UNITED STATES AIR FORCE

ANNUAL FINANCIAL STATEMENT

WORKING CAPITAL FUNDS

FISCAL YEAR 1999

CONSOLIDATED FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), United States Air Force, as required by the Chief Financial Officers (CFOs) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DoD, United States Air Force Working Capital Fund in accordance with "Department of Defense Financial Management Regulation" (DoDFMR") as adapted from Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and to the extent possible the Statements of Federal Financial Accounting Standards (SFFAS). The DoD, United States Air Force Working Capital Fund's statements are in addition to the financial reports also prepared by the DoD, United States Air Force Working Capital Funds pursuant to OMB directives that are used to monitor and control the DoD United States Air Force Working Capital Fund's use of budgetary resources.

The DoD United States Air Force Working Capital Fund is unable to implement all elements of the SFFAS due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the DoD United States Air Force Working Capital Fund's major asset and liability categories are derived from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations and not the current emphasis of business-like financial management. As a result, the DoD United States Air Force Working Capital Fund can not currently implement all elements of the SFFAS. The DoD United States Air Force Working Capital Fund continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems.

There are other instances when the DoD United States Air Force Working Capital Fund's application of the accounting standards is different from the auditor's interpretation of the standards. In those situations, the DoD United States Air Force Working Capital Fund has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent. Financial statement elements impacted by these differences of interpretations include financial payments under fixed price contracts, operating materials and supplies (OM&S), and disposal liabilities.

A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

B. 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 Department of Defense (DoD) and made the Air Force a department within DoD. The overall mission of the Department is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. The overall mission of the Air Force is to defend the United States through control and exploitation of air and space. Fiscal year (FY) 1999 represents the fourth year that the Department will prepare and have audited, DoD Agency-wide financial statements as required by the CFO Act and the GMRA.

In support of these objectives, stock and industrial revolving fund accounts were created by the National Security Act of 1947, as amended in 1949 and codified in Title 10, U.S.C., 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 as early as July 1, 1951.

The accounts used to prepare the statements are classified as entity/nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

The accompanying audited financial statements account for all resources for which the DoD United States Air Force Working Capital Fund is responsible except that information relative to classified assets, programs, and operations have been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For fiscal year (FY) 1999, the DoD United States Air Force Working Capital Fund's financial management systems are unable to meet all of the requirements for full accrual accounting. Efforts are underway to bring the Air Force's systems into compliance with all elements of the SFFAS.

C. Budgets and Budgetary Accounting:

The Department's major activities are funded through working capital (revolving funds). The accompanying financial statements are for the working capital (revolving funds) of the Department of the Air Force.

(1) The DoD expanded the use of businesslike financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. On December 11, 1996, the DBOF became the Defense Working Capital Funds (DWCFs). The DWCFs, "the Funds" operate with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Funds build on revolving fund principles previously used for industrial and commercial-type activities. The DoD's working capital funds include industrial and commercial type transactions, e.g., Supply Management, Depot Maintenance, Transportation, Base Support, Component, and Information Services - Air Force Central Design. The Department of the Air Force administers the Air Force Working Capital Fund.

(2) These activities provide goods and services on a commercial-like basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

(3) Air Force budgetary accounting is not transaction driven, therefore proprietary accounts are used to develop the Report on Budget Execution, SF133, for reporting budgetary data. The prior fiscal year's SF133 budgetary account totals were used to post current fiscal year beginning balances to the trial balance, and the current fiscal year's SF133 account totals were used to post changes that occurred within the fiscal year. This allowed the CFO system to produce the Statement of Budgetary Resources by populating each line from the budgetary accounts in the trial balance.

Supply Management

The Air Force Stock Funds were established within the DoD under 10 U.S.C. 2208, as described in DoD Directives 7420.13 and DoD Financial Management Regulation 7000.14-R, to finance inventories of supplies. Most inventories of supplies are financed by use of a stock fund. Exceptions include an item financed with a procurement appropriation or when financing by other means has been deemed more economical and efficient. A stock fund operates as a revolving fund acquiring inventories with funds received from prior sales to customers.

There are now six active business activities in the Supply Management Activity Groups (SMAG). They are: Materiel Support Division (MSD), General Support Division (GSD), Medical-Dental Division, Fuels Division (including aviation, ground, missile and cost of operations fuels), Academy Division, and Troop Support.

Depot Maintenance

The Air Force Depot Maintenance Activity Group (DMAG) performs manufacturing, development and test work as well as aviation maintenance.

Primarily in support of Air Force organizations, it also supports other DoD components, government agencies, and foreign governments. Due to a decreased force structure and technology advances, the Depot Maintenance environment is rapidly changing. Weapons systems embodying new material and technologies require new maintenance processes while improvements in reliability reduce the frequency of maintenance for many items. The net result requires a great flexibility in addressing both wartime and peacetime workload changes. The DMAG achieves this flexibility by employing the unique strengths of organic (in house) and contractor repair sources.

Base Support

This will be the final year statements and footnotes are prepared for this business activity. Effective September 30, 1999 all remaining residual activity was transferred to the Supply Management Activity Group. The Air Force Base Support Activity Group consisted of residual accounting for the Laundry and Dry Cleaning Service, the Air Force commissary, and the San Antonio Real Property Maintenance Agency (SARPMA). The Laundry and Dry Cleaning Service provided laundry and dry cleaning and other textiles services to the government, DoD, and other authorized activities and individuals worldwide using government-owned facilities. Primary customers were medical facilities serving, Army, Marine, Navy, and Air Force installations. In FY 1995, the Laundry and Dry Cleaning Service was removed from DBOF and returned to the Air Force to be funded with Air Force O&M appropriations, except for accounting of residual unliquidated balances. The Air Force Commissary was decapitalized as a working capital fund and capitalized under the Defense Commissary Agency (DeCA). SARPMA was disestablished in 1989. Like laundry and dry cleaning, only residual accounting for unliquidated balances remained.

Transportation

Air Mobility Command's (AMCs) Air Force unique transportation responsibilities include the executive travel mission and operation of other operational support aircraft, the air weather service, AMC training, AMC base operations, tanker operations, and other miscellaneous AMC functions. The Air Force unique transportation DBOF was established during FY 1993 and disestablished in FY 1995 in accordance with the DWCF improvement plan. Only residual accounting of unliquidated balances remain. Note: the residual transfer out amount remaining in the United States Transportation Command (USTC), is included and merged with Air Force Transportation.

