

UNITED STATES AIR FORCE

# ANNUAL FINANCIAL STATEMENT

GENERAL 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 the Air Force, as required by the Chief Financial Officers (CFO) 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 Air Force in accordance with the Department of Defense Financial Management Regulation (DoDFMR) as adapted from the Office of Management Bulletin (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 Air Force's financial statements are in addition to the financial reports also prepared by the Air Force pursuant to OMB directives that are used to monitor and control the Air Force's use of budgetary resources.

The Air Force 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 Air Force'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 Air Force can not currently implement all elements of the SFFAS. The Air Force continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems.

There are other instances when the Air Force's application of the accounting standards is different from the auditor's interpretation of the standards. In those situations, the Air Force 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 financing payments under firm 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 Air Force is to defend the United States through control and exploitation of air and space.

The accompanying financial statements account for all resources for which the Air Force 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 Air Force'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.

The audited financial statements are presented on the accrual basis of accounting (as required by DoD accounting policies) with the exception of the Gift and Cadet fund accounts and certain year-end cut-off procedures which are immaterial.

Financial statements and reports are prepared by the Defense Finance and Accounting Service - Denver Center, Office of CFO Procedures and Reporting (DFAS-DE/AC), based upon data provided by numerous financial reporting systems. Some of these systems are the General Accounting

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

and Finance System (GAFS), Standard Base Supply System (SBSS), and major command-unique systems which feed into general funds. In addition, feeder data are supplied by the Air Force Academy Financial Management Office for the Cadet Fund and by DFAS-DE Directorate of Departmental Accounting (DFAS-DE/AD) for the Gift Fund which is administered by them. Other entities, such as Army Corps of Engineers and Department of the Navy, also send data for consolidation.

The Departmental On-Line Accounting and Reporting System (DOLARS) is used to consolidate and prepare Air Force-level budgetary reports. Monthly, file transfer protocol (FTP) is used to transmit data from the base, operating location, or major command, depending on the report. The data are programmatically validated by DOLARS programs and then automatically updated in the departmental database. Data are also updated in the database through manual entries. Appropriation-level Status of Funds reports are prepared from this single, integrated

database thus enabling consistent, accurate, and timely reporting. All data in the database have readily available audit trails at departmental level.

The financial statements presented herein are prepared by the CFO Reporting System using data from DOLARS, records summarized in the Air Force service-unique general ledger, and other external data. The Air Force and Defense Finance and Accounting Service incorporate into their accounting systems: internal controls, reconciliations, management by exception reports, and other check and balance processes.

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. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity. The following is a list of Air Force account numbers and titles (all accounts are entity accounts unless otherwise noted):

### **Air Force Account Number**

### **Title**

|                        |  |
|------------------------|--|
| 57 * 0704              | Military Family Housing (O&M and Construction), AF         |
| 57 * 0810              | Environmental Restoration, AF                              |
| 57 * 1999              | Unclassified Receipts and Expenditures, AF                 |
| 57 * 3010              | Aircraft Procurement, AF                                   |
| 57 * 3011              | Procurement of Ammunition, AF                              |
| 57 * 3020              | Missile Procurement, AF                                    |
| 57 * 3080              | Other Procurement, AF                                      |
| 57 * 3300              | Military Construction, AF                                  |
| 57 * 3400              | Operation and Maintenance (O&M), AF                        |
| 57 * 3500              | Military Personnel, AF                                     |
| 57 * 3600              | Research, Development, Testing, and Evaluation (RDT&E), AF |
| 57 * 3700              | Personnel, AF Reserve                                      |
| 57 * 3730              | Military Construction, AF Reserve                          |
| 57 * 3740              | Operation and Maintenance (O&M), AF Reserve                |
| 57 * 3830              | Military Construction, Air National Guard                  |
| 57 * 3840              | Operation and Maintenance (O&M), Air National Guard        |
| 57 * 3850              | Personnel, Air National Guard                              |
| 57 X 5095              | Wildlife Conservation, etc., Military Reservations, AF     |
| 57 * 8170              | Fisher House Trust Fund                                    |
| 57 X 8418              | Air Force Cadet Fund                                       |
| 57 X 8928              | Air Force General Gift Fund                                |
| 57 * 3XXX              | Budget Clearing Accounts                                   |
| 57 * 6XXX (Non-entity) | Deposit Fund Accounts                                      |

**C. Budgets and Budgetary Accounting:**

The Air Force's major activities are funded through general, working capital (revolving funds), trust, special, and deposit funds.

General funds represent financial transactions arising under congressional appropriations. The Air Force manages 16 general fund accounts, consisting of 7 funded by annual year appropriations, and 9 funded by multi-year appropriations.

Trust funds represent the receipt and expenditure 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. Trust accounts include funds collected through gifts and bequests (as well as interest earned on the investments of some of these gifts) and assets held for particular purposes. The Air Force maintains three trust fund accounts totaling \$3.9 million in assets.

Special funds account for receipts of the government that are earmarked for a specific purpose. The Air Force manages one special fund account, the Wildlife Conservation Program, totaling \$.7 million in assets. This special fund account had appropriations available of \$.7 million.

Deposit funds are generally used to (1) hold assets for which the Air Force acts as agent or custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances. The Air Force expressly requires all check collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown. For fiscal year (FY) 1999, the Air Force deposit fund accounts totaled \$15.1 million in assets.

**D. Basis of Accounting:**

The Air Force generally records transactions on a cash basis and not an accrual accounting basis as is required by the SFFAS. Normally, 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 SFFASs. However, there are some systems that do use

accrual accounting as required by the SFFAS. The Air Force has undertaken efforts to determine the actions required to bring 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 (USGSL). 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, the Air Force's financial data will be based on budgetary obligations, disbursements, collection transactions, and nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, environmental liabilities, etc.

The financial statements are presented in accordance with the accounting principles and reporting standards contained in the DoDFMR, Volume 6B. There are, however, seven known areas in which the accounting systems do not currently comply with existing SFFAS. These areas include:

(1) Chart of Accounts. Air Force General Funds have not implemented the US Government Standard General Ledger (USGSL) chart of accounts. This deficiency is disclosed in DFAS-Denver Financial Management 5-Year Plan, Volume 2.

(2) General Ledger. Prior to and since being capitalized by DFAS, systems used to account for Air Force funds have not been implemented to reflect a true transaction-driven general ledger system to provide a consolidated source of financial management information for either management or financial statement purposes. To account for its resources, the Air Force utilizes an extensive number of external systems to control and report the status of resources. Many of these systems are outside the accounting and finance network controlled by DFAS (i.e., budget, inventory and property systems) and the general ledger accounting process. This deficiency is included in DFAS-Denver Financial Management 5-Year Plan, Volume 2. DFAS has initiated a project to inte-

grate and modernize DFAS accounting systems into a comprehensive management system. The overall goal is to bring financial data for general funds under general ledger control complying with General Accounting Office (GAO) and OMB mandates. The general ledger system will be transaction-driven and utilize the USGSGL.

(3) Government Furnished Material (GFM) Costs. DFAS has identified and reported GFM as a reporting weakness.

(4) Inventory/Equipment. The Air Force uses different valuation methods for the various categories of materials and equipment contained in the Air Force inventory. Materials inventory and equipment items accounted for in logistics systems are valued at standard price. Generally, standard prices are based on prices paid for recently acquired items plus surcharges for handling and distributing, and other costs, so standard prices are typically higher than historical cost. Real property installed equipment is valued at cost and is included as part of the real property facility cost basis. The valuation system is not in compliance with federal accounting standards. The DoD Comptroller has directed an inventory valuation methodology (which is a departure from generally accepted accounting principles) allowing the Air Force to continue to use standard price in logistics systems for equipment valuations and for valuations of inventory for financial statements. The Air Force has implemented this inventory valuation methodology.

(5) Closed year appropriation balances for receivables and payables are not reliable.

(6) The Air Force does not recognize holding gains and losses related to Operating Materials and Supplies revaluation which occurs when standard prices are used.

(7) The Air Force does not report gains and losses on disposal of general property, plant and equipment.

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:**

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multi-year basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the Air Force from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable order process. The following Treasury accounts are used to fund, execute, and report on total financial activity:

(1) General Funds. This grouping contains the bulk of congressional appropriations including operations, research, development, test and evaluation (RDT&E), investment (procurement), and construction accounts.

(a) Operation accounts represent those funds used for the pay of operating forces. These funds also finance the functional and administrative support needed to operate and maintain Air Force installations.

(b) The Air Force conducts and contracts for RDT&E of advanced weapon systems which are normally expensed. The RDT&E programs support modernization of weapon systems through military research, exploratory development, and the development and testing of prototypes and full-scale pre-production of hardware.

(c) Investment (procurement) and construction accounts are used for specific purposes which are approved by and reportable to Congress. These accounts are used for the acquisition or construction of technology, property, and infrastructures.



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(2) Trust Funds. The Air Force trust funds are endowment or revolving funds. These accounts are used to record the receipt and outlay of funds held in trust by the government for use in carrying out specific purposes or programs. The Air Force operates three trust funds.

(a) The Air Force Gift Fund is an endowment fund where donors make conditional monetary gifts to the Air Force. Donations to the Air Force are recognized as a financial source upon receipt and acceptance of the donated asset, and a revenue is recorded for the value of the increase to the asset account. Obligations and expenditures are made against the Gift Fund for the purposes specified in the gift offer. The use or obligation of Gift Fund receipts is recorded on a cash basis versus an accrual basis of accounting. When specified in the gift offer, these funds are allowed to be invested in marketable securities. Donated property is disclosed in the financial statements. Trust fund revenue of \$879 thousand includes donations of \$818 thousand and interest earned of \$61 thousand to the Gift Fund.

(b) The Air Force Cadet Fund operates as a local deposit fund account. It is administered by the Superintendent of the Air Force Academy on behalf of the Academy cadets. Each month, moneys are deposited into the account from checks and information provided by the Defense Joint Military Pay System (DJMS). The cadet pay office draws checks on this account to pay the various vendors and contractors providing goods and services to cadets. The advance education funds, which previously were processed through the Cadet Fund, are now paid directly from the Military Personnel Appropriation (3500), and a repayment of indebtedness is established on the cadet Master Military Pay Account (MMPA) in DJMS.

(c) The Fisher House Trust Fund was established in 1997 to help defray costs from Fisher Homes located in proximity to Air Force medical treatment facilities. The basic purpose of the Fisher Homes is to provide a temporary

place for families and patients to stay while obtaining medical treatment at Air Force facilities.

