

Department of Defense  
Air Force Working Capital Fund  
**CONSOLIDATED BALANCE SHEET**  
As of June 30, 2009 and 2008

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	\$ 1,213,409,265.88	\$ 1,041,128,091.19
3. Accounts Receivable (Note 5)	726,389,484.21	902,742,942.36
4. Other Assets (Note 6)	424,632.53	1,358,354.92
5. Total Intragovernmental Assets	<u>\$ 1,940,223,382.62</u>	<u>\$ 1,945,229,388.47</u>
C. Accounts Receivable, Net (Note 5)	140,240,597.30	155,621,598.68
E. Inventory and Related Property, Net (Note 9)	33,429,720,357.32	34,200,418,007.94
F. General Property, Plant and Equipment, Net (Note 10)	1,298,252,461.12	1,161,805,233.21
H. Other Assets (Note 6)	437,627,450.10	343,301,491.87
<b>2. TOTAL ASSETS</b>	<u><u>\$ 37,246,064,248.46</u></u>	<u><u>\$ 37,806,375,720.17</u></u>
<b>3. STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>4. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 96,891,618.59	\$ 101,572,468.70
3. Other Liabilities (Note 15 & 16)	24,058,034.40	118,760,481.46
4. Total Intragovernmental Liabilities	<u>\$ 120,949,652.99</u>	<u>\$ 220,332,950.16</u>
B. Accounts Payable (Note 12)	\$ 792,627,743.56	\$ 920,685,624.11
C. Military Retirement and Other Federal Employment Benefits (Note 17)	217,336,879.09	228,892,308.72
F. Other Liabilities (Note 15 & Note 16)	430,238,425.88	580,271,102.58
<b>5. TOTAL LIABILITIES</b>	<u><u>\$ 1,561,152,701.52</u></u>	<u><u>\$ 1,950,181,985.57</u></u>
<b>6. COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>		
<b>7. NET POSITION</b>		
B. Unexpended Appropriations - Other Funds	21,904,153.88	30,440,562.66
D. Cumulative Results of Operations - Other Funds	35,663,007,393.06	35,825,753,171.94
<b>8. TOTAL NET POSITION</b>	<u><u>\$ 35,684,911,546.94</u></u>	<u><u>\$ 35,856,193,734.60</u></u>
<b>9. TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 37,246,064,248.46</u></u>	<u><u>\$ 37,806,375,720.17</u></u>

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

	<u>2009 Consolidated</u>	<u>2008 Consolidated</u>
<b>1. Program Costs</b>		
A. Gross Costs	\$ 8,101,839,589.58	\$ 8,043,185,825.62
B. (Less: Earned Revenue)	(8,199,917,981.57)	(8,241,896,045.30)
C. Net Program Costs	<u>\$ (98,078,391.99)</u>	<u>\$ (198,710,219.68)</u>
<b>4. Net Cost of Operations</b>	<u>\$ (98,078,391.99)</u>	<u>\$ (198,710,219.68)</u>

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

	<u>2009 Earmarked Funds</u>	<u>2009 All Other Funds</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 35,253,244,799.92
<b>3. Beginning balances, as adjusted</b>	0.00	35,253,244,799.92
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	40,808,792.63
4.E. Transfers-in/out without reimbursement	0.00	4,853.31
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(34,972,751.88)
5.C. Imputed financing from costs absorbed by others	0.00	108,572,507.20
5.D. Other (+/-)	0.00	197,270,799.89
<b>6. Total Financing Sources</b>	0.00	311,684,201.15
<b>7. Net Cost of Operations (+/-)</b>	0.00	(98,078,391.99)
<b>8. Net Change</b>	0.00	409,762,593.14
<b>9. Cumulative Results of Operations</b>	0.00	35,663,007,393.06
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 1,247,946.51
<b>12. Beginning balances, as adjusted</b>	0.00	1,247,946.51
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	61,465,000.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(40,808,792.63)
<b>14. Total Budgetary Financing Sources</b>	0.00	20,656,207.37
<b>15. Unexpended Appropriations</b>	0.00	21,904,153.88
<b>16. Net Position</b>	0.00	35,684,911,546.94