Information Services -
Air Force Central Design Activities

The Air Force Central Design Activities (CDAs) provide software design, development, maintenance, and technical support services. As of October 1, 1995, the Air Force CDA business area transferred to the Defense Business Operations Fund (DBOF). This transfer complied with PBD 433 in expanding the Information Services Business Area. Transfer procedures were set forth in DFAS-HQ/AB memo of May 3, 1995. The Central Design Activities included the Standard Systems Group and the Materiel Systems Group. Prior to this transfer, the CDAs were funded by Air Force Operations and Maintenance funds. During FY 1996, DFAS-Denver provided only interim accounting support because the CDAs accounting support was in transition to the Industrial Fund Accounting System (IFAS) and subsequent transfer to the Pensacola Operating Location. In FY 1997, the CDAs went on-line with IFAS and all financial reports, including the CFO Statements, are prepared at DFAS Cleveland and forwarded to DFAS Denver for inclusion in with Air Force WCF statements.

United States Transportation Command

Program Budget Decision Number 426 directed the transfer of the United States Transportation Command (USTC) from the Defense-Wide Working Capital Fund (DWWCF) to the Air Force Working Capital Fund (AFWCF) in FY 1998. The Office of the Under Secretary Defense, Chief Financial Officer, determined based on comments received during the DoD Financial Management Regulation, 7000.14-R, Volume 6B, Form and Content of the Department of Defense Audited Financial

Statements, review process, not to report in fiscal year 1999, USTC with Air Force Working Capital Funds. Hence, the USTC statements will be reported along with Other Defense Organizations Working Capital Fund Consolidated statements submitted by DFAS-Indianapolis. The USTC remains part of the Air Force Budget operations for all other financial reporting.

Operations of these activities are based on the policies and procedures that include:

(1) **Funding Authority:**

Prior to FY 1992, industrial fund activities were not issued funding documents. Activities now receive their obligation authority for customer orders from the Air Force Deputy Assistant Secretary, Budget (SAF/FMB). The total costs that can be incurred are a function of the cost goals applied to the actual customer funded workload.

(2) **Minor Construction Funding:** Policy and procedures have been changed to fund minor construction projects costing $100,000 or more, but less than $300,000 through a separate section of the capital budget and depreciate them over a 20 year period.

(3) **Software Development Costs:** Policy and procedures have been changed to move the development costs of new software meeting the time and cost thresholds (2 years or more and $100,000 or more) to the capital budget. Software releases will be amortized after release.

(4) **Capital Budgeting:** Activity group budgets are segregated into operating and capital budgets. Any investment in equipment, software, minor construction, and other management improvements costing $100,000 or more with a useful life of 2 years or greater are funded through capital budget and its cost depreciated/amortized over the relevant life cycle.

(5) **Asset Capitalization and Depreciation:** The assets of the industrial and stock funds were transferred to DBOF and subsequently to WCF. The capital assets, excluding land, which exceed a unit cost of $100,000 or more, are subject to depreciation. In addition, capital assets previously capitalized using established thresholds for prior years will continue to be depreciated if depreciation was being recorded prior to the increase to the $100,000 threshold.

(6) Rates and Prices: All Air Force activity group areas in WCF are expected to set their rates and prices based upon full cost recovery ensuring that cost reductions made by an activity will be passed on to the customers. Rates and prices will not change during the year of execution.

The FY 1999, Air Force DWCF operations encompass three activity groups: Supply Management, Depot Maintenance, and Information Services. These activity groups use their resources to finance the initial cost of products or services for activities of the United States government, primarily those of the DoD. Work is generated by the acceptance of customer orders from ordering activities. For the current fiscal year, these revolving funds recorded an operating profit/deficit shown in the following schedules:

Supply Management

($ in Thousands)

Division		Sales		Cost of Sales and Expenses		Net Operating Results
Air Force	$	10,993,777	$	(10,219,422)	$	714,355
Total	$	10,993,777	$	(10,219,422)	$	714,355

Depot Maintenance

Revenues, Expenses, and Net Operating Results by Division
(in dollars & cents)

Division		Revenues		Expenses		Net Operating Results
Air Force	$	4,886,590	$	(5,215,254)	$	(328,664)
Total	$	4,886,590	$	(5,215,254)		(328,664)

Information Services

Revenue and Expenses, and Net Operating Results by Division
(in dollars & cents)

Division		Revenues		Expenses		Net Operating Results
Air Force	$	455,156	$	(451,971)	$	3,185
Total		455,156		(451,971)		3,185

Amounts shown in the three tables are before intra-agency eliminations.

D. Basis of Accounting:

The United States Air Force's Working Capital Funds generally record transactions on an accrual accounting basis as is required by the SFFAS. Currently, the Air Force's financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis as is required by the SFFAS. In those circumstances, the Air Force makes accrual adjustments for major items such as payroll expenses, interfund transactions, accounts payable, other pension benefit expenses, environmental liabilities, etc. The Air Force has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of the SFFAS. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USGSGL). Until such time as all of the Air Force's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by the SFFAS, some of the Air Force's financial data will be based on budgetary obligations, disbursements, collection transactions, and on financial feeder systems. One example is the information presented on the Statement of Net Cost. Much of this information is based on obligations and disbursements, and not actual accrued costs.

Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. However, the cash basis of accounting may be followed if the reported activity and balances are not materially significant. In addition to the accrual basis of accounting, Depot Maintenance also uses the full absorption accounting principal. During FY 1996, DFAS-DE, SAF/FMB, and OSD/FM jointly agreed on the use of this principal by Depot Maintenance. This means that depreciation and bad debt expenses are included in the figuring of cost of services sold. The effect of known intrafund transactions are eliminated.

(1) To the extent that guidance is not provided by the DoD Accounting Manual, DoD Components are allowed to follow other guidance promulgated by the Defense Finance and Accounting Service (DFAS), the General Accounting Office (GAO), the Office of Management and Budget (OMB), the Department of Treasury, the Federal Accounting Standards Advisory Board (FASAB), or the Financial Accounting Standards Board.

(2) The Air Force uses several service-unique general ledger structures plus data converted from the Defense Business Management System (DBMS). The financial statements depicted are derived from supply, maintenance and accounting records utilizing the Air Force service and DBMS-unique general ledger structures. The activity groups' general ledger accounts are "crosswalked" to the USSGL chart of accounts to produce the financial statements.

In addition, the Air Force identifies programs based upon the major appropriation groups provided by Congress. The Air Force is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the SFFAS No. 4 with the need to keep the financial statements from becoming overly voluminous.

E. Revenues and Other Financing Sources:

Revenue for working capital fund activities is recognized at the point the rendered service is completed and billed at the point inventory items are sold. For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Department's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual basis, accrual adjustments are made for major items in an attempt to report expenses when incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Department's operations.

Unexpended appropriations are recorded as Air Force equity.