(3) Special Funds Receipt Accounts. These accounts are credited with receipts from specific sources, are earmarked by law for a particular purpose, and none of the funds are generated from operations. Special fund expenditure accounts are used to record appropriated amounts of special fund receipts to be expended for special programs in accordance with specific provisions of law.

(4) Deposit Fund Accounts. These accounts generally are used to hold assets whose distribution awaits legal determination or for which the Air Force acts as agent or custodian, and account for unidentified remittances. The Air Force expressly requires all check collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown.

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because the Air Force's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items 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 Air Force operations. Unexpended appropriations are recorded as equity of the Air Force.

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

Annual and multi-year congressional appropriations are supplemented, when authorized, with revenues generated by sales of goods or services through a reimbursable order process. This process allows the seller to increase funds available by the cost of the supplies and/or services ordered by the customer. The reimbursable order process promotes efficiency in providing products and services, and it allows an accurate accounting

of resources provided and applied. The authority to obligate is recognized (i.e., obligations may be recorded) when orders from a government entity are accepted or orders accompanied by advances from a non-federal entity are received. Obligation authority must be recorded before performance on an order begins. For financial reporting purposes under accrual accounting, revenue is recognized when earned. The cost of goods sold or services provided is recognized when expenses are incurred. Advances received prior to delivery of goods or services are treated as unearned revenue and recorded as a liability of the Air Force.

Medical funding for all components of the DoD is accomplished through the Defense Health Program appropriations.

#### **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.

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 interest costs are not apportioned to federal agencies. The Air Force financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through 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.

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 the 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 the 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 DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund (MRTF) financial statements. The DoD recognizes the actuarial liability for the military retirement health benefits in the DoD Agency-wide statements.

Each year, the DoD Components sell assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the DoD has authority to sell defense articles and services to foreign countries, 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 \$597 million for assets and services sold under the Foreign Military Sales program.

To prepare reliable financial statements, transactions occurring between 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, in accordance with DoD policy, the Air Force provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental

accounting offices and made the required adjustment of its buyer-side records to recognize unrecorded costs and accounts payable. Internal Air Force intragovernmental balances were then eliminated. In addition, the Air Force implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby allowing for eliminating and reconciling of intragovernmental transactions pertaining to investments in federal securities, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

### **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 often result and are reconciled. Material Disclosures are provided at Note 2.

As agents of the U.S. Treasury Department, disbursing officers (DOs) maintain a monthly Standard Form 1219, Statement of Accountability, that portrays their cash accountability to the Treasury. The majority of DO's cash accountability is actual operating or accommodation/exchange "cash" either acquired by Treasury check issue or by collection from customers. However, portions of the total FY 1999 cash accountability shown on a disbursing officer's Statement of Accountability, SF 1219, includes advances to the Massachusetts Institute of Technology and other

non-profit institutions under advance payment pool agreements. These advances do not represent Air Force funds and are reported as Non-Entity Assets, Other. The amount of total DO cash accountability included in the FY 1999 statement as a liability to Treasury is \$274.4 million (including advances to contractors).

### **H. Foreign Currency:**

The Air Force conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign Currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified. Material disclosures are provided at Note 7.

### **I. Accounts Receivable:**

As presented in the 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.

### **J. Loans Receivable:**

Not Applicable to Air Force General Funds.



**K. Inventories and Related Property:**

Operating Material 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 material 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.

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.

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

**L. Investments in U.S. Treasury Securities:**

The Air Force Gift Fund was established to control and account for the disbursement and use of monies donated to the Air Force and the receipt of interest or dividends arising from investment of such donations. The Gift Fund accepts certain gifts offered by the public. Among these are monetary gifts which are accounted for by DFAS-DE. The amount of investments represents federal securities controlled by DFAS-DE. Related earnings are allocated to appropriate Air Force activities to be used in accordance with the directions of the donor. The intent is to hold investments to maturity unless they are needed to finance purchases in accordance with the donor's intent. No provision is made to amortize premiums or discounts on these securities because, in the majority of cases, they are held to maturity and such amounts are deemed immaterial. As of September 30, 1999, \$1.0 million of investments at cost (par value less discount) in U.S. securities were included in the Gift Fund. Material disclosures are provided at Note 3.

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

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. General PP&E land is not depreciated.

General PP&E is valued at historical acquisition cost. When records are not available to support the original acquisition cost of general PP&E, estimates used. Such estimates are based on either (1) the cost of similar assets at the time of acquisition or (2) the current cost of similar assets discounted for inflation since the time of acquisition. If the original acquisition costs are not known for a significant amount of assets in a major class of general PP&E, the Notes to the principal statements disclose the method of valuation and the reason for its use.

Multi-use heritage assets are treated as general PP&E for reporting and accounting purposes. Therefore, the acquisition costs of multi-use heritage assets, and any capitalized renovations or improvements, are reported on the balance sheet and depreciated. Multi-use heritage assets are heritage assets that are used predominantly for government operations.

Valuations for equipment, starting in FY 1999, are based on historical cost as reported in the Air Force Equipment Management System, the Information Processing Management System, and the Medical Logistics System. The Air Force still has three minor systems that still report equipment based on standard price. These systems include the Financial Inventory Accounting and Billing System, the Requirements Data Bank, and an Aerospace Maintenance and Regeneration Center system. The data from these systems is

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scheduled to be incorporated into Air Force Equipment Management System in FY 2000.

Land and facilities, in most cases, are valued at actual cost. Buildings are capitalized when placed in service (constructed) or at the date of acquisition. Improvements to land and buildings are capitalized if they meet or exceed the capitalization criteria of \$100,000 or more and have or increase the useful life two or more years. In FY 1999, the Automated Civil Engineering System (ACES) was implemented which replaced the Work Information Management System. This system captures costs for each project by work order number, updates the construction in progress general ledger account, capitalizes and depreciates all general assets for both the general fund and each working capital fund.

Prior audits of financial statements have shown that documentation to support the recorded acquisition cost of many older properties is no longer available. Obtaining appraisals for older property for which original acquisition records are no longer available is not cost effective, especially considering the number and age of many of DoD's properties. As a reasonable solution to this dilemma, when original records to support the acquisition cost of property are no longer available, recorded valuations of property are used. The DoD, as part of the implementing strategy efforts, is evaluating the accuracy of the carrying values of their assets and selected liabilities. Based on the results of these efforts, the carrying values may change in the future. When records are not available to support the original acquisition cost or value of property, the Notes to the principal statements will disclose the method of valuation and the reason for its use. Material disclosures are provided at Note 9.

Routine maintenance and repair costs are expensed when incurred.

**Capitalization of Assets:** General PP&E is depreciated in accordance with DoD financial management policy which is consistent with the Federal accounting standards. This guidance required the capitalization of all assets with a useful life of two or more years and an acquisition

cost of \$100,000 or more. When historical costs are not available, the fair market value of the asset is used as the capitalizable amount. The various criteria used to establish the fair market value are:

- (a) Cash realized in transactions involving the same or similar assets,
- (b) Quoted market prices,
- (c) Fair market value of other assets or services received in exchange of property,
- (d) or Independent appraisals.

When it is in the best interest of the government, the Air Force provides to contractors government property necessary to complete contract work. This property is either owned or leased by the Air Force, or purchased directly by the contractor based on contract terms, and in most instances should be included in the value of General PP&E reported on the Air Force's Balance Sheet. However, the DoD's system for capturing and maintaining data on property in the possession of contractors was designed to aid in maintaining property accountability and not for reporting Government property on financial statements. As such, the Air Force currently reports only government property in the possession of contractors that is maintained in the Air Force's property systems. Therefore, this may immaterially understate the value of property in the possession of contractors.

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. Material disclosures are provided at Note 9.

**N. Prepaid and Deferred Charges:**

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.

**O. Leases:**

Generally, lease payments are for the rental of equipment, space, and operating facilities and 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 DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses during the period.

**P. Other Assets:**

The Air Force conducts business with commercial contractors under two primary types of contracts—fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that 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 the SFFAS No. 1, Accounting for Selected Assets and Liabilities, these payments are treated as work in process and are not reported as advances or prepayments in the Other Assets line item. In addition, based on the provision of the Federal Acquisition Regulations, the Air Force makes financing payments under fixed price contracts that are not based on a percentage of completion. The Air Force reports these financing payments as advances or prepayments 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 for the full amount of the advance. The Air Force does not believe that the SFFAS No. 1 addresses this type of financing payment. The auditor's disagree with the Air Force 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.

**Q. Contingencies:**

The Air Force engaged in contractual commitments requiring future financial obligations. Disclosure of some of these commitments is required. Adoptions of these disclosures for the Air Force's commitments are still evolving.

The SFFAS defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Air Force. The uncertainty will be resolved when one or more future events occur or fail to occur. The Air Force only records loss contingencies. These contingencies are recognized as a liability when it is probable that the future event or events will confirm the loss or the incurrence of a liability for the reporting entity and the amount of loss can be reasonably estimated. Other contingencies are disclosed when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Air Force loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

The Air Force liabilities can arise as a result of anticipated disposal costs for the Air Force assets.

This type of liability has two components—nonenvironmental and environmental. Based upon the Air Force's interpretation of the SFFAS No. 5 Accounting for Liabilities of Federal Government, a disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The DoD's auditors disagree with this application of the standard for nonenvironmental disposal liabilities based on their interpretation that the disposal liability recognition should commence at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all Federal Agencies. Until the issue is resolved on a government-wide basis, the DoD has agreed to adhere to the explicit literal provisions of the SFFAS No. 5, except for the recognition of nonenvironmental disposal costs of nuclear powered assets. Material disclosures are provided at Notes 12 and 13.

The Air Force's liabilities also arise as a result of range preservation and management activities. Range preservation and management activities are those precautions considered necessary to protect personnel and to maintain long-term range viability. These activities may include the removal and disposal of solid wastes, clearance of unexploded munition, and efforts considered necessary to address pollutants and contaminants. The reported amounts for range preservation and management represent the current cost basis estimates of required range preservation and management activities, beyond recurring operating and maintenance, for active and inactive ranges at active installations. The estimated costs are recognized systematically based on the estimated use of physical capacity.

#### **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 leave and non-vested 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:**

Equity consists of unexpended appropriations and cumulative results 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.

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 included the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, cumulative amounts are no longer segregated into investments in capitalized assets (such as PP&E) or future funding requirements.

#### **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 under criteria disclosed 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 the 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.

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

### U. Comparative Data:

Comparative data is not required by OMB 97-01 until FY 2000 annual financial statements. Comparative data will be presented starting in FY 2000.