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

	<u>2009 Eliminations</u>	<u>2009 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 35,253,244,799.92
<b>3. Beginning balances, as adjusted</b>	0.00	35,253,244,799.92
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	40,808,792.63
4.E. Transfers-in/out without reimbursement	0.00	4,853.31
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	(34,972,751.88)
5.C. Imputed financing from costs absorbed by others	0.00	108,572,507.20
5.D. Other (+/-)	0.00	197,270,799.89
<b>6. Total Financing Sources</b>	0.00	311,684,201.15
<b>7. Net Cost of Operations (+/-)</b>	0.00	(98,078,391.99)
<b>8. Net Change</b>	0.00	409,762,593.14
<b>9. Cumulative Results of Operations</b>	0.00	35,663,007,393.06
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 1,247,946.51
<b>12. Beginning balances, as adjusted</b>	0.00	1,247,946.51
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	61,465,000.00
13.C. Other adjustments (rescissions, etc)	0.00	0.00
13.D. Appropriations used	0.00	(40,808,792.63)
<b>14. Total Budgetary Financing Sources</b>	0.00	20,656,207.37
<b>15. Unexpended Appropriations</b>	0.00	21,904,153.88
<b>16. Net Position</b>	0.00	35,684,911,546.94

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

	<u>2008 Earmarked Funds</u>	<u>2008 All Other Funds</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 35,516,871,306.07
<b>3. Beginning balances, as adjusted</b>	0.00	35,516,871,306.07
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	34,348,017.34
4.E. Transfers-in/out without reimbursement	0.00	(88,000,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	50,981,832.65
5.C. Imputed financing from costs absorbed by others	0.00	112,841,796.20
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	0.00	110,171,646.19
<b>7. Net Cost of Operations (+/-)</b>	0.00	(198,710,219.68)
<b>8. Net Change</b>	0.00	308,881,865.87
<b>9. Cumulative Results of Operations</b>	0.00	35,825,753,171.94
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 4,557,580.00
<b>12. Beginning balances, as adjusted</b>	0.00	4,557,580.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	60,455,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(224,000.00)
13.D. Appropriations used	0.00	(34,348,017.34)
<b>14. Total Budgetary Financing Sources</b>	0.00	25,882,982.66
<b>15. Unexpended Appropriations</b>	0.00	30,440,562.66
<b>16. Net Position</b>	0.00	35,856,193,734.60

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

	<u>2008 Eliminations</u>	<u>2008 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>1. Beginning Balances</b>	\$ 0.00	\$ 35,516,871,306.07
<b>3. Beginning balances, as adjusted</b>	0.00	35,516,871,306.07
<b>4. Budgetary Financing Sources:</b>		
4.B. Appropriations used	0.00	34,348,017.34
4.E. Transfers-in/out without reimbursement	0.00	(88,000,000.00)
<b>5. Other Financing Sources:</b>		
5.B. Transfers-in/out without reimbursement (+/-)	0.00	50,981,832.65
5.C. Imputed financing from costs absorbed by others	0.00	112,841,796.20
5.D. Other (+/-)	0.00	0.00
<b>6. Total Financing Sources</b>	0.00	110,171,646.19
<b>7. Net Cost of Operations (+/-)</b>	0.00	(198,710,219.68)
<b>8. Net Change</b>	0.00	308,881,865.87
<b>9. Cumulative Results of Operations</b>	0.00	35,825,753,171.94
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>10. Beginning Balances</b>	\$ 0.00	\$ 4,557,580.00
<b>12. Beginning balances, as adjusted</b>	0.00	4,557,580.00
<b>13. Budgetary Financing Sources:</b>		
13.A. Appropriations received	0.00	60,455,000.00
13.C. Other adjustments (rescissions, etc)	0.00	(224,000.00)
13.D. Appropriations used	0.00	(34,348,017.34)
<b>14. Total Budgetary Financing Sources</b>	0.00	25,882,982.66
<b>15. Unexpended Appropriations</b>	0.00	30,440,562.66
<b>16. Net Position</b>	0.00	35,856,193,734.60

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

	<u>2009 Combined</u>	<u>2008 Combined</u>
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES:</b>		
1. Unobligated balance, brought forward, October 1	\$ 343,595,168.06	\$ 1,073,782,286.80
2. Recoveries of prior year unpaid obligations	81,682,599.72	54,311,661.99
3. Budget authority		
3.A. Appropriation	61,465,000.00	60,455,000.00
3.C. Contract authority	7,601,124,000.00	10,416,187,000.00
3.D. Spending authority from offsetting collections		
3.D.1 Earned		
3.D.1.a. Collected	8,934,518,675.55	8,731,480,662.18
3.D.1.b. Change in receivables from Federal sources	(66,829,647.43)	557,229,132.96
3.D.2 Change in unfilled customer orders		
3.D.2.a. Advance received	(81,229,844.07)	(27,302,643.98)
3.D.2.b. Without advance from Federal sources	(29,965,542.28)	(355,475,557.99)
3.D.3. Anticipated for rest of year, without advances	353,681,009.61	3,438,675,866.76
3.E. Subtotal	<u>16,772,763,651.38</u>	<u>22,821,249,459.93</u>
4. Nonexpenditure transfers, net, anticipated and actual	4,853.31	(88,000,000.00)
6. Permanently not available	(5,789,496,010.40)	(6,102,418,828.22)
<b>7. Total Budgetary Resources</b>	<u><u>\$ 11,408,550,262.07</u></u>	<u><u>\$ 17,758,924,580.50</u></u>