Each working capital activity group recognizes revenue in the following manner:

(1) Supply Management. Air Force Supply Management revenue is recognized at the point of sale under constructive delivery terms (normally dropped from inventory when an item is released from inventory or delivered to the customer). Foreign Military Sales (FMS) transactions additionally require proof of shipment before revenue is recognized. Generally, Supply Management revenue consists of sales at standard prices less sales return. Sales of MSD items are at exchange price. The Medical-Dental division and the Air Force Academy Store add surcharges to their billings rather than include a surcharge in the standard price. Intra-division Supply Management Sales have been eliminated. Cash discounts and interfund retail stock loss allowances are additional revenue.

(2) Depot Maintenance. The Under Secretary of Defense (Comptroller) directed, per memorandum dated January 1992, all services to use the percentage of completion accounting method to recognize revenue and expenses. The DoD 7000.14-R, Financial Management Regulation, Chapter 11B, January 1995, also prescribes this method of accounting. Air Force Depot Maintenance uses a method called incremental revenue recognition that basically agrees with the prescribed method. As Depot Maintenance completes a job order, revenue is recognized by either calculating the hourly sales rate or an end item sales price, depending on the type of workload. Within the Depot Maintenance activity group, organic revenue is generally recognized at job completion; however, the related expenses are accrued monthly. In addition, other contract revenue is based on the percentage-of-completion method augmented with prorations based on activity group policies. (Note 8A provides additional disclosures.)

(3) Information Services. For financial reporting purposes under accrual accounting, operating expenses for activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until depreciated.

(4) Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period which payment is made.

F. Accounting for Intragovernmental Activities:

The Air Force, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Air Force as though the agency was a stand-alone entity.

(1) The Air Force's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related interests costs are not apportioned to federal agencies. The Air Force's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues. Material disclosures are provided at Note 11.

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

(3) The Air Force's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Air Force funds a portion of the civilian and military pensions. Reporting civilian pension benefits under CSRS and FERS retirement systems is the responsibility of Office of Personnel Management (OPM). The Air Force recognizes an

imputed expense for the portion of civilian employee pensions and other retirement benefits funded by OPM in the statement of net cost; and recognizes corresponding imputed revenue for the civilian employee pensions and other retirement benefits in the statement of changes in net position. The Air Force reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund financial statements. The Air Force recognizes the actuarial liability for the military retirement health benefits in the DoD Agency-wide statements. Total contributions to these retirement plans and Social Security are included in the Component financial statements.

(4) The Air Force sells assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provision of the Act, the Air Force has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In FY 1999, the Air Force received reimbursements of $426,508 million for assets and services sold under the Foreign Military Sales program.

(5) To prepare reliable financial statements, transactions occurring between 2 or more entities within the DoD or between two or more federal agencies must be eliminated. However, the Air Force, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the Air Force provided summary seller-side transactions to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to agree with seller-side. Internal DoD intragovernmental balances were eliminated. In addition, the Air Force implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby eliminating and reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM. As further improvements are made at the governmentwide level, the Air Force plans on expanding their eliminating procedures to include additional categories.

G. Funds with the U.S. Treasury and Cash:

The Air Force's financial resources are maintained in U.S. Treasury accounts. Cash collections, disbursements, and adjustments are processed worldwide at Defense Finance and Accounting Service (DFAS) and Military Service disbursing stations as well as Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. In addition, the DFAS centers and the U.S. Army Corps of Engineers Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance With Treasury (FBWT) account maintained in the Treasury's system. Differences between the Air Force's recorded balance in the FBWT account and Treasury's FBWT are reconciled. Material Disclosures are provided at Note 2.

H. Foreign Currency:

Not applicable.

I. Accounts Receivable:

As presented in the Consolidated Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Code of Federal Regulations (4 CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables. Material disclosures are provided at Note 4. Only Supply Management allows for uncollectible accounts based upon analysis of historical data from prior year accounts receivable balances, write-offs, and collection policy.

J. Loans Receivable:

Not applicable.

K. Inventory and Related Property:

Inventories are reported at Latest Acquisition Cost (LAC). The LAC is calculated by subtracting appropriate surcharges from the Standard Cost to determine the price most recently paid for a managed item. Gains and losses that result from valuation changes for inventory items are recognized and reported in the net cost statement and are included in the calculation of the cost of goods sold. The LAC method is used because inventory data is maintained in logistics systems designed for material management purposes. These legacy systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these legacy systems provide controls to ensure accountability and visibility over inventory items, they were not designed to ensure that all of the inventory items are included in the values reported in the Balance Sheet.

(1) Within the Materiel Support Division, inventory is valued at either LAC or carcass. Carcass value is calculated within the pricing system and is included in any transaction when needed. Gains and losses that result from valuation changes for inventory items are recognized and reported in the net cost statement and included in the calculation of the cost of goods sold. Other material disclosures related to inventory and related property are provided in Note 8. Only the Supply Management Activity Group accounts for inventories. To calculate the allowances for gain or loss on inventories, an inventory worksheet is prepared monthly for each fund code within Supply Management Activity Group. Inventory is not applicable to the remaining Air Force activity groups.

(2) Operating materials and supplies (OM&S) are reported at their standard price (SP). The SP method is used because OM&S data is maintained in logistics systems designed for materiel management purposes. These systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, Accounting for Inventory and Related Property.

(3) The related property portion of the amount reported on the Inventory and Related Property line includes OM&S, stockpile materials, seized property, and forfeited property. OM&S are valued at standard purchase price. Ammunition and munitions that are not held for sale are treated as OM&S. The DoD is moving to the consumption method of accounting for OM&S in future years, except in those cases that meet the requirement for the purchase method as defined in the SFFAS No. 3.

(4) Material disclosures related to inventory and related property are provided at Note 8.

L. Investments in U.S. Treasury Securities:

Not applicable.

M. General Property, Plant and Equipment (PP&E):

(1) General Property, Plant, and Equipment (PP&E) assets are capitalized when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. The DoD contracted with two certified public accounting firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. Both studies recommended that the DoD retain its current capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis unless otherwise noted. Land is not depreciated.

(2) Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FY 1993, FY 1994, and FY 1995 respectively, and an estimated useful life of two or more years was capitalized.