### V. Undelivered Orders:

The Air Force was obligated to pay for undelivered orders (goods and services that have been ordered but not yet received) amounting to \$32.2 billion 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 | \$41,307,758        | \$ 770            | \$41,308,528        |
| b. Revolving Funds    | 0                   | 0                 | 0                   |
| c. Trust Funds        | 1,572               | 0                 | 1,572               |
| d. Other Fund Types   | 0                   | 15,136            | 15,136              |
| <b>e. Total</b>       | <b>\$41,309,330</b> | <b>\$15,906</b>   | <b>\$41,325,236</b> |

### 2. Fund Balance Per Treasury Versus Agency:

|                                  | Entity Assets | Non-entity Assets |
|----------------------------------|---------------|-------------------|
| a. Fund Balance Per Treasury     | \$ 41,309,330 | \$ 15,906         |
| b. Fund Balance Per Air Force GF | \$ 41,309,330 | \$ 15,906         |
| <b>c. Reconciling Amount</b>     | <b>\$ 0</b>   | <b>\$ 0</b>       |

### 3. Explanation of Reconciliation Amounts:

The only variance between the Fund Balance with Treasury and the agency books is a \$99.01

reconciling amount for the Air Force Gift Fund unrealized discounts. This amount is awaiting correction by the Department of Treasury.

### 4. Other Information Related to Fund Balance with Treasury:

The Fund Balance with Treasury does not include any amounts for which The Department of Treasury is willing to accept corrections to canceled appropriation accounts, in accordance with SFFAS Number 1. The amount of unused funds in canceled appropriations is \$8.48 billion as of September 30, 1999.

The Fund Balance with Treasury in appropriations that were canceling on September 30, 1999, was withdrawn in accordance with Treasury policy. This amount was \$1.4 billion for FY 1999.

On Line Payment and Collection (OPAC) Differences. The OPAC differences represent amounts reported by an organization but not reported by its trading partner. As of September 30, 1999, there was (\$2.3) million of OPAC differences greater than 180 days old. A majority of the differences represent internal Department of Defense (DoD) transactions and therefore do not affect Fund Balance With Treasury (FBWT) at the DoD consolidated level. However, for individual entity level statements these differences would affect the amount reported for FBWT. The DoD is working with the Defense Finance and Accounting Service (DFAS) Centers, Treasury, and Treasury's contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers have established metrics and will be implementing monthly reporting requirements for FY 2000. These actions will aid the Air Force in clearing many of the old balances and establishing better internal controls over the OPAC process.

Check Issue Discrepancy. The Air Force is in the process of collecting information for all check issue discrepancy data that are unsupported because: (1) records have been lost during deactivation of disbursing offices; (2) the Treasury will not assist in research efforts for transactions over



## FOOTNOTES TO THE PRINCIPAL STATEMENTS

one year old; or (3) corrections were processed for transactions that Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations, will be provided to the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the Air Force and the Treasury for processing checks. Further, no empirical evidence has been presented that demonstrates check issue discrepancies adversely affect FBWT. The DoD plans to request that the Treasury

remove approximately \$111.9 million from the check issue comparison report. Of the \$111.9 million, a \$36.4 million credit amount is attributable to the DFAS Center in Denver.

As of September 30, 1999, the amount of funds obligated but not yet disbursed is \$34.0 billion and the amount of funds unobligated is \$7.31 billion. This amount is comprised of two figures: available of \$5.84 billion and unavailable of \$1.47 billion. These figures are obtained from the Statement of Budgetary Resources.

### Note 3. Investments, Net:

(\$ in Thousands)

|   | (1)<br>Cost   | (2)<br>Amortization<br>Method | (3)<br>Amortized<br>(Premium)<br>Discount | (4)<br>Investments,<br>Net | (5)<br>Other<br>Adjustment | (6)<br>Market<br>Value<br>Disclosure |
|---|---------------|-------------------------------|---|----------------------------|----------------------------|--------------------------------------|
| <b>1. Intragovernmental Securities:</b>                 |               |                               |   |                            |                            |                                      |
| a. Marketable   | \$ 0          |                               | \$ 0                                      | \$ 0                       | \$ 0                       | \$ 0                                 |
| b. Non-Marketable,<br>Par Value                         | 0             |                               | 0   | 0                          | 0                          | 0                                    |
| c. Non-Marketable,<br>Market-Based                      | 999           |                               | 0   | 999                        | 0                          | 999                                  |
| d. Subtotal   | \$ 999        |                               | \$ 0                                      | \$ 999                     | \$ 0                       | \$ 999                               |
| e. Accrued Interest                                     | 0             |                               |   | 0                          | 0                          | 0                                    |
| <b>f. Total</b>   | <b>\$ 999</b> |                               | <b>\$ 0</b>                               | <b>\$ 999</b>              | <b>\$ 0</b>                | <b>\$ 999</b>                        |
| <b>2. Other Securities:</b>                             |               |                               |   |                            |                            |                                      |
| a. Commercial Paper                                     | \$ 0          |                               | \$ 0                                      | \$ 0                       | \$ 0                       | \$ 0                                 |
| b. Other  | 0             |                               | 0   | 0                          | 0                          | 0                                    |
| c. Subtotal   | \$ 0          |                               | \$ 0                                      | \$ 0                       | \$ 0                       | \$ 0                                 |
| d. Accrued Interest                                     | 0             |                               | 0   | 0                          | 0                          | 0                                    |
| <b>e. Total</b>   | <b>\$ 0</b>   |                               | <b>\$ 0</b>                               | <b>\$ 0</b>                | <b>\$ 0</b>                | <b>\$ 0</b>                          |
| <b>3. Total Intragovernmental and Other Securities:</b> | <b>\$ 999</b> |                               | <b>\$ 0</b>                               | <b>\$ 999</b>              | <b>\$ 0</b>                | <b>\$ 999</b>                        |

#### 4. Other Information:

Because of immaterial amounts, recorded discounts are not amortized, premiums are not recorded, and interest is not accrued. See Note 1L for other information on investments.

**Note 4. Accounts Receivable:**

(\$ in Thousands)

|                                  | (1)<br>Gross<br>Amount Due | (2)<br>Allowance for<br>Estimated Uncollectibles | (3)<br>Net<br>Amount Due |
|----------------------------------|----------------------------|--|--------------------------|
| <b>1. Entity Receivables:</b>    |                            |  |                          |
| a. Intragovernmental             | \$454,824                  | N/A  | \$454,824                |
| b. With the Public               | \$144,038                  | \$ (3,918)                                       | \$140,120                |
| <b>2. Nonentity Receivables:</b> |                            |  |                          |
| a. Intragovernmental             |                            |  |                          |
| (1) Cancelled appropriations     | \$ 54,008                  | N/A  | \$ 54,008                |
| (2) Other                        | \$ 0                       | N/A  | \$ 0                     |
| b. With the Public               |                            |  |                          |
| (1) Cancelled appropriations     | \$354,495                  | \$(146,333)                                      | \$208,162                |
| (2) Other                        | \$ 0                       | \$ 0   | \$ 0                     |

**3. Allowance Method Used:**

The total allowance is comprised of amounts determined at the departmental level. The amounts determined at the departmental level are derived as follows: for closed years receivables an arbitrary allowance rate of 50% results in an estimated allowance of \$145.2 million. Interest allowance of \$1.1 million is calculated using an average percent of write-offs to outstanding public accounts receivable over a five year period. Closed year receivables and interest, when collected are payable to the Treasury. For entity receivables, the allowance is computed each year based on the average percent of write-offs to outstanding public accounts receivable for the last five years and results in an estimated allowance of \$3.9 million.

**4. Other Information:**

As presented on the Consolidated Balance Sheet, accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts (amounts owed by former service members), contractor debt, and unused travel tickets. It also includes net interest receivable per Form and Content guidance. Canceled accounts receivable are reported as non-entity receivables

because, when collected, these amounts are deposited into a Treasury miscellaneous receipt account. Canceled accounts receivable balances are not reliable (See disclosure at Note I.D). A reconciliation between Report on Receivables Due from the Public and the CFO Balance Sheet was accomplished. The differences between the CFO Report and Receivables Report (line 7) are \$22.012 million and \$479 thousand for entity and non-entity receivables, respectively. These differences relate to undistributed collections that are pro-rated between public and intragovernmental receivables on the balance sheet. Gross interest receivables, non-entity, public, was \$54.1 million, with an allowance for estimated uncollectibles of \$1.1 million, resulting in a net of \$53.0 million. A decrease of 18% in gross public receivables for FY 1999 is attributed to current year adjustments of Miscellaneous Obligation Reimbursement Documents (MORDS) for centrally managed allotment accounts of \$142.3 million. There was a 4% overall increase in intragovernmental receivables in FY 1999, however, a 345% increase in undistributed collections and a 32% increase in intragovernmental eliminations, results in the total reduction of intragovernmental receivables of \$272.3 million from FY 1998.

**Note 5. Other Assets:**

(\$ in Thousands)

**1. Other Entity Assets:**

|  |                   |
|--|-------------------|
| a. Intragovernmental                                   |                   |
| (1) Assets Returned for Credit                         | \$ 0              |
| (2) Advances and Prepayment                            | 107,903           |
| (3) Other  | 0                 |
| <b>(4) Total Intragovernmental</b>                     | <b>\$ 107,903</b> |
| b. Other   |                   |
| (1) Outstanding Contract Financing Payments            | \$ 0              |
| (2) Adv to Contractors/Travel Adv/Prog Pmt/Excess Prop | 125,503           |
| <b>(3) Total Other</b>                                 | <b>\$ 125,503</b> |

**2. Other Information related to entity assets:**

The amount of \$125.5 million on Line 1(b)(2) represents advances to contractors and suppliers of \$9.1 million, travel advances of \$21.4 million, outstanding progress payments made to contractors of \$79.3 million and property held but not in use of \$15.7 million.

The Air Force has reported financing payments for fixed price contracts (included in line 1(b)(2)) 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.

**3. Other Nonentity Assets:**

|                                    |                   |
|------------------------------------|-------------------|
| a. Intragovernmental               |                   |
| (1)                                | \$ 0              |
| (2) Advances to Contractors        | 0                 |
| <b>(3) Total Intragovernmental</b> | <b>\$ 0</b>       |
| b. Other                           |                   |
| (1) Advances to Contractors        | \$ 119,558        |
| (2)                                | 0                 |
| <b>(3) Total Other</b>             | <b>\$ 119,558</b> |

**4. Other Information related to nonentity assets:**

The amount of \$119.5 million on Line 2E of the balance sheet represents advances to contractors as reported on SF 1219, Statement of Accountability. This amount is being reported for payments as part of an advance-payment pool agreement made with the Massachusetts Institute of Technology and other non-profit institutions. Advance-payment pool agreements are used for the financing of cost-type contracts with non-profit educational or research institutions for experimental, or research and development work, when several contracts or a series of contracts require financing by advance payments.