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

	<u>2009 Combined</u>	<u>2008 Combined</u>
<b>Status of Budgetary Resources:</b>		
8. Obligations incurred:		
8.B. Reimbursable	7,299,073,303.52	7,259,179,980.17
8.C. Subtotal	<u>7,299,073,303.52</u>	<u>7,259,179,980.17</u>
9. Unobligated balance:		
9.A. Apportioned	4,109,476,958.55	10,499,744,600.33
9.C. Subtotal	<u>4,109,476,958.55</u>	<u>10,499,744,600.33</u>
<b>11. Total status of budgetary resources</b>	<u>\$ 11,408,550,262.07</u>	<u>\$ 17,758,924,580.50</u>
<b>Change in Obligated Balance:</b>		
12. Obligated balance, net		
12.A. Unpaid obligations, brought forward, October 1	7,946,887,455.15	8,883,864,904.40
12.B. Less: Uncollected customer payments from Federal sources, brought forward, October 1	\$ (4,010,571,718.14)	\$ (3,844,886,856.00)
12.C. Total unpaid obligated balance	<u>3,936,315,737.01</u>	<u>5,038,978,048.40</u>
13. Obligations incurred net (+/-)	\$ 7,299,073,303.52	\$ 7,259,179,980.17
14. Less: Gross outlays	<u>(8,660,946,934.13)</u>	<u>(8,922,679,758.20)</u>
16. Less: Recoveries of prior year unpaid obligations, actual	(81,682,599.72)	(54,311,661.99)
17. Change in uncollected customer payments from Federal sources (+/-)	96,795,189.71	(201,753,574.97)
18. Obligated balance, net, end of period		
18.A. Unpaid obligations	6,503,331,224.82	7,166,053,464.38
18.B. Less: Uncollected customer payments from Federal sources (-)	(3,913,776,528.43)	(4,046,640,430.97)
18.C. Total, unpaid obligated balance, net, end of period	<u>2,589,554,696.39</u>	<u>3,119,413,033.41</u>
<b>Net Outlays</b>		
<b>19. Net Outlays:</b>		
19.A. Gross outlays	8,660,946,934.13	8,922,679,758.20
19.B. Less: Offsetting collections	(8,853,288,831.48)	(8,704,178,018.20)
<b>19.D. Net Outlays</b>	<u>\$ (192,341,897.35)</u>	<u>\$ 218,501,740.00</u>



## Note 1. Significant Accounting Policies

### 1.A. Basis of Presentation

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

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

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

### 1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the “National Security Act of 1947.” The “National Security Act Amendments of 1949” established the DoD and made the Air Force a department within DoD. The overall mission of the United States Air is to fly, fight and win...in air, space and cyberspace. Our priorities are: (1) reinvigorate the Air Force nuclear enterprise, (2) partner with Joint and Coalition team to win today’s fight, (3) develop and care for Airmen and their families (4) modernize our aging air and space inventories, organizations, and training, and

(5) recapture acquisition excellence.

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

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

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

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

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

The Supply Management Activity Group – Retail (SMAG-R) consists of three business divisions: (1) General Support Division (GSD), (2) Medical-Dental Division, and (3) Air Force Academy Division. GSD procures and manages over 1.5 million consumable supply items related to maintenance, flying hour program, and installation functions. The majority are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems and equipment. The Medical-Dental Division procures and manages over 7 thousand different medical supply

items and equipment necessary to maintain an effective Air Force Health Care system for the active military, retirees and their dependents. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies and other recurring issue requirements for the Cadet Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items.

#### **1.C. Appropriations and Funds**

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

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

#### **1.D. Basis of Accounting**

For FY 2009, the AFWCF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the AFWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. Most of the AFWCF's (financial and nonfinancial) legacy systems were designed to record information on a budgetary basis.

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

#### **1.E. Revenues and Other Financing Sources**

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

### **1.F. Recognition of Expenses**

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the AFWCF's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as payroll expenses, accounts payable, and unbilled revenue. In the case of Operating Materials and Supplies (OM&S), the consumption method is used.

### **1.G. Accounting for Intragovernmental Activities**

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

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

The DoD’s proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD’s financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

#### **1.H. Transactions with Foreign Governments and International Organizations**

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

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

The AFWCF’s monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State’s financial service centers process the majority of AFWCF’s cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

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

#### **1.J. Foreign Currency**

Not applicable.

#### **1.K. Accounts Receivable**

As presented in the Balance Sheet, accounts receivable includes three categories: 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 DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

#### **1.L. Direct Loans and Loan Guarantees**

Not applicable.