(3) Regarding base closure and realignment, thirty-two bases have been officially closed or

realigned including: Pease AFB, NH in Mar 91; Eaker AFB, AR, England AFB, LA, and George AFB, CA in Dec 92; Myrtle Beach AFB, SC in Mar 93; Wurtsmith AFB, MI in June 93; Bergstrom AFB, TX, Chanute AFB, IL, Mather AFB, CA, and Williams AFB, AZ in Sep 93; Homestead AFB, FL, MacDill AFB, FL, and Norton AFB, CA in Mar 94; Grissom AFB, IN, Loring AFB, ME, Lowry AFB, CO, Richards-Gebaur AFB, MO, and Rickenbacker AGB, OH in Sep 94; Castle AFB, CA, Griffiss AFB, NY, KI Sawyer AFB, MI, and Plattsburgh AFB, NY in Sep 95; March AFB, CA in Mar 96; Newark AFB, OH in Sep 96; Gentile AFS, OH in Dec 96; Bergstrom ARS, TX, Hill AFB (UTTR), UT, Buffalo Activity (REDCAP), NY, and Reese AFB, TX in Sep 97; Ontario AFB, CA, Grand Forks AFB, ND in Sep 98. There are seven closure or realignment installations pending between Jul 99 and Jul 01: O'Hare ARB, IL; EMTE Activity, FL; Roslyn ANG, NY; Onizuka AFB, CA; Kelly AFB, TX; Malstrom AFB, MT; and McClellan AFB, CA. For more information, visit the web cite: www.safmi.hq.af.mil. Assets at closed BRAC locations are not included in the property, plant and equipment amounts reflected on these financial statements, because these assets are considered excess with no further operational value to the Air Force and because any funds obtained from disposition of these assets will accrue to the US Treasury rather than the Air Force. System limitations do not allow for any differentiation between lands involved in BRAC actions and those which are not, so these properties are combined for reporting purposes.

(4) To bring the Air Force into compliance with federal accounting standards, the DoD will issue new property accountability regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions will be structured to provide the information necessary for compliance with federal-wide accounting standards.

(5) Material disclosures are provided at Note 9.

N. <u>Prepaid and Deferred Charges:</u>

Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received. Information Services posts payments in advance that are applicable to travel advances. These advances are recognized as expenditures and expenses when the related goods and services are received. Depot Maintenance posted prepayments and deferred charges to intragovernment and with the public. For all the other Air Force activity groups, this area is not applicable.

O. <u>Leases:</u>

Not applicable.

P. <u>Other Assets:</u>

The Air Force conducts business with commercial contractors under two primary types of contracts-fixed price and cost reimbursable. In order to alleviate the potential financial burden on the contractor that these long-term contracts can cause, the Air Force provides financing payments. One type of financing payment that the Air Force makes is based upon a percentage of completion. In accordance with SFFAS No 1., "Accounting for Selected Assets and Liabilities," these payments are reported as work in process and are not reported as advances or prepayments in the "Other Assets" line item. However, the Air Force has reported progress payments provided to contractors under the terms of fixed price contracts as an advance or prepayment in the " Other Assets" line item. The Air Force treats these payments as advances or prepayments because the Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Air Force or the full amount of the advance. The Air Force does not believe that the SFFAS No. 1 addresses this type of financing payments, however, GAO, and the IG, DoD do.

Q. Liabilities and Contingencies:

Not applicable.

R. Accrued Leave:

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

S. Equity:

(1) Equity consists of unexpended appropriations and cumulative result of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made. In general, WCF does not deal with unexpended appropriations. Only Supply Management has unexpended appropriations.

(2) Cumulative results of operations represents the difference since inception of an activity between expenses and losses, and financing sources including appropriations, revenue, and gains. Beginning with FY 1998, this includes the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there is no longer a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or precredit reform loans, or a separate negative amount shown for future funding requirements. Cumulative results of operations for WCFs represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

T. Treaties for Use of Foreign Bases:

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. Capital investments in buildings and other facilities (for example, runways) located on the overseas bases are capitalized as stipulated in Note 1.M. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the DoD. Therefore, in the event treaties or other agreements are terminated whereby use of foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the United States and the host country have been concluded to determine the amount to be paid the United States for such capital investments.

U. Comparative Data:

Comparative data is not required by OMB 97-01 until FY 2000 annual statements. Comparative data will be presented starting in FY 2000 in order to provide an understanding of changes in the financial position and operations of the Air Force's reporting activities.

V. Undelivered Orders:

The Air Force was obligated to pay undelivered orders (good and services that have been ordered but not yet received) amounting to $5.2B at fiscal year end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

Note 2. Fund Balances with Treasury:

($ In Thousands)

1. Fund Balances:

Fund Type	Entity Assets	Non-Entity Assets	Total
a. Appropriated Funds	0	0	0
b. Revolving Funds	$ 270,183	$ 0	$ 270,183
c. Trust Funds	0	0	0
d. Other Fund Types	0	0	0
e. Total	**$ 270,183**	**$ 0**	**$ 270,183**

2. Fund Balance Per Treasury Versus Agency:

Fund Type	Entity Assets	Non-Entity Assets
a. Fund Balance Per Treasury	$ 548,155	$ 0
b. Fund Balance Per Air Force WCF	270,183	0
c. Reconciling Amount	**$ 277,972**	**$ 0**

3. Explanation of Reconciliation Amount:

A transfer of $278M represents cash transferred to Other Defense Organizations for United States Transportation Command (USTC). The transfer of USTC is for CFO reporting only. See footnote 1.C paragraphs on Transportation and United States Transportation Command.

4. Other Information Related to Fund Balance With Treasury:

The Fund Balance with Treasury does not include any amounts for which the Department of the Treasury is willing to accept corrections to canceled appropriation accounts, in accordance with SFFAS Number 1.

The FBWT number for Supply Management is ($450M). This condition is driven by the balance found in the Materiel Support Division (MSD). There are two primary reasons why MSD FBWT is an adverse balance: a change in ownership of the FBWT and the surcharge has not collected adequate cash to cover the expenses incurred.

Fund Balances with Treasury are maintained at the Air Force DWCF corporate business area today. In 1992, when the Defense Business Operating Fund was established, the FBWT was moved from the Air Force level to the Department of Defense level. In 1996, the DWCF was established and the FBWT was given back to the Air Force level. However, the allocation of FBWT was at a lower level than the level transferred out. (The cash balance had been maintained at 10 days worth of cash. What was allocated back was 3 days worth of cash. The days are based on the average of cash needed to pay vendors.) The fund has been "under funded" since that time.

In addition, the policy of full cost recovery was put in place when DBOF was established (1992). At the same time the reparable spares were capitalized into the SMAG from the general funds general ledger. These two changes drove significant changes to the development of surcharge rates now called cost recovery rates. In 1997, the Materiel Support Division was formed as a merger of Reparable Support Division, Systems Support Division and the Cost Of Operations Division. Also, the entire pricing and cost recovery development process was changed as an attempt to improve the process. MSD is the only division of

SMAG which includes both the overhead costs and repair costs. Combining this with changing flying hour programs, base closures, and continuing peace keeping missions, means budgeting and pricing for MSD was severely challenged. Each year, since inception, the MSD pricing computation had to be changed to meet the changing missions.

Note 3. Investments:

Not applicable.