**Note 6. Loans Receivable and Related Foreclosed Property:**

Not applicable.

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

(\$ in Thousands)

|   | Entity Assets | Non-entity Assets |
|---|---------------|-------------------|
| <b>1. Cash</b>  | \$ 0          | \$ 139,085        |
| <b>2. Foreign Currency</b>  | 0             | 15,759            |
| <b>3. Other Monetary Assets</b>                                   | 0             | 0                 |
| <b>4. Total Cash, Foreign Currency, and Other Monetary Assets</b> | <b>\$ 0</b>   | <b>\$ 154,844</b> |

**5. Other Information:**

Non-entity assets consist of cash reported on the Standard Forms 1219, Statements of Accountability. The amount of \$139.1 million represents unde-

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

posited collections of \$25.1 million and Disbursing Officers Cash of \$114 million. The total non-entity asset amount of \$154.8 million shown above plus advances to contractors of \$119.5 million, reported on line 2D of the balance sheet and in Note 5 as other assets, comprise the \$274.3 million DAO Treasury cash amount shown as a current liability in Note 13.

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

(\$ in Thousands)

|   | Amount              |
|---|---------------------|
| Inventory, Net (Note 8.A.)                                | \$ 0                |
| Operating Materials and Supplies, Net (Note 8.B.)         | 20,951,870          |
| Stockpile Materials, Net (Note 8.C.)                      | 0                   |
| Seized Property   | 0                   |
| Forfeited Property  | 0                   |
| Goods Held Under Price Support and Stabilization Programs | 0                   |
| <b>Total</b>  | <b>\$20,951,870</b> |

### Note 8.A. Inventory, Net:

Not applicable.

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

(\$ in Thousands)

|  | (1)<br>OM&S<br>Amount | (2)<br>Allowance for<br>Gains (Losses) | (3)<br>OM&S<br>Net | (4)<br>Valuation<br>Method |
|--|-----------------------|--|--------------------|----------------------------|
| <b>1. OM&amp;S Categories:</b>         |                       |  |                    |                            |
| a. Held for Use                        |                       |  |                    |                            |
| \$ 18,167,729                          | \$ 0                  | \$ 18,167,729                          |                    | SP                         |
| b. Held in Reserve for Future Use      |                       |  |                    |                            |
| 2,713,604                              | 0                     | 2,713,604                              |                    | SP                         |
| c. Excess, Unserviceable, and Obsolete |                       |  |                    |                            |
| \$ 70,537                              | \$ 0                  | \$ 70,537                              |                    | NRV                        |
| <b>d. Total</b>                        |                       |  |                    |                            |
| <b>\$ 20,951,870</b>                   | <b>\$ 0</b>           | <b>\$ 20,951,870</b>                   |                    |                            |

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

### 2. Restrictions on operating materials and supplies:

None.

### 3. Other Information:

Operating Materials & Supplies (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 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 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.

The Air Force attempts to use 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 cannot 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 Department has reached an agreement 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. Based on this agreement, the DoD, in consultation with its auditors, will (1) develop a framework for conducting cost-benefit analysis 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

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

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 (FY) 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.

The standard price valuation method is used without computation of unrealized holdings gains and/or losses due to price changes since acquisition. The Statement of Federal Financial Accounting Standards (SFFAS) Number 3 requires that the consumption method of accounting be applied for the recognition of expenses for operating materials and supplies. However, this standard is not followed because the five computer systems (Standard Base Supply System, Financial Inventory Accounting and Billing System, the Combat Ammunition System, the Contractor Property Management System, and the Standard Depot System) used to report data were designed as property inventory systems rather than accounting systems. Therefore, the Operating Materials and Supplies (OM&S) expense (as reflected on Line 1C of the Statement of Net Cost) is understated. This may or may not be material.

The war reserve materials, as identified by the logistics community, are reported as operating materials and supplies held in reserve for future use. This includes a portion of munitions as well as other assets.

The gross value of munitions reported as Operating Materials and Supplies - Held for Use amounts to \$5.8 billion, munitions reported as Held in Reserve for Future Use, \$1.4 billion, and munitions reported as Excess, Obsolete and Unserviceable \$71 million. The amount reported as excess, obsolete and unserviceable OM&S is all unserviceable munitions. The inventory systems, other than for munitions, have not been able to identify and report excess, obsolete, and unserviceable data.

Excess, Obsolete, and Unserviceable OM&S have been revalued from standard price to their net realizable value (NRV). Based on current policies and procedures, it has been determined that the NRV is 2.9 percent of acquisition cost. Therefore, the reported values of Excess, Obsolete and Unserviceable OM&S was reduced by \$2.36 billion.

### Note 8.C. Stockpile Materials, 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.



## FOOTNOTES TO THE PRINCIPAL STATEMENTS

### Note 9. General (PP&E), Net:

(\$ in Thousands)

|   | (1)<br>Depreciation/<br>Amortization<br>Method | (2)<br>Service<br>Life | (3)<br>Acquisition<br>Value | (4)<br>(Accumulated<br>Depreciation/<br>Amortization) | (5)<br>Net Book<br>Value |
|---|--|------------------------|-----------------------------|---|--------------------------|
| <b>1. Major Asset Classes</b>               |  |                        |                             |   |                          |
| a. Land                                     | N/A  | N/A                    | \$ 267,667                  | N/A   | \$ 267,667               |
| b. Buildings, Structures,<br>and Facilities | S/L  | 20-40                  | 38,969,457                  | \$ (21,248,802)                                       | 17,720,655               |
| c. Leasehold Improvements                   | S/L  | Lease Term             | 0                           | 0   | 0                        |
| d. ADP Software                             | S/L  | 5                      | 0                           | 0   | 0                        |
| e. Equipment                                | S/L  | 5-10                   | 7,486,804                   | (5,226,520)   | 2,260,284                |
| f. Assets Under<br>Capital Lease            | S/L  | 20                     | 328,604                     | (109,355)   | 219,249                  |
| g. Construction-In-Progress                 | N/A  | N/A                    | 2,779,322                   | N/A   | 2,779,322                |
| h. Other                                    | S/L  |                        | 0                           | 0   | 0                        |
| <b>i. Total</b>                             |  |                        | <b>\$ 49,831,854</b>        | <b>\$ (26,584,677)</b>                                | <b>\$ 23,247,177</b>     |

### 2. Other Information:

The Air Force, in FY 1999, implemented the Federal Accounting Standards Advisory Board's (FASABs) Statement of Federal Financial Accounting Standard (SFFAS) Number 11, Amendments to Accounting for Property, Plant and Equipment - Definitional Changes, as directed. In addition, the Air Force implemented the requirements of SFFAS Number 6, Accounting for Property, Plant, and Equipment, and SFFAS Number 8, Supplementary Stewardship Reporting. With the implementation of these standards, the Air Force now reports all National Defense PP&E, heritage assets, and stewardship land in the Required Supplementary Stewardship Information Report. The remaining assets, along with multi-use heritage assets, are capitalized, depreciated, and reported as general PP&E on the balance sheet.

The capitalization criteria for all Air Force PP&E assets was based on the Defense Appropriation Act for fiscal year 1996. This act set the expense/investment funding threshold at \$100,000, which is the current capitalization value. The criteria for capitalization of an asset is a useful life of 2 or more years, with an acquisi-

tion cost equal to or exceeding the expense/investment funding threshold.

The Air Force, in FY 1999, implemented the new Automated Civil Engineering System (ACES) which was designed to capture historical costs by project by appropriation, recognize as to preponderant use, capitalize by category, and depreciate all real property assets. This system was used to report data for the regular Air Force and Air Force Reserve only for FY 1999. ACES identifies real property where the preponderant users are working capital fund activities or other DoD activities. A prior period adjustment was made to remove \$5.0 million of Supply Management Activity Group (SMAG) facilities in FY 1999 from the general funds statements. The Air National Guard (ANG), in FY 1999, manually depreciated all real property, including multi-use assets. The methodology used included (a) extracting all data over \$100,000 from the old Air Force Integrated Work Information Management System (IWIMS) and (b) using the current DoD policies and procedures approved by the Under Secretary of Defense (Comptroller) for computation of depreciation of Air Force property, plant and equipment. This method will continue to be used until the ANG is

fully implemented on ACES. The ANG is scheduled to begin the implementation process in FY 2000. Assets at closed BRAC locations are not included in the property, plant and equipment (PP&E) 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. The Air Force is aware of a backlog of work orders in real property that have not been posted to the real property records. The Air Force is actively looking for a solution to this problem.

The Air Force construction in process (CIP) account was reduced by approximately \$623 million, as a result of reconciling all projects under construction as ACES was loaded. The current figure from ACES of \$999 million, more realistically represents the value of all on-going Air Force construction projects as of September 30, 1999.

The Air Force, in FY 1999, depreciated most personal property using the new depreciation module in the Air Force Equipment Management System (AFEMS). AFEMS is designed to capture the historical cost, date of acquisition, date placed in service, preponderant user (General Fund, Working Capital Fund, or DoD activity) and then to depreciate the various types of equipment according to current DoD depreciation policies and procedures. To populate the system, the Air Force logistics and property management communities were requested to do a complete review of all equipment as listed on the Customer Account/Customer Receipt List that met the capitalization criteria. As of September 30, 1999, an estimated \$895 million of Air Force General Fund equipment (not fully depreciated) had not been populated with the historical cost and/or acquisition date. The Air Force used standard price and estimated the date of acquisition to provide a basis for manually depreciating and reporting of these assets. The Air Force has contracted with a private firm to validate all data and methodology used to populate AFEMS. It is expected this effort will be completed in FY 2000. In FY 1998, the Air Force did not have the ability to segregate equipment between General Funds (GF) and Working Capital Funds (WCF). Consequently, all equipment in AFEMS was reported as general

PP&E on the General Funds financial statements. The capability to segregate WCF and GF equipment was added to AFEMS in FY 1999, resulting in \$1.725 Billion of WCF equipment being dropped from the GF financial statements. As a result of the overstatement of the FY 1998 financial statements, a prior period adjustment was made in FY 1999. Material Disclosures are provided at Note 17.

