,353)</u>	<u>(13,024,352)</u>	<u>(11,587,446)</u>
<b>Net Outlays</b>	<b>\$ <u>(292,510)</u></b>	<b>\$ <u>(292,509)</u></b>	<b>\$ <u>157,533</u></b>



# **Working Capital Fund**

Fiscal Year 2011

Audit Opinion

Working Capital Fund  
Audit Opinion

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

November 9, 2011

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 2011 and  
FY 2010 Basic Financial Statements (Report No. DODIG-2012-011)

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, 2011 and 2010, 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. 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 2011 and FY 2010 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 2011 and FY 2010 Basic Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that the Air Force financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2011. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing 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 U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended,<sup>\*</sup> to determine whether material amounts on the financial statements were presented fairly.

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<sup>\*</sup> OMB Memorandum No. 09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.



## Working Capital Fund

### Audit Opinion

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 Basic Financial Statements. 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 the 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 material weaknesses 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

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The following previously identified significant deficiencies continued to exist.

- Accounts Receivable
- Accounts Payable

**Working Capital Fund**

Audit Opinion

Internal control work that we conducted as part of our prior audits did not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies and material weaknesses in internal control.

The Air Force reported some of the above weaknesses in its FY 2011 Statement of Assurance. However, it did not report material weaknesses involving Financial Management Systems; Operating Materials and Supplies; General Property, Plant, and Equipment; Subsidiary Ledgers and Special Journals; Intragovernmental Eliminations; and Other Accounting Entries.

**Summary of Compliance With Laws and Regulations**

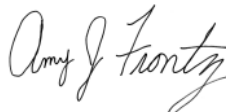
We limited our work to determining compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that the 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 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.

**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 did not provide technical comments to the report. Air Force officials expressed their continuing commitment to addressing the problems this report outlines.



Amy J. Frontz, CPA  
Principal Assistant Inspector General  
for Audit

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, which could adversely affect the Air Force financial management operations.

### *Previously Identified Material Weaknesses*

Management acknowledged that previously identified material weaknesses 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, are consistent with the purpose 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 proper safeguards for 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 did not substantially comply with Federal financial management system requirements. The design of the Air Force financial management and feeder systems did 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, the Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

### In-Transit Inventory

The Air Force supply management systems did 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 did not record cost-of-goods-sold and work-in-process in accordance with this statement. Additionally, uncertainties existed 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 could not verify General Property, Plant, and Equipment values in accordance with this statement. In addition, the General Property, Plant, and Equipment line item on the Balance Sheet did 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 did 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 did 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 Eliminations**

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

**Other Accounting Entries**

The Air Force acknowledges that it continued to make material adjustments for financial reporting that were not supported by detailed transactions because of its inability to properly identify intergovernmental 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 could not ensure the validity of Accounts Receivable reported on its financial statements because of significant deficiencies in internal control. Specifically, the significant deficiencies included intragovernmental trading partner eliminations, Foreign Military Sales, undistributed collections, the completeness of the Triannual Review, and the lack of supporting documentation.

**Accounts Payable**

The Air Force could not ensure the accuracy of Accounts Payable reported in the Basic Financial Statements because of significant deficiencies in intragovernmental trading partner eliminations, accruals, supporting documentation, and the completeness of the Triannual Review. Because of these weaknesses, the Air Force was unable to properly reconcile and support the validity of Accounts Payable.



## **Working Capital Fund** Audit Opinion

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 determining 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 complied 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 system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2011, 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 system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2011.

### ***Antideficiency Act***

Section 1341, title 31, United States Code (31 U.S.C. § 1341[1990]) limits the 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 and 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 (2004), 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 2011, the Air Force Working Capital Fund reported two cases of violation of ADA. Therefore, the Air Force did not comply with 31 U.S.C. § 1341.



**Audit Disclosures**

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us on April 1, 2011, that the Air Force financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that 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, Government Performance and Results Act, Pay Provisions and Allowance System for Civilian Employees, Prompt Payment Act, Improper Payments Information 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 recommendations.



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## **THE AIRMAN'S CREED**

**I AM AN AMERICAN AIRMAN.  
I AM A WARRIOR.  
I HAVE ANSWERED MY NATION'S CALL.**

**I AM AN AMERICAN AIRMAN.  
MY MISSION IS TO FLY, FIGHT, AND WIN.  
I AM FAITHFUL TO A PROUD HERITAGE,  
A TRADITION OF HONOR,  
AND A LEGACY OF VALOR.**

**I AM AN AMERICAN AIRMAN,  
GUARDIAN OF FREEDOM AND JUSTICE,  
MY NATION'S SWORD AND SHIELD,  
ITS SENTRY AND AVENGER.  
I DEFEND MY COUNTRY WITH MY LIFE.**

**I AM AN AMERICAN AIRMAN:  
WINGMAN, LEADER, WARRIOR.  
I WILL NEVER LEAVE AN AIRMAN BEHIND,  
I WILL NEVER FALTER,  
AND I WILL NOT FAIL.**

For more information or to contact us:  
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**U.S. AIR FORCE**