Note 4. Accounts Receivable:

($ in Thousands)

	(1) Gross Amount Due	(2) (Allowance For Estimated Uncollectible)	(3) Net Amount Due
1. Entity Receivables:			
a. Intragovernmental	$ 1,069,144	N/A	$ 1,069,144
b. With the Public	201,701	(2,503)	199,198
2. Non-Entity Receivables:			
a. Intragovernmental			
1. Cancelled appropriations	$ 0	N/A	$ 0
2. Other	$ 0	N/A	$ 0
b. With the Public			
1. Cancelled appropriations	$ 0	$ 0	$ 0
2. Other	$ 0	$ 0	$ 0

3. Allowance Method Used:

The Supply Management Activity Group uses an allowance method based on historical data from prior year accounts receivable balances, write-offs, and collection policy. Review of individual accounts receivable transferred to DFAS-Denver, Debt Management Operations Division, often reveals invalid receivables that the Standard Base Supply System should have posted as an issue without reimbursement, instead of a sale. Depot Maintenance generally uses the direct write-off method for uncollectible accounts.

4. Other Information:

None

Note 5. Other Assets:

($ in Thousands)

1. Other Entity Assets:

a. Intragovernmental		
1. Assets Returned for Credit	$	0
2. Advances and Prepayment	$	170,991
3. Other		508,736
4. Total Intragovernmental	**$**	**679,727**
b. Other		
1. Outstanding Contract Financing Payments	$	0
2. Other	$	197,142
3. Total Other	**$**	**197,142**

2. Other Information related to entity assets:

The Air Force has reported financing payments for fixed price contracts as an advance and prepayment because under the terms of the fixed price contracts, the Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Air Force for the full amount of the advance. The Air Force does not believe that the Statement of Federal Financial Accounting Standard (SFFAS) No. 1 addresses this type of financing payment. The auditors disagree with the Air Force's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Advances and prepayments include $167.9M for advances to government agencies and $3M for prepaid expenses.

For SMAG, the majority of intragovernmental other assets are reported by five Air Logistics Centers as sales of Materiel Support Division (MSD) assets to foreign governments. These deliveries cannot be billed until each delivery is matched to a proof of shipment within SAMIS. The Other Intragovernmental Assets account consists of the following categories and dollar amounts, in thousands:

FMS Sales (Depot)	424,409
AF Assets Other DoD FMS (Depot)	2,099
Uncollectible Federal Excise Taxes	1,073
Returns to Vendor Pending Credit	61,568
Miscellaneous Other Assets	19,587
Total	508,736

The amount of $197,142 on Line 1(b)(2) represents travel advances and advances to contractors and suppliers.

3. Other Non-Entity Assets:

Not applicable.

4. Other Information related to nonentity assets:

Not applicable.

Note 6. Loans Receivable and Related Foreclosed Property, Net:

Not applicable.

Note 7. Cash and Other Monetary Assets:

($ in Thousands)

	Entity Assets		Non-Entity Assets	
1. Cash	$	4	$	0
2. Foreign Currency		0		0
3. Other Monetary Assets:				
4. Total Cash, Foreign Currency and Other Monetary Assets	**$**	**4**	**$**	**0**

5. Other Information:

The $4K in entity cash represents undeposited collections reported by Ramstein AB, Germany for a disbursing agent.

Note 8. Summary of Inventory and Other Related Property Net:

($ in Thousands)

	Amount
Inventory, Net (Note 8.A.)	$ 18,386,447
Operating Materials and Supplies, Net (Note 8.B.)	893,799
Stockpile Materials, Net (Note 8.C.)	0
Seized Property	0
Forfeited Property	0
Goods Held Under Price Support and Stabilization Programs	0
Total	**$ 19,280,246**

Note 8.A. Inventory, Net:

($ in Thousands)

	(1) Inventory Amount	(2) (Allowance For Gains (Losses)	(3) Inventory, Net	(4) Valuation Method
1. Inventory Categories:				
(a) Available and Purchased for Resale	$ 20,705,262	$ (14,272,881)	6,432,381	LAC
(b) Held in Reserve for Future Sale	0	0	0	
(c) Held for Repair	10,822,660	0	10,822,660	O
(d) Excess, Obsolete, and Unserviceable	138,048	0	138,048	O
(e) Raw Materials	0	0	0	
(f) Work in Process	993,358	0	993,358	LAC
(g) Total	**$ 32,659,328**	**$ (14,272,881)**	**$ 18,386,447**	

2. Restrictions on Inventory Use, Sale or Disposition: Normally all items in the inventory are sold. Under rare situations, issues without reimbursement are made when authorized by DoD directives.

3. Other Information:

Inventory data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain historical cost data necessary to comply with the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over inventory items, the timeliness at which this information is provided creates issues regarding the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Supply Management is the only Air Force Activity group that has inventory. The Supply Management activities maintain day-to-day individual inventory stock records on items valued in the supply systems at Latest Acquisition Cost (LAC). This valuation method is per the direction of the DoD Comptroller. These values are based on prices paid for recently acquired items. However, the values are adjusted downward for unserviceable, anticipated excess, and anticipated condemnation items.

The unserviceable inventories are not valued at standard price. They are valued at forecast acquisition cost less repair cost. Unserviceable inventories applies to the Materiel Support Division which is the only activity that carries depot-level repairable items. Based on current policies and procedures, it has been determined that the net realized value is 2.9 percent of acquisition cost.

The amount reported as inventory work in process includes work in process at the depot maintenance activities. The work in process at the depot maintenance activities had to be recorded as inventory work in process because the U.S. Government Standard General Ledger does not contain an account for work in process that is not inventory held for sale. Work-In-Process (WIP) is used to value that portion of the maintenance contract that has been completed. The value of WIP is used in the cost of goods computation and appears on the AR(M)1307 report. The $993,358 represents Depot Maintenance Activity Group (DMAG) work primarily at Kelly AFB. A comparison of current and prior year WIP indicates an increase in contract labor and material. DMAG recognizes revenue incrementally. As job orders are completed, revenue is recognized by multiplying the completed job order by the appropriate sales rate. Since job orders can be associated with a specific contract, it can be said that a portion of that contract has been completed.

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

Note 8B. Operating Materials and Supplies (OM&S), Net:

($ in Thousands)

	(1) OM&S Amount	(2) (Allowance For Gains (Losses)	(3) OM&S, Net	(4) Valuation Method
1. OM&S Categories:				
(a) Held for Use	$ 893,799	$ 0	$ 893,799	SP
(b) Held in Reserve for Future Sale	0	0	0	
(c) Excess, Obsolete and Unserviceable	0	0	0	
(d) Total	$ 893,799	$ 0	$ 893,799	

2. Restrictions on operating materials and supplies: None

3. Other Information:

OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timeliness at which this information is provided creates issues regarding the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements. Work in process at depot maintenance activities is included as inventory in process in Note 8A because U.S. Government Standard General Ledger does not contain an account for work in process that is not inventory held for sale. The Air Force uses the consumption method of accounting for OM&S where the Air Force believes it to be more cost beneficial than the purchase method. As stated above, current financial and logistics systems can not fully support the consumption method. 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). The DoD is working with the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Inspector General, Department of Defense (IG, DoD) to move to the consumption method of accounting for OM&S in future years. The DoD, in consultation with its auditors, will (1) develop a framework for conducting cost-benefit analyses for use in determining whether the consumption method is cost beneficial for selected instances of OM&S; (2) develop specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method; (3) develop functional requirements for feeder systems to support the consumption method; and (4) identify feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method. However for fiscal year 1999, significant portions of the Air Force's OM&S were reported under the purchase method because either the systems could not support the consumption method of accounting or there is a disagreement with the audit community on what constitutes an item being in the hands of an end user.