The value of Air Force General PP&E real property in the possession of contractors is included in the values reported above for the Major Classes of Land; Buildings, Structures, and Facilities; and Leasehold Improvements. The value of general PP&E personal property (Major Classes of ADP Software and Equipment) in the possession of contractors is not included in the values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the best method to annually collect this information. Preliminary results of the review indicate that the value of non-fully depreciated general PP&E in possession of contractors that would be reported is immaterial in relation to the DoD's total assets. The DoD is working with the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Inspector General, DOD regarding actions to take for fiscal year (FY) 2000 in order to report all property in the possession of contractors. The DoD will issue new property accountability regulations requiring the DoD Components to maintain, in DoD Component property systems, information on property furnished to contractors. In addition, the Air Force will ensure that any contractor that has or had government furnished property during the reporting period submits a property report for each contract. Both of these actions will be structured to provide the information necessary for compliance with federal-wide accounting standards.

The Air Force, in FY 1998, reported \$5.8 billion of Special Tools and Special Test Equipment (ST/STE) on the financial statements as part of the general PP&E in the possession of contractors. To eliminate these assets from the FY 1999 financial statements, a prior period adjustment in this amount (with related accumulated depreciation of \$29.7 million) was made. Material Disclosures are provided at Note 17.

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

The Air Force also reported \$263 million in ST/STE on the financial statements in the possession and control of the Air Force as provided by two different systems (AMARC and Requirements Data Bank-D200J). The acquisition cost data and date placed in service for these two systems could not always be determined. Several assets have a unit cost of \$9,999,999.99. These values were used either due to unavailable historical cost data or the inability of the system to report the full cost (value over \$10 million). In addition, since the date placed in service was not available, the Air Force used the “date created” as the date placed in service. This date may or may not be the actual date the ST/STE was fabricated. Records indicate that the “date created” could have been either the date the asset was reported for the first time, or the date the entry was made in the system. Using incorrect data may result in an overstatement or understatement of the depreciation expense for the year. Depreciation for ST/STE in the possession and control of the Air Force was computed manually using a straight-line method, with zero residual or scrap value and a useful life of 10 years.

Medical equipment is being reported in the Air Force financial statements for the first time in FY 1999. The capitalized asset data used to compute current year depreciation is as of September 30, 1999, except for five of the eighty-nine sites. The data used for these five sites is as of March 31, 1999. The capitalized asset data were depreciated manually using the DoD approved depreciation policies and procedures.

The Air Force, in FY 1999, reported \$18 million of personal property with other government agencies, civil agencies, and individuals on a temporary loan basis that could not be depreciated. The data on temporary loan is retained in the Financial Inventory Accounting and Billing System (FIABS) which does not capture historical cost, date of acquisition, or date placed in service. Consequently, depreciation cannot be accomplished either systemically or manually with any degree of accuracy. Although the dollar value is immaterial, it was included as part of the equipment account balance for full disclosure.

In 1999, the Air Force used the Information Processing Management System (IPMS) to capture and report Automated Data Processing Equipment (ADPE). This system maintains historical cost and acquisition dates, but due to systemic problems, could not accurately compute depreciation. Using data from this system, with the assistance of contractors, assets were depreciated manually over a 5 year period using the straight-line method of depreciation, with no residual value (DoD policies and procedures). Due to a change in the definition used for ADPE, the Air Force reduced the amount capitalized by approximately \$424 million.

See Note 13.E, Part 5, for Additional Information on Capital Leases.

### Note 9.A. Assets Under Capital Lease:

*(\$ in Thousands)*

#### Entity As Lessee:

##### 1. Capital Leases:

##### a. Summary of Assets Under Capital Lease:

|                          |             |
|--------------------------|-------------|
| Land and Buildings       | \$ 328,604  |
| Machinery and Equipment  | \$ 0        |
| Other                    | \$ 0        |
| Accumulated Amortization | \$(109,355) |

##### b. Description of Lease Arrangements:

Housing Leases Section (801) are considered Capital Leases for reporting purposes. A 20 year average has been used in the computation of asset value, liability for lease payments and depreciation. No adjustment has been made for imputed expense so asset value of property under capital leases and related depreciation is overstated and current expenses are understated by the amount of current interest on the liability for leases.

### Note 10. Reserve For Future Use:

### Note 11. Debt:

Not applicable.

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

### Note 12.A. Environmental Liabilities Covered by Budgetary Resources:

Not applicable.

### Note 12.B. Environmental Liabilities Not Covered by Budgetary Resources:

(\$ in Thousands)

|   | Current<br>Liability | Noncurrent<br>Liability | Total               |
|---|----------------------|-------------------------|---------------------|
| <b>1. Intragovernmental:</b>                          |                      |                         |                     |
| <b>a. Accrued Restoration Costs</b>                   |                      |                         |                     |
| (1) Active Installations                              | \$ 0                 | \$ 0                    | \$ 0                |
| (2) Base Realignment and Closure (BRAC) Installations | 0                    | 0                       | 0                   |
| (3) Formerly Used Defense Sites (FUDS)                | 0                    | 0                       | 0                   |
| <b>b. Other Environmental Liabilities</b>             |                      |                         |                     |
| (1) Nuclear Powered Aircraft Carriers                 | 0                    | 0                       | 0                   |
| (2) Nuclear Powered Submarines                        | 0                    | 0                       | 0                   |
| (3) Other Nuclear Powered Ships                       | 0                    | 0                       | 0                   |
| (4) Other National Defense Weapons Systems            | 0                    | 0                       | 0                   |
| (5) Chemical Weapons Disposal                         | 0                    | 0                       | 0                   |
| (6) Conventional Munitions Disposal                   | 0                    | 0                       | 0                   |
| (7) Training Ranges                                   | 0                    | 0                       | 0                   |
| (8) Other   | 0                    | 0                       | 0                   |
| <b>Total</b>  | <b>\$ 0</b>          | <b>\$ 0</b>             | <b>\$ 0</b>         |
| <b>2. With the Public:</b>                            |                      |                         |                     |
| <b>a. Accrued Restoration Costs</b>                   |                      |                         |                     |
| (1) Active Installations                              | \$ 397,070           | \$ 4,330,400            | \$ 4,727,470        |
| (2) Base Realignment and Closure (BRAC) Installations | 174,427              | 607,104                 | 781,531             |
| (3) Formerly Used Defense Sites (FUDS)                | 0                    | 0                       | 0                   |
| <b>b. Other Environmental Liabilities</b>             |                      |                         |                     |
| (1) Nuclear Powered Aircraft Carriers                 | 0                    | 0                       | 0                   |
| (2) Nuclear Powered Submarines                        | 0                    | 0                       | 0                   |
| (3) Other Nuclear Powered Ships                       | 0                    | 0                       | 0                   |
| (4) Other National Defense Weapons Systems            | 0                    | 0                       | 0                   |
| (5) Chemical Weapons Disposal                         | 0                    | 0                       | 0                   |
| (6) Conventional Munitions Disposal                   | 0                    | 0                       | 0                   |
| (7) Training Ranges                                   | 30                   | 829,400                 | 829,430             |
| (8) Other   | 0                    | 0                       | 0                   |
| <b>Total</b>  | <b>\$ 571,527</b>    | <b>\$ 5,766,904</b>     | <b>\$ 6,338,431</b> |

**3. Other Information:**

For FY 1999, the Air Force has estimated and reported its environmental liabilities. FY 1999 is also the first year that the liability for Training Ranges has been presented separate from Active Installations.

The Air Force Office of Civil Engineering Environmental Division (AF/ILEVR) estimates a \$5.56 billion environmental cleanup liability for September 30, 1999. Included in this amount is an additional estimated liability of \$181 million that represents Air Force Resource Conservation and Recovery Act (RCRA) corrective action program costs. These costs are to close 1,189 solid waste management units identified by the Environmental Protection Agency (EPA).

The Base Realignment and Closure (BRAC) Commission estimate of \$781.5 million is based on the BRAC Environmental Requirements

Estimate Report as of September 30, 1999. The value includes estimates through the Five Year Defense Plan (FYDP). Future government liabilities for the Air Force BRAC environmental program continue well beyond FY 06. At this time, the Air Force is currently working on developing a calculation methodology for these costs. Therefore, we do not have detailed data beyond the FYDP.

There are future liabilities at Onizuka to clean up the contaminant trichloroethylene (TCE). However, cleanup for one location of TCE has not been resolved between the Air Force and Navy, and therefore, the restoration responsibilities have not been determined. The Federal Government will continue to be responsible for these costs/requirements until achievement of site closeout.



**Note 13. Other Liabilities:**

(\$ in Thousands)

|   | <b>Current<br/>Liability</b> | <b>Noncurrent<br/>Liability</b> | <b>Total</b>        |
|---|------------------------------|---------------------------------|---------------------|
| <b>1. Other Liabilities Covered by Budgetary Resources:</b> |                              |                                 |                     |
| <b>a. Intragovernmental</b>                                 |                              |                                 |                     |
| (1) Advances from Others                                    | \$ 140,765                   | \$ 0                            | \$ 140,765          |
| (2) Deferred Credits  | 0                            | 0                               | 0                   |
| (3) Deposit Funds and Suspense Account Liabilities          | 7,182                        | 0                               | 7,182               |
| (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                           | 402,207                      | 0                               | 402,207             |
| (7) Disbursing Officer Cash                                 | 274,399                      | 0                               | 274,399             |
| (8) Nonenvironmental Disposal Liabilities                   |                              |                                 |                     |
| (a) Nuclear Powered Aircraft Carriers                       | 0                            | 0                               | 0                   |
| (b) Nuclear Powered Submarines                              | 0                            | 0                               | 0                   |
| (c) Other Nuclear Powered Weapon Systems                    | 0                            | 0                               | 0                   |
| (d) Other National Defense Weapon Systems                   | 0                            | 0                               | 0                   |
| (e) Conventional Munitions                                  | 0                            | 0                               | 0                   |
| (9) Other Liabilities                                       | 13,164                       | 0                               | 13,164              |
| <b>Total</b>  | <b>\$ 837,717</b>            | <b>\$ 0</b>                     | <b>\$ 837,717</b>   |
| <b>b. With the Public</b>                                   |                              |                                 |                     |
| (1) Accrued Funded Payroll and Benefits                     | \$1,161,133                  | \$ 0                            | \$1,161,133         |
| (2) Advances from Others                                    | 35,330                       | 0                               | 35,330              |
| (3) Deferred Credits  | 0                            | 0                               | 0                   |
| (4) Deposit Funds and Suspense Accounts                     | 8,724                        | 0                               | 8,724               |
| (5) Temporary Early Retirement Authority                    | 31,100                       | 47,200                          | 78,300              |
| (6) Nonenvironmental Disposal Liabilities                   |                              |                                 |                     |
| (a) Nuclear Powered Aircraft Carriers                       | 0                            | 0                               | 0                   |
| (b) Nuclear Powered Submarines                              | 0                            | 0                               | 0                   |
| (c) Other Nuclear Powered Weapon Systems                    | 0                            | 0                               | 0                   |
| (d) Other National Defense Weapon Systems                   | 0                            | 0                               | 0                   |
| (e) Conventional Munitions                                  | 0                            | 0                               | 0                   |
| (7) Other Liabilities                                       | 0                            | 0                               | 0                   |
| <b>Total</b>  | <b>\$1,236,287</b>           | <b>\$47,200</b>                 | <b>\$ 1,283,487</b> |

**2. Other Information:**

Based upon the Air Force's interpretation of the Statement of Federal Financial Accounting Standard (SFFAS) No. 5, a nonenvironmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Department's auditors disagree with this interpretation of the standard. Their interpretation is that the nonenvironmental 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 the SFFAS No. 5.