All Air Force activity groups, except Supply Management, have operating materials and supplies. The activity groups use these materials and supplies in support of their respective missions.

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

Note 8.C. Stockpile Material, Net:

Not applicable.

Note 8.D. Seized Property:

Not applicable.

Note 8.E. Forfeited Property, Net:

Not applicable.

Note 8.F. Goods Held Under Price Support and Stabilization Programs, Net:

Not applicable.

Note 9. General Property, Plant, and Equipment (PP&E), Net.

($ in Thousands)

		(1) Depreciation/ Amortization Amount	(2) Service Life	(3) Acquisition Value	(4) (Accumulated Depreciation/ Amortization)	(5) Net Book Value
1. Major Asset Classes						
a.	Land	N/A	N/A	$ 0	N/A	$ 0
b.	Buildings, Structures, and Facilities	S/L	20 or 40	$ 926,170	$ (473,816)	$ 452,354
c.	Leasehold Improvements	S/L	N/A	0	0	0
d.	ADP Software	S/L	5	279,997	(159,742)	120,255
e.	Equipment	S/L	5 or 10	$ 1,995,077	$ (1,262,697)	$ 732,380
f.	Assets Under Capital Lease1	S/L	N/A	0	0	0
g.	Construction-in-Progress	N/A	N/A	100,322	N/A	100,322
h.	Other	S/L		0	0	0
i.	**Total**			**$3,301,566**	**$ (1,896,255)**	**$ 1,405,311**

1. See Note 13 part 5 for additional information on Capital Leases

2. Other Information:

Legend:
Column (1) Above - Depreciation Methods
S/L = Straight Line
O = Other (explain)

The Air Force, as encouraged by the Federal Accounting Standards Advisory Board (FASAB), elected to implement the Statement of Federal Financial Accounting Standard (SFFAS) No. 11, "Amendments to Accounting for Property, Plant and Equipment – Definitional Changes, in FY 1998. As a result, the costs of National Defense PP&E are not reported. In addition, the Air Force implemented during FY 1998 the requirements of SFFAS No. 6 and removed from the Balance Sheet the costs of Heritage Assets and Stewardship Land.

In Fiscal Year 1999, real property reported by the Automated Civil Engineering System (ACES), personal property reported by the Air Force Equipment Management System (AFEMS), and Automated Data Processing (ADP) reported by the Information Processing Management System (IPMS), data has not been validated and reconciled to reported figures received from the field activities.

GPP&E is derived from logistics systems that were not designed to maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment." In addition, past audit results have led to uncertainties as to whether all General PP&E assets in the possession or control of the Department are properly and accurately recorded in the system (completeness) and rather all recorded assets exist (existence). DoD contracted with two certified public accounting firms to obtain an independent assessment of the cost information maintained as well as the reliability of the systems for the existence and completeness of the assets. As of the publication date of these statements, the contractor's assessment of the Air Force's personal property is ongoing.

Any Working Capital Funds Special Tools and Special Test Equipment in the possession and control of the Air Force are reported in the Air Force General Funds financial statements.

The Department of Defense (DoD) contracted with two certified public accounting firms to obtain an independent assessment of the cost information maintained as well as the reliability of the systems for the existence and completeness of these assets. As of the publication date of these statements, the contractor's assessment of the Department's General PP&E has not been finalized.

Note 9.A. Assets Under Capital Lease:

Not applicable.

Note 10. Reserved for Future Use:

Not applicable.

Note 11. Debt:

Not applicable.

Note 12. Environmental Liabilities:

Not applicable.

Note 13. Other Liabilities:

($ in Thousands)

	Current Liability	Noncurrent Liability	Total
1. Other Liabilities Covered by Budgetary Resources:			
a. Intragovermental			
(1) Advances from Others	$ 90,608	$ 0	$ 90,608
(2) Deferred Credits	0	0	0
(3) Deposit Funds and Suspense Account Liabilities	0	0	
(4) Liability for Borrowings to be Received	0	0	0
(5) Liability for Subsidy Related to Undisbursed Loans	0	0	0
(6) Resources Payable to Treasury	0	0	0
(7) Disbursing Officer Cash	0	0	0
(8) Nonenvironmental Disposal Liabilities	0	0	0
(9) Other Liabilities	2,725,637	0	2,725,637
Total	**$ 2,816,245**	**$ 0**	**$ 2,816,245**
b. With the Public			
(1) Accrued Funded Payroll and Benefits	$ 204,493	$ 0	$ 204,493
(2) Advances from Others	506	0	506
(3) Deferred Credits	0	0	0
(4) Deposit Funds and Suspense Accounts	0	0	0
(5) Temporary Early Retirement Authority	0	0	0
(6) Nonenvironmental Disposal Liabilities			
(7) Other Liabilities	75,537	0	75,537
Total	**$ 280,536**	**$ 0**	**$ 280,536**

2. Other Information:

Based upon the Air Force's interpretation of the Statement of Federal Financial Accounting Standard (SFFAS) No. 5, a non-environmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Air Force's auditors disagree with this interpretation of the standard. Their interpretation is that the non-environmental liability recognition should begin at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all agencies. Until the issue is resolved on a government-wide basis, the DoD continues to adhere to the explicit literal provisions of SFFAS No 5.

Other Liabilities Covered by Budgetary Resources

Intragovernmental Other Liabilities total $2.3B for DMAG, and consists of $890M in Progress Billings to Others-Federal and $1.4B in Other Accrued Liabilities. SMAG Other Liabilities total $299M and consists of $89M for contingent liabilities and $210M for property furnished by others. ISAG Other Liabilities total $149M and consists of $143M for contractual services, $5M for accrued unfunded leave, and $1M for advances from others. SMAG Other Liabilities $76M is for Other Accrued Liabilities-Nonfederal.