The amount on line 1(a) (9) of \$13.1 million represents the accrued liability for employer's share of retirement health and life insurance.

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

|   | Current<br>Liability | Noncurrent<br>Liability | Total              |
|---|----------------------|-------------------------|--------------------|
| <b>3. Other Liabilities Not Covered by Budgetary Resources:</b> |                      |                         |                    |
| <b>a. Intragovernmental</b>                                     |                      |                         |                    |
| (1) Accounts Payable—Canceled Appropriations                    | \$ 2,871             | \$ 0                    | \$ 2,871           |
| (2) Custodial Liability   | 0                    | 0                       | 0                  |
| (3) Deferred Credits  | 0                    | 0                       | 0                  |
| (4) Liability for Borrowings to be Received                     | 0                    | 0                       | 0                  |
| (5) Other Actuarial Liabilities                                 | 0                    | 0                       | 0                  |
| (6) Judgment Fund Liabilities                                   | 27,958               | 270,000                 | 297,958            |
| (7) Workmen's Compensation Reimbursement to DOL                 | 124,302              | 153,402                 | 277,704            |
| (8) Nonenvironmental Disposal Liabilities                       |                      |                         |                    |
| (a) Nuclear Powered Aircraft Carriers                           | 0                    | 0                       | 0                  |
| (b) Nuclear Powered Submarines                                  | 0                    | 0                       | 0                  |
| (c) Other Nuclear Powered Weapon Systems                        | 0                    | 0                       | 0                  |
| (d) Other National Defense Weapon Systems                       | 0                    | 0                       | 0                  |
| (e) Conventional Munitions                                      | 0                    | 0                       | 0                  |
| (9) Other Liabilities   | 31,500               | 0                       | 31,500             |
| <b>Total</b>  | <b>\$ 186,631</b>    | <b>\$ 423,402</b>       | <b>\$ 610,033</b>  |
| <b>b. With the Public</b>                                       |                      |                         |                    |
| (1) Accounts Payable—Canceled Appropriations                    | \$ 206,894           | \$ 0                    | \$ 206,894         |
| (2) Accrued Unfunded Liabilities                                | 0                    | 0                       | 0                  |
| (3) Accrued Unfunded Annual Leave                               | 1,718,840            | 0                       | 1,718,840          |
| (4) Deferred Credits  | 0                    | 0                       | 0                  |
| (5) Nonenvironmental Disposal Liabilities                       |                      |                         |                    |
| (a) Nuclear Powered Aircraft Carriers                           | 0                    | 0                       | 0                  |
| (b) Nuclear Powered Submarines                                  | 0                    | 0                       | 0                  |
| (c) Other Nuclear Powered Weapon Systems                        | 0                    | 0                       | 0                  |
| (d) Other National Defense Weapon Systems                       | 0                    | 0                       | 0                  |
| (e) Conventional Munitions                                      | 0                    | 0                       | 0                  |
| (6) Other Liabilities   | 423,048              | 202,819                 | 625,867            |
| <b>Total</b>  | <b>\$ 2,348,782</b>  | <b>\$ 202,819</b>       | <b>\$2,551,601</b> |

### 4. Other Information:

Accounts Payable Canceled Appropriations on lines 3(a)(1) and 3(b)(1) are unreliable. It is possible that this liability will be liquidated using current year funding at the time of liquidation.

The amount of \$31.5 million on line 3(a)(9) in Intragovernmental Other Liabilities above represents unemployment benefits.

Civilian annual leave and military leave on line 3(b)(3) are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for civilian annual leave of \$664.8 million and military leave of \$1,054.0 million at the end of

the FY 1999 reflect current pay rates for the leave that is earned but not taken. Due to deficiencies within the Defense Civilian Payroll System, the civilian leave liability includes amounts for: (1) employees assigned to Air Force Working Capital Fund activities and (2) employees assigned to other branches of military service, but performing duty at an Air Force activity in addition to the General Fund civilian employees.

The amount of \$625.8 million on line 3(b)(6) With the Public-Other Liabilities represents contingencies of \$405.3 million, accrued interest liability of \$1.3 million and capital leases payments of \$219.2 million.

Contingencies: Proprietary contingencies are commonly referred to as contingent liabilities. If they meet certain requirements, proprietary contingencies are either disclosed in the notes to the financial statements or recorded as liabilities in the principal financial statements. Proprietary contingencies are indicated below. See Note 1Q for budgetary contingencies.

The Air Force is party to various legal and administrative claims brought against it. Most are tort claims initiated by individuals addressing aircraft and vehicle accidents, medical malpractice, property and environmental damages resulting from Air Force activities, and contract disputes.

Certain legal actions to which the Air Force is named a party are administered and, in some instances, litigated by other Federal agencies. Tort claims and litigation against the Air Force are covered by the Federal Tort Claims Act (FTCA) (28 U.S.C. 1346(b), 2671-2680) and in Titles 10 and 32, United States Code (U.S.C.). Contingent liabilities of the Air Force under the FTCA are limited to administrative claims settled for \$2,500 or less. Contingent liabilities of the Air Force for claims under Titles 10 and 32 are limited to the first \$100,000 paid per claimant, except under 10 U.S.C. 2734a, and 10 U.S.C. 9801-9804. Under 10 U.S.C. 2734a, the Air Force pays the entire amount of any claim settlement. Under 10 U.S.C. 9801-9804, the Air Force contingent liability is the first \$500,000 per claimant. Claims settled for more than \$2,500 under the FTCA, and claims settled for more than the Air Force contingent liability under sections 2733, 2734, and 2738 of Title 10; and section 715 of Title 32 are paid from the Treasury's Judgment Fund. Amounts exceeding the Air Force contingent liability under 10 U.S.C. 9801-9804 are certified to Congress for payment. Under these claims statutes, the Judgment Fund is not reimbursed by Air Force appropriations. However, the Air Force must reimburse the Treasury's Judgment Fund for claims filed under the Contracts Disputes Act.

In addition to the contractor claims under appeal and the open contractor claims for an amount greater than \$100,000, the Air Force was party to

numerous other contractor claims in amounts less than \$100,000 per claim. These claims are a routine part of the contracting business and are typically resolved through mutual agreement between the contracting officer and the contractor. Because of the routine nature of these claims, no requirement exists for a consolidated tracking mechanism to record the amount of each claim, the number of open claims, or the probability of the claim being settled in favor of the claimant. The potential liability arising from these claims in aggregate would not materially affect the operations or financial condition of the Air Force. The recorded estimated probable liability amount of \$4.4 million has been included in the accompanying financial statements as an other unfunded expense and as an unfunded liability for open contractor claims greater than \$100,000 and neither under appeal nor in litigation.

As of September 30, 1999, the Air Force was a party to 2,962 claims and litigation actions. The total dollar amount demanded for these claims and litigation actions was \$63.4 billion. The total estimated contingent liability for civil law and litigation claims against the Air Force as of September 30, 1999 were valued at \$400.9 million. This liability dollar amount recorded in the financial statements is an estimate based on the lowest payout rate for the previous three years. Neither past payments nor the current contingent liability estimate can be used appropriately to project the results of any individual claim. The total recorded estimated probable liability amount of \$400.9 million has been included in the accompanying financial statements as an other unfunded expense and as an unfunded liability.

It is uncertain that claims will ever accrue to the Air Force. In addition, many cases simply lack merit. Most claims, even if successful, will not be paid from Air Force accounts. Rather, judgments are ordinarily paid from the Judgment Fund, not from Air Force accounts even though claims were the result of Air Force operations. In many cases involving attorney fees, the amounts are not known until the last appeal is taken.

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

The Legal Representation Letter describes contingent liabilities from cases which may or may not be paid from the Treasury's Claims, Judgments, and Relief Acts Fund depending on the final outcome. Since Air Force appropriations do not necessarily pay for all judgments or settlements for cases and the probability of payment is unknown, these contingencies from pending cases are not reflected in the financial statements.

As of September 30, 1999, the Air Force was a party to 260 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). The total dollar value of these claims was approximately \$814.3 million which included \$688.1 million in contractor claims. Such claims are funded primarily from Air Force appropriations. The contractor claims involve unique circumstances which are considered by the ASBCA in formulating decisions on the cases. The amount

of loss from contractor claims of \$201.6 million has been reflected in the financial statements.

The Capital leases represented in the financial statements were entered into prior to FY 1992. Capital leases prior to FY 1992 and lease purchases prior to FY 1991 were funded on a FY basis. Capital leases and lease purchases entered into during FY 1992 and FY 1991, respectively, and thereafter must be fully funded in the first year of the lease.

Not included in the reported environmental disposal liability is \$307 million, the preliminary cost estimate for completing the disposal or demolition of approximately 11.1 million square feet of excess and/or obsolete real property structures at active installations identified in the Defense Reform Initiative Directive (DRID) # 36, plus other excess and/or obsolete structures.