3. Other Liabilities Not Covered by Budgetary Resources: Not applicable.

4. Other Information: None.

5. Leases: Not applicable.

Note 14. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

($ in Thousands)

Major Program Activities	Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liabilities
1. Pension and Health Benefits:				
a. Military Retirement Pensions	$ 0	0%	$ 0	$ 0
b. Military Retirement Health Benefits	0	0%	0	0
Total	$ 0		$ 0	$ 0
2. Insurance/Annuity Programs				
a.____________________	$ 0	0%	$ 0	$ 0
b.____________________	0	0%	0	0
Total	$ 0		$ 0	$ 0
3. Other				
a. Workmen's Compensation (FECA)	$ 206,521	5.60%	$ 0	$ 206,521
b. Voluntary Separation Incentive Program	0	0%	0	0
c. DoD Education Benefits Fund	0	0%	0	0
d.	0	0%	0	0
Total	**$ 206,521**		**$ 0**	**$ 206,521**
4. Total Lines A+B+C				
	$ 206,521		**$ 0**	**$ 206,521**

5. Other Information:

a. Actuarial Cost Method Used

The portion of the military retirement benefits applicable to the Air Force is reported on the financial statements of the Military Retirement Trust Fund. Health benefits are funded centrally at the DoD level. As such the portion of the health benefits liability that is applicable to the Air Force is reported only on the DoD agency-wide statements.

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 economic assumptions for 10-year Treasury notes and bonds.

b. Assumptions

Interest rate assumptions utilized for discounting were as follows:

1999	1998
5.50% in year 1,	5.60% in year 1, and thereafter
5.50% in year 2,	
5.55% in year 3,	
5.60% in year 4, and thereafter	

c. Market value of investments in market-based and marketable securities:

Not applicable.

Note 15. Net Position

($ in Thousands)

1. Unexpended Appropriations		
a. Unobligated,		
(1) Available	$	63,971
(2) Unavailable		0
b. Undelivered Orders		0
c. Total Unexpended Appropriations	$	63,971

2. Other Information:

Only Supply Management has unexpended appropriations.

Undelivered Orders in Line 1b would include both Undelivered Orders-Unpaid (Account 4801) and Undelivered Orders-Paid (Account 4802) for Direct Appropriated funds if issued.

Note 16. Footnote Disclosures Related to the Statement of Net Cost:

Note 16.A. Suborganization Program Costs:

For the year ended September 30, 1999
($ in Thousands)

Supporting Schedules by Suborganization

Suborganization A

	Program A	Program B
Costs:		
Intragovernmental Costs	0	0
Public:	0	0
Transfer Payments	0	0
Administrative Costs	0	0
Other Costs	0	0
Total Program Costs	**0**	**0**

Suborganization B

	Program C	Program D	Program E
Costs:			
Intragovernmental Costs	0	0	0
Public:	0	0	0
Other Costs	0	0	0
Administrative Costs	0	0	0
Total Program costs	0	0	0
Less Earned Revenue	0	0	0
Net Program Cost	**0**	**0**	**0**

Suborganization C

	Program F	Program G	Other Programs
Costs:			
Intragovernmental Costs	0	0	0
Public:	0	0	0
Cost of Stewardship Land	0	0	0
Cost of National Defense PP&E	0	0	0
Other Costs	0	0	0
Total Program Costs	**0**	**0**	**0**

Note 16.B. Cost of National Defense PP&E:

The cost of acquiring, constructing, improving, reconstructing, or renovating National Defense PP&E assets shall be recognized as a cost in the Statement of Net Cost in the period when it is incurred. These costs shall be disclosed in the footnotes, depending on the materiality of the amounts and the need to distinguish such amounts from other costs relating to measures of outputs or outcomes of the reporting entity (see SFFAS No. 6).

Note 16.C. Cost of Stewardship Assets:

The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets and the cost of acquiring stewardship land and any costs to prepare stewardship land for its intended use shall be recognized as a cost in the Statement of Net Cost in the period when it is incurred. These costs shall be disclosed in the footnotes, depending on the materiality of the amounts and the need to distinguish such amounts from other costs relating to measures of outputs or outcomes of the reporting entity (see SFFAS No. 6).

Note 16.D. Stewardship Assets Transferred:

If the cost of heritage assets and stewardship land transferred from other federal entities or acquired through donation or devised is not known, then the receiving entity shall disclose the fair value. If the fair value is not known or reasonably estimable, information related to the type and quantity of assets received shall be disclosed (see SFFAS No. 6).

Note 16.E. Exchange Revenue:

Reporting entities that provide goods and services to the public or another government entity should disclose specific information related to their pricing policies and any expected losses under goods made to order. These disclosures are described in SFFAS No.7.

Note 16.F. Amounts for FMS Program Procurements From Contractors:

Not applicable.

Note 16.G. Benefit Program Expense:

Not applicable.

Note 16.H. Gross Cost and Earned Revenue by Budget Functional Classification:

($ in Thousands)

	Budget Function Code	Gross Cost	(Less Earned Revenue)	Net Cost
1. Department of Defense Military	051	$11,988,778	(11,460,921)	$ 527,857
2. Water Resources by US Army Corps of Engineers	301			
3. Pollution Control and Abatement by US Army Corps of Engineers	304			
4. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Fund	602			
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund	702			
6. Total		$11,988,778	(11,460,921)	$ 527,857

Note 16.I. Imputed Expenses:

($ in Thousands)

1. CSRS/FERS Retirement	$	48,742
2. Health		64,675
3. Life Insurance		191
4. Judgement Fund/Litigation	$	0
4. Total	**$**	**113,608**

Note 16.J. Other Disclosures:

The amounts presented in this statement are based on obligations and not actual costs accrued throughout the year. While the Air Force Working Capital Funds generally record transactions on an accrual accounting basis as is required by the Statements of Federal Financial Accounting Standards (SFFAS) the systems do not capture actual costs. Therefore, information presented on the Statement of Net Cost is based on budgetary obligation, disbursements, and collection transactions, as well as non-financial feeder systems.

Note 17. Disclosures Related to the Statement of Changes in Net Position:

($ in Thousands)

A. Prior Period Adjustments-Increase (Decrease) to Net Position Beginning Balance:

1. Changes in Accounting Standards	$	0
2. Errors and Omission in Prior Year Accounting Reports		(80,082)
3. Other		(17,109)
4. Total	**$**	**(97,191)**

B. Imputed Financing:

1. CRS/FERS Retirement	$	48,742
2. Health		64,676
3. Life Insurance	$	191
4. Judgement Fund/Litigation	$	0
5. Total	**$**	**113,609**

C. Other Disclosures to the Statement of Changes in Net Position:

The following applies to Prior Period Adjustments (PPA) Lines 2 and 3:

• Base Support closure and transfer out to Supply Management Activity Group (SMAG) in the amount of $1M.

– Transfer out of USTC's FY 99 beginning of period net position from Air Force Working Capital Fund to Other Defense Organizations. The beginning of period net position is reflected in the Other Defense Organizations financial statements as a Transfer-In.

– Depot Maintenance Activity Group (DMAG) also includes the transfer of assets and equity from the Newark (residual) to the remaining Air Logistical Centers. DMAG also prepared adjustments due to the improper closing of revenue and expenses by field activities during FY 98. Subsequently the beginning of period balances for FY 99 were incorrect. The error was identified late in FY 99 and therefore was corrected through PPA in the amount of $23.7M.

• After Air Force Transportation was removed October 1, 1994 as an activity, cash collections and disbursements have been recorded as prior period adjustments in the amount of $2.5M.

• SMAG adjustments are for the Material Support Division processing FY 97 and 98 Foreign Military Sales. And an adjustment to correct a previous adjustment made in error during FY 98 in the amount of $123M.

• ISAG adjustments (Other) represent cash collections associated with periods prior to the Industrial Fund Accounting System (IFAS). The remaining amount represents a correction to the accounts receivable beginning balance in the amount of $1M.

For Imputed Financing, costs for FY 99 in the amount of $113.6M are included in the Statement of Changes in Net Position, line 2D.

Note 18. Disclosures Related to the Statement of Budgetary Resources:

($ in Thousands)

1. Net amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	$ 5,168,455
2. Available Borrowing and Contract Authority at the End of Period	1,496,771
3. Other Information	

Suspense/Budget Clearing Accounts: All Air Force suspense/budget clearing accounts are reported with General Funds.

OPAC Differences. The Air Force went to a new method for processing OPAC disbursements and collections. If Air Force can not match a disbursing office to the OPAC transaction to an accounting transaction, the uncleared amount will be posted to suspense account F3885. When the transaction reaches the departmental-level accounting office, if the transaction can be identified to a proper appropriation the suspense account is cleared and the proper appropriation is charged or credited. Those transactions that cannot be identified to a valid appropriation will remain in suspense account F3885. Transactions not reflected in a valid appropriation will affect either disbursements or collections and the unexpended balance of the reporting entity.

Undelivered Orders in Line 1 includes Undelivered Orders-Unpaid (Account 4801) for both Direct and Reimbursable funds. Line 1 does not include Undelivered Orders-Paid (Account 4802).

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of

Budgetary Resources or Line 1b on the Statement of Financing.

Air Force budgetary accounting is not transaction driven, therefore propriety accounts are used to develop the Report on Budget Execution, SF133, for reporting budgetary data. The prior fiscal year's SF133 budgetary account totals were derived from propriety accounts and used to post current fiscal year beginning balances to the trial balance, and the current fiscal year's SF133 account totals were used to post changes within the fiscal year. This allowed the CFO system to produce the Statement of Budgetary Resources by populating each line from the budgetary accounts in the trial balance.

The Air Force Depot Maintenance, September 30, 1998 SF133 Report reflected negative budgetary resources of $1.1 billion. This figure has been negative since FY 1995 and has grown larger by more than $200 million a year the last two years. This is of particular concern because negative budgetary resources indicate an activity may have exceeded its authority to spend money. Program Budget Decision (PBD) 426, "Costs of Operations and Customer Prices for the Defense Working Capital Funds and Other Revolving Funds" dated January 5, 1999, directed the Air Force to review budgetary resources and develop a plan for returning budgetary resources to a positive number. A Budgetary Resources Working Group was created and charged with implementing that plan.

The group determined there are internal control and business process problems as well as bad data from feeder systems that overstate DMAG obligations. Invalid obligations totaling at least $800 million have been removed from DMAG accounts in FY 1999. The result was a reduction of the $1.1 billion to a negative $14 million. The group is continuing to work to bring the budgetary resources to a sustained positive position.

Note 19. Disclosures Related to the Statement of Financing:

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of Budgetary Resources or Line 1b on the Statement of Financing.

Transfers In and Out of property for General and Working Capital Funds; and transfers of collections and disbursements to the Component level for applicable Defense Working Capital Funds which are reflected on the Statement of Changes in Net Position Lines 2e and 2f, are not included in Line 1e on the Statement of Financing.

Intra-entity transactions have not been eliminated because the accompanying statements of financing are presented as combined or combining statements.

Budgetary data is not in agreement with proprietary expenses and assets capitalized. This causes a difference in net cost between the Statement of Net Cost and the Statement of Financing. Statement of financing lines 2B and 2C, costs capitalized on the Balance Sheet were adjusted $4.1B to make the two statements match. During FY 2000 DoD will develop alternative procedures to better prepare the statement of financing for FY 2000 CFOA reporting.

Note 20. Footnote Disclosures Related to the Statements of Custodial Activity:

Not applicable.

Note 21A. Other Disclosures; Leases:

Not applicable.

Note 21B. Other Disclosures:

Unmatched Disbursements, Negative Unliquidated Obligations, and Aged In-Transit Disbursements (In Thousands):

WCF Funds	Sept 1998	Sept 1999	Change	% Change
Unmatched Disbursements*	$ 13,768	$ 6,311	$ (7,457)	(54%)
Negative Unliquidated Obligations**	73,864	39,288	(34,576)	(47%)
Aged In-Transit Disbursements***	118,253	22,173	(96,080)	(81%)
Totals	$ 205,885	$ 67,772	$ (138,113)	(67%)

* Net totals of contract payment notice rejects, Intra-service, and Recons. CPN rejects total $6.9 million. MAFR rejects total was less than a thousand. Air to Air rejects $1.2 million. Cross Disbursing rejects $.8 million. Recons difference ($2.6) million. The net change is coming from CPN rejects decreasing $11.9 million, Air to Air decreasing $.7M, Cross Disbursing decreasing $1.9M, MAFR rejects decreasing $13.4 million, and Recons increasing $31.9 million. The increase in Recons is the results of clearing negative Recons.

** Unobligated NULOs, including those awaiting correction form paying station. At the end of FY 99, obligated and unobligated NULOs totaling $47 million were reported at accounting classification reference number (ACRN) level (gross) compared to $82 million in Sep 98. Of the $47 million, $12 million were 0 to 120 days old, $5 million were 121 to 180 days old, and $30 million were over 180 days old.

*** Treasury Variance is no longer a category of Intransits per DFAS-HQ instruction. Treasury Variance is still a part of Undistributed.

DFAS-HQ performance contract set a goal to reduce Problem Disbursements and Intransits by 75 percent by September 2000 from September 1998 base line. DFAS-DE is well on its way of achieving this goal.

These figures do not include the Military Sealift Command and Military Traffic Management Command pieces of the U.S. Transportation Command.

Accounts Payable for Transportation is abnormal because of Undistributed Disbursements posted to Accounts Payable. Total Liabilities are abnormal because the amount posted as Undistributed Disbursements exceeded liabilities.