### 5. Leases:

*(\$ in Thousands)*

#### Entity as Lessee

##### 1. Capital Leases

| a. Future Payments Due: Fiscal Year                      | (1)               | Asset Category<br>(2) | (3)         | Totals                   |
|--|-------------------|-----------------------|-------------|--------------------------|
| 2000   | \$ 58,984         | \$ 0                  | \$ 0        | \$ 58,984                |
| 2001   | 59,821            | 0                     | 0           | 59,821                   |
| 2002   | 25,111            | 0                     | 0           | 25,111                   |
| 2003   | 25,111            | 0                     | 0           | 25,111                   |
| 2004   | 25,111            | 0                     | 0           | 25,111                   |
| After 5 Years  | 25,111            | 0                     | 0           | 25,111                   |
| Total Future Lease Payments                              | \$ 219,249        | \$ 0                  | \$ 0        | \$ 219,249               |
| Less: Imputed Interest                                   |                   |                       |             |                          |
| Executory Costs (e.g. taxes)                             | 0                 | 0                     | 0           | 0                        |
| Net Capital Lease Liability                              | <u>\$ 219,249</u> | <u>\$ 0</u>           | <u>\$ 0</u> | <u>\$ 219,249</u>        |
| <b>b. Liabilities Covered by Budgetary Resources</b>     |                   |                       |             | <u><u>\$</u></u>         |
| <b>c. Liabilities Not Covered by Budgetary Resources</b> |                   |                       |             | <u><u>\$ 219,249</u></u> |

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

(\$ in Thousands)

| Major Program Activities                     | (1)<br>Actuarial Present<br>Value of Projected<br>Plan Benefits | (2)<br>Assumed<br>Interest Rate<br>(%) | (3)<br>(Less: Assets<br>Available to Pay<br>Benefits) | (4)<br>Unfunded<br>Actuarial<br>Liabilities |
|--|---|--|---|---|
| <b>1. Pension and Health Benefits:</b>       |   |  |   |   |
| a. Military Retirement Pensions              | \$ 0  | 0.00%                                  | \$ 0  | \$ 0  |
| b. Military Retirement Health Benefits       | 0   | 0.00%                                  | 0   | 0   |
| Total  | <u>\$ 0</u>   | <u>0.00%</u>                           | <u>\$ 0</u>   | <u>\$ 0</u>                                 |
| <b>2. Insurance/Annuity Programs:</b>        | <u>\$ 0</u>   | <u>0.00%</u>                           | <u>\$ 0</u>   | <u>\$ 0</u>                                 |
| <b>3. Other:</b>                             |   |  |   |   |
| a. Workmen's Compensation (FECA)             | \$1,008,314   | 5.60%                                  | \$ 0  | \$1,008,314                                 |
| b. Voluntary Separation<br>Incentive Program | 0   | 0.00%                                  | 0   | 0   |
| c. DoD Education Benefits Fund               | 0   | 0.00%                                  | 0   | 0   |
| Total  | <u>\$1,008,314</u>  | <u></u>                                | <u>\$ 0</u>   | <u>\$1,008,314</u>                          |
| <b>4. Total Lines 1 + 2 + 3:</b>             | <u><u>\$1,008,314</u></u>                                       | <u><u></u></u>                         | <u><u>\$ 0</u></u>                                    | <u><u>\$1,008,314</u></u>                   |

### 5. Other Information:

#### a. Actuarial cost method used:

Future workers' compensation (FWC) figures are provided by the Department of Labor. The liability for FWC benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. 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.

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 financial statements.

#### b. Assumptions:

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.

The interest rate assumptions utilized for discounting were as follows:

| 1999             | 1998             |
|------------------|------------------|
| 5.50% in Year 1, | 5.60% in Year 1, |
| 5.50% in Year 2, | and thereafter   |
| 5.55% in Year 3, |                  |
| 5.60% in Year 4, |                  |
| and thereafter   |                  |

**Note 15. Net Position:**

(\$ in Thousands)

**1. Unexpended Appropriations:**

|                                    |                            |
|------------------------------------|----------------------------|
| a. Unobligated:                    |                            |
| (1) Available                      | \$ 5,839,854               |
| (2) Unavailable                    | 1,468,553                  |
| b. Undelivered Orders              | <u>28,637,179</u>          |
| c. Total Unexpended Appropriations | <u><b>\$35,945,586</b></u> |

**2. Other Information:**

Unexpended appropriations reflected here includes a decrease of \$354 million for appropriated capital funding canceled payables. This amount is reported in USGL 3105 and records appropriated capital funding payment of accounts payable which have been canceled under requirements of Public Law 101-510.

Undelivered Orders in Line 1b includes both Undelivered Orders Unpaid (USGSL 4801) and Undelivered Orders Paid (USGSL 4802) for direct appropriated funds.

**Note 16. Disclosures Related to the Statement of Net Cost:****Note 16.A. Suborganization Program Costs:**

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

Until costing allocation processes and expanded intra-Air Force eliminating capabilities are incorporated into the accounting processes, the usefulness of further suborganization-reported (major command) net costs is limited. It is for this reason that no additional statements of suborganization costs at lower levels are presented in these statements.

The Air Force is unable to accumulate costs for major programs based on performance measures identified under requirements of the Government Performance and Results Acts (GPRA). This inability is due to the financial processes and systems not being designed to collect and report this type of cost information. Until the processes and systems are upgraded, the Air Force, like the Department of Defense as a whole, will break out programs by major appropriation groupings.

The Statement of Net Cost format requires reporting of program costs by costs incurred with intragovernmental and public entities. Although overall program costs are believed to be fairly stated, the cost allocations between intragovernmental and public based on available vendor type-coded data may not be totally accurate.

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

Expenditures from the following appropriations totaling \$12.1 billion are deemed to be for National Defense PP&E and are included in costs reported in the Procurement Program Costs section of the Statement of Net Cost:

|  |               |
|--|---------------|
| Aircraft Procurement, 57 **/ 3010                      | \$9.3 billion |
| Aircraft Procurement, 57 **/ 3010, Supplemental        | 74.8 million  |
| Aircraft Procurement, 57 **/ 3010, Extended B-2 Avail. | 58.8 million  |
| Aircraft Procurement, 57 **/ 3010, 2 yr Supplemental   | 0.2 million   |
| Missile Procurement, 57 **/ 3020                       | 2.7 billion   |
| Missile Procurement, 57 **/ 3020, 2 yr Supplemental    | 1.0 million   |

**Note 16.C. Cost of Stewardship Assets:**

Costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets; costs of acquiring stewardship land; and costs to prepare stewardship land for its intended use, are required to be recognized and disclosed in the Statement of Net Cost. Such costs, if any, are not separately identifiable and are not believed to be material.



## FOOTNOTES TO THE PRINCIPAL STATEMENTS

### Note 16.D. Stewardship Assets Transferred:

No heritage assets or stewardship land were transferred to or from other federal entities in the current fiscal year.

### Note 16.E. Exchange Revenue:

Goods and services provided through reimbursable programs to the public or another U.S. Government entity (intra-Air Force, intra-DoD or other federal government entity) are provided at cost. Such reimbursable sales are reported as earned revenues. Costs equal to the amount reported as earned

revenue are included in program costs. Interest earned on investments of \$61 thousand is also reported as exchange and earned revenues.

### Note 16.F. Amounts for Foreign Military Sales (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 Revenues) | Net Cost            |
|--|----------------------|---------------------|------------------------|---------------------|
| 1. Department of Defense Military  | 051                  | \$94,128,733        | \$(2,869,541)          | \$91,259,192        |
| 2. Water Resources by US Army Corps of Engineers   | 301                  | 0                   | 0                      | 0                   |
| 3. Pollution Control and Abatement by US Army Corps of Engineers                         | 304                  | 0                   | 0                      | 0                   |
| 4. Federal Employee Retirement and Disability by DoD Military Retirement Trust Fund      | 602                  | 0                   | 0                      | 0                   |
| 5. Veterans Education, Training, and Rehabilitation by DoD Education Benefits Trust Fund | 702                  | 0                   | 0                      | 0                   |
| <b>6. Total</b>  |                      | <b>\$94,128,733</b> | <b>\$(2,869,541)</b>   | <b>\$91,259,192</b> |

### Note 16.I. Imputed Expenses:

(\$ in Thousands)

|                              |                  |
|------------------------------|------------------|
| 1. CSRS/FERS Retirement      | \$195,282        |
| 2. Health                    | 268,001          |
| 3. Judgement Fund/Litigation | 164,691          |
| 4. Life Insurance            | 884              |
| <b>5. Total</b>              | <b>\$628,858</b> |

No imputed costs are shown in the Statement of Net Cost for cost of any benefits received by the Air Force under any burden sharing or payments-in-kind agreements with foreign governments.

**Note 16.J. Other Disclosures:**

The Air Force generally records transactions on a cash basis and not an accrual accounting basis as is required by the Statements of Federal Financial Accounting Standards (SFFAS.) Therefore, Air Force systems do not capture actual costs. However, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems data and adjustments to record known accruals for major items such as payroll expenses, accounts payable, environmental liabilities, etc.

**CONSOLIDATING STATEMENT OF NET COST.**

The adverse balance found on Line 1A4 ("Less: Earned Revenues") of the Air Force Reserve Statement of Net Cost is due to accounts receivables with the Selective Service System being canceled during FY 1999.

**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<br>Prior Year Accounting Reports |           | 4,101,925          |
| 3. Other   |           | (5,523,416)        |
| <b>4. Total</b>  | <b>\$</b> | <b>(1,421,491)</b> |

**B. Imputed Financing:**

|                              |           |                |
|------------------------------|-----------|----------------|
| 1. CSRS/FERS Retirement      | \$        | 195,282        |
| 2. Health                    |           | 268,001        |
| 3. Judgement Fund/Litigation |           | 164,691        |
| 4. Life Insurance            |           | 884            |
| <b>5. Total</b>              | <b>\$</b> | <b>628,858</b> |

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

(all figures in thousands):

**Correction of Errors and Omissions****Increase:**

|   |    |         |
|---|----|---------|
| Record Capital Assets under Lease<br>(See Note 13) (Net of Accumulated<br>Depreciation) | \$ | 235,680 |
|---|----|---------|

|                             |  |           |
|-----------------------------|--|-----------|
| Liability on Capital Leases |  | (235,680) |
|-----------------------------|--|-----------|

**Decrease:**

|   |  |         |
|---|--|---------|
| SMAG Working Capital Fund<br>Facilities Removed (See Note 9)<br>(Net of Accumulated Depreciation) |  | (4,995) |
|---|--|---------|

|   |  |           |
|---|--|-----------|
| Accumulated Depreciation<br>Adjustments from System<br>Changes and Revaluations |  | 5,831,920 |
|---|--|-----------|

|  |  |             |
|--|--|-------------|
| Removal of Working Capital<br>Fund Equipment |  | (1,725,000) |
|--|--|-------------|

|            |    |           |
|------------|----|-----------|
| Subtotal : | \$ | 4,101,925 |
|------------|----|-----------|

**Other:****Increase:**

|  |    |        |
|--|----|--------|
| Equipment in MEDLOG System<br>Transfer (See Note 9) (Net of<br>Accumulated Depreciation) | \$ | 71,764 |
|--|----|--------|

|   |  |         |
|---|--|---------|
| Judgement Fund Liability Removed<br>(See Note 13) |  | 171,684 |
|---|--|---------|

**Decrease:**

|   |  |             |
|---|--|-------------|
| Special Tools/Special Test Equipment<br>Removed (See Note 9)<br>(Net of Accumulated Depreciation) |  | (5,766,864) |
|---|--|-------------|

|           |  |             |
|-----------|--|-------------|
| Subtotal: |  | (5,523,416) |
|-----------|--|-------------|

|  |           |                    |
|--|-----------|--------------------|
| <b>Total Prior Period Adjustments:</b> | <b>\$</b> | <b>(1,421,491)</b> |
|--|-----------|--------------------|

**D. Other Information:**

## 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 | \$ 29,800,036 |
| 2. Available Borrowing and Contract Authority at the End of Period                         | \$ 0          |

### 3. Other Information:

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

Undelivered Orders in Line 1 includes Undelivered Orders Unpaid (USGSL 4801) for both direct and reimbursable funds. Line 1 does not include Undelivered Orders Paid (USGSL 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 on Line 1.B of the Statement of Financing.

In order to process needed adjustments, permission was received from Treasury to reopen closed year accounts. The reopening of closed accounts does not restore any budget authority to these accounts. Closed year accounts for most appropriations have been reopened for adjustments to disbursements or collections made prior to

account closure. Remaining receivables and payables in closed accounts are included in the Balance Sheet. However, no closed account balances have been included in the Statement of Budgetary Resources (combined, combining or disaggregated).

Negative budgetary resources of \$249 million (relating to Offsetting Receipts Accounts shown on the Report on Budget Execution or SF133) are not included in the Statement of Budgetary Resources (combined, combining or disaggregated).

Due to accounting system deficiencies, the proper amount of intra-agency eliminations for this statement cannot be determined.

Disaggregated Statements of Budgetary Resources are included in the Required Supplementary Information section of the statements.

The Air Force has \$394 million problem disbursements that represent disbursements of Air Force funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursement arises when the various Air Force contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the transactions in all applicable systems. The Air Force has efforts underway to improve the systems and to resolve all previous problem disbursements. As of September 1999, these efforts resulted in a \$1.481 billion decrease in reported problem disbursements since September 1995. Material disclosures are provided at Note 21B.

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

Suspense/Budget Clearing Accounts. The Air Force has made a concerted effort to reduce balances in the suspense and budget clearing accounts, and to establish an accurate and consistent use of these accounts. Beginning in February 1997, the DFAS has issued 27 memorandums providing guidance and establishing policy in this area. Below is a table that indicates the reduction or increase the Air Force (General Fund and Working Capital Fund) has achieved in the various suspense/budget clearing accounts:

### Net Value In Millions

*September 30, 1998*

| Account      | Amount        |
|--------------|---------------|
| F3875        | \$10.4        |
| F3878        | 0.0           |
| F3880        | ( 1.3)        |
| F3885        | 43.5          |
| F3886        | 0.0           |
| <b>Total</b> | <b>\$52.6</b> |

*September 30, 1999*

| Account      | Amount         |
|--------------|----------------|
| F3875        | \$134.9        |
| F3878        | 0.0            |
| F3880        | ( 8.4)         |
| F3885        | 23.7           |
| F3886        | 0.0            |
| <b>Total</b> | <b>\$150.2</b> |

*Increase/(Reduction)*

| Account      | Amount         |
|--------------|----------------|
| F3875        | \$124.5        |
| F3878        | 0.0            |
| F3880        | ( 7.1)         |
| F3885        | (19.8)         |
| F3886        | 0.0            |
| <b>Total</b> | <b>\$ 97.6</b> |

On September 30 of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero by transferring the balances to proper appropriation accounts using a logical methodology, such as prorating the amounts on a percentage basis derived by compar-

ing the disbursements in the suspense/clearing account to total disbursements.

OPAC Differences. The Air Force is implementing a new method for processing OPAC disbursements and collections. The new guidance directs a disbursing office which cannot identify the OPAC transaction to an accounting transaction, to post the uncleared amount 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.

### Note 19. Disclosures Related to the Statement of Financing:

The \$10.5 billion of Total Liabilities not Covered by Budgetary Resources is presented on Line 5.F. of the accompanying consolidated balance sheet. Additional information on these liabilities is presented on Lines 5.A. through 5.E of the balance sheet, and any notes related to those lines.

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

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 on Line 1.B of the Statement of Financing.

The total on Line 1.D., Financing Imputed for Cost Subsidies, of \$628.9 million consists of the imputed items listed in Note 17.B., Imputed Financing.

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

The total on Line 1.G., Other, of \$61 thousand represents interest earned on Air Force Gift Fund investments in US Government securities.

The total on Line 3.B., Revaluation of Assets and Liabilities, of \$15.2 billion represents the computed net change in inventory and related items and general property, plant and equipment from October 1, 1998 to September 30, 1999, after adjusting for prior period adjustments and computed current year assets capitalized. System deficiencies, which are being addressed, do not allow adequate tracking of asset component changes within the year and detailed asset balances from year to year.

The total on Line 3.C., Other—Increases/(Decreases) of \$250.1 million represents:

|   |                 |
|---|-----------------|
| Decrease in refund receivables  | \$263.9 million |
| Decrease in allowance for uncollectible accounts                              | (13.7) million  |
| Reversal of FY 98 elimination adjustment of advances to government            | 16.3 million    |
| Reclassification adjustment of current year expense of capital lease payments | (16.4) million  |

### Note 20. Disclosures Related to the Statement of Custodial Activity:

Not applicable.

### Note 21.A. Other Disclosures; Leases:

#### 1. Entity as Lessee:

##### a. Operating Leases:

##### (1) Description of Lease Arrangements:

The figures below represent operating leased facilities in the U.S and overseas applicable to active Air Force, Air Force Reserve and Air National Guard. The value of future operating lease payments is only available for the following two fiscal years. The amount of payments for Year 3 and beyond is unknown.

#### (2) Future Payments Due:

| Fiscal Year                        | Asset Category    |             |             |                   |
|------------------------------------|-------------------|-------------|-------------|-------------------|
|                                    | (1)               | (2)         | (3)         | (4)               |
| FY 2000                            | \$ 58,326         | \$ 0        | \$ 0        | \$ 58,326         |
| FY 2001                            | 54,807            | 0           | 0           | 54,807            |
| <b>Total Future Lease Payments</b> | <b>\$ 113,133</b> | <b>\$ 0</b> | <b>\$ 0</b> | <b>\$ 113,133</b> |

### Note 21.B. Other Disclosures:

Interest Payable: DFAS-CO has accumulated prompt payment interest of approximately \$1.3 million during FY 1999 for Air Force contracts. The interest payments were not made because the unpaid invoices are under a reconciliation process in an interest bearing mode.

Undistributed Collections and Disbursements: Accounts receivable and payable are adjusted for undistributed collections and disbursements. These transactions represent the Air Force's in-float (undistributed) collections and disbursements for transactions that were reported by a disbursing station but not recorded by the appropriate accountable station. The CFO Reporting System prorates undistributed amounts by appropriation based on the percentage of distributed government and public receivables and payables.

Canceled Balances: All unliquidated balances associated with closed accounts have been canceled in accordance with Public Law 101-510. Canceled accrued expenditures unpaid are reflected in the financial statements as unfunded liabilities. Canceled undelivered orders outstanding are not included in the financial statements; however, these orders may result in future expenditures. Canceled receivables are included in the financial statements as nonentity assets.

Canceled Account Adjustments: The Air Force has reopened several canceled accounts to make adjustments to disbursements and collections made prior to account closure. Closed account adjustments

## FOOTNOTES TO THE PRINCIPAL STATEMENTS

can be between two closed accounts or between a closed account and an expired or current appropriation, revolving fund, trust fund, suspense, or receipt account. Treasury reestablishes fund balances; however, these amounts are not available for Air Force use. Funds with Treasury do not include these reopened account balances.

### Unmatched Disbursements, Negative Unliquidated Obligations (NULO), and Totals:

(\$ in Thousands)

Treasury Index 57

Air Force

Appropriations

|  | Sept.<br>1998 | Sept.<br>1999 | Percent<br>Change | Change         |
|--|---------------|---------------|-------------------|----------------|
| <b>*Unmatched Disbursements</b>            |               |               |                   |                |
|  | \$ 277        | \$ 193        | \$ (83)           | -30.13%        |
| <b>**Negative Unliquidated Obligations</b> |               |               |                   |                |
|  | \$ 388        | \$ 201        | \$ (186)          | -48.06%        |
| <b>Totals</b>                              |               |               |                   |                |
|  | <u>\$ 665</u> | <u>\$ 394</u> | <u>\$ (269)</u>   | <u>-40.59%</u> |

\* Net total of Contract Payment Notice (CPN) rejects, intra-service, reconciliations and interfund suspense (>0 days). CPN rejects total \$45.6 million, MAFR rejects total \$13.5 million, Air Force to Air Force rejects total \$9.7 million, cross disbursing rejects total \$21.9 million, reconciliations total \$85.6 million and Interfund suspense total \$17.1 million. FY 99 and FY 98 figures do not include working capital funds.

\*\* Unobligated NULOs, including those awaiting correction from paying station. At the end of FY 99, obligated and unobligated NULOs totaling \$280 million were reported at accounting classification reference number (ACRN) level (gross) compared to \$468 million in September 98. Of the \$280 million in NULOs, \$93 million were 0 to

120 days old, \$23 million were 121 to 180 days old, and \$164 million were over 180 days old.

DFAS-DE and its customers are making concerted efforts to reduce Air Force problem disbursements, including pre-validation of obligations before disbursements (Public Law 103-335).

Disaggregated Statement of Budgetary Resources: This financial statement has been provided as part of the Required Supplementary Information. The Air Force has identified the Government Performance and Results Act (GPRA) performance measures based on missions and outputs. However, the Department 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 process and systems are upgraded, the Air Force will break out general fund programs by its six major appropriation groupings.

The Disaggregated Statement of Budgetary Resources was reconciled to the Report on Budget Execution (SF133) dated September 30, 1999. The only reconciling item was an allocation of Military Family Housing Construction assigned to a single fiscal year designation. Since construction money is normally multi-year, Treasury erroneously included this \$17.7 million with Military Family Housing Operation and Maintenance for year end reporting purposes on the Year end Closing Statement (FMS2108). For financial statement purposes, this money was included in the Military Construction appropriation grouping. This creates a \$17.7 million reconciliation between Military Construction and Operation and Maintenance appropriation groupings, but the total of all groupings exactly matches the SF133 and FMS2108.



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