#### **1.M. Inventories and Related Property**

The AFWCF values approximately 99% of its resale inventory using the moving average cost method. The AFWCF reports the remaining 1% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, “Accounting for Inventory and Related Property.” Additionally, these systems cannot produce financial transactions using the

USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). By utilizing new systems development processes, the AFWCF is continuing to transition the balance of the inventories to the moving average cost method.

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

Related property includes OM&S which is valued at standard purchase price. The AFWCF uses the consumption method of accounting for OM&S.

Excess, obsolete, or unserviceable operating materiel and supplies are reported at their net realizable value. The AFWCF recognizes condemned materiel as “Excess, Obsolete, and Unserviceable.” The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. Potentially redistributable materiel, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in the “Held for Use” or “Held for Repair” categories according to its condition.

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

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

Not applicable.

### **1.O. General Property, Plant and Equipment**

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

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

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

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

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

### **1.P. Advances and Prepayments**

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances and prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The AFWCF has implemented this policy.

### **1.Q. Leases**

Not applicable.

### **1.R. Other Assets**

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

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

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

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

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The AFWCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

### **1.T. Accrued Leave**

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



#### **1.U. Net Position**

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

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

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

#### **1.V. Treaties for Use of Foreign Bases**

Not applicable.

#### **1.W. Unexpended Obligations**

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

#### **1.X. Undistributed Disbursements and Collections**

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

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

#### **1.Y. Significant Events**

Not Applicable

**1.Z. Fiduciary Activities**

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

<b>Note 2.</b>	<b>Nonentity Assets</b>
----------------	-------------------------

As of June 30	2009	2008
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0.00	\$ 0.00
B. Accounts Receivable	0.00	0.00
C. Total Intragovernmental Assets	\$ 0.00	\$ 0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0.00	\$ 0.00
B. Accounts Receivable	441,899.82	0.00
C. Other Assets	0.00	0.00
D. Total Nonfederal Assets	\$ 441,899.82	\$ 0.00
<b>3. Total Nonentity Assets</b>	\$ 441,899.82	\$ 0.00
<b>4. Total Entity Assets</b>	\$ 37,245,622,348.64	\$ 37,806,375,720.17
<b>5. Total Assets</b>	\$ 37,246,064,248.46	\$ 37,806,375,720.17

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

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

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

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
----------------	-----------------------------------

As of June 30	2009	2008
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0.00	\$ 0.00
B. Revolving Funds	1,213,409,265.88	1,041,128,091.19
C. Trust Funds	0.00	0.00
D. Special Funds	0.00	0.00
E. Other Fund Types	0.00	0.00
F. Total Fund Balances	\$ 1,213,409,265.88	\$ 1,041,128,091.19
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 1,841,883,130.18	\$ 1,011,430,880.96
B. Fund Balance per AFWCF	1,213,409,265.88	1,041,128,091.19
<b>3. Reconciling Amount</b>	\$ 628,473,864.30	\$ (29,697,210.23)

The reconciling amount represents \$628.5 million for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations reporting which is separate from the AFWCF. Therefore, USTC funds are not included in the AFWCF AFS.

<b>Status of Fund Balance with Treasury</b>
---

As of June 30	2009	2008
<b>1. Unobligated Balance</b>		
A. Available	\$ 3,755,795,948.94	\$ 7,061,068,733.57
B. Unavailable	0.00	0.00
<b>2. Obligated Balance not yet Disbursed</b>	\$ 6,503,331,224.82	\$ 7,166,053,464.38
<b>3. Nonbudgetary FBWT</b>	\$ 0.00	\$ 0.00
<b>4. NonFBWT Budgetary Accounts</b>	\$ (9,045,717,907.88)	\$ (13,185,994,106.76)
<b>5. Total</b>	<u>\$ 1,213,409,265.88</u>	<u>\$ 1,041,128,091.19</u>

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

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

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

Nonbudgetary FBWT includes entity and nonentity FBWT accounts which represent adjustments that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts. AFWCF has no Nonbudgetary FBWT.

NonFBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT such as contract authority, accounts receivable, as well as the unfilled orders without advance from customers. This category reduces the Status of FBWT.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. There are no restrictions on the Unobligated Balance.

<b>Note 5.</b>	<b>Accounts Receivable</b>
----------------	----------------------------

As of June 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 726,389,484.21	N/A	\$ 726,389,484.21
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 140,240,597.30	\$ 0.00	\$ 140,240,597.30
<b>3. Total Accounts Receivable</b>	\$ 866,630,081.51	\$ 0.00	\$ 866,630,081.51

As of June 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 902,742,942.36	N/A	\$ 902,742,942.36
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 155,621,598.68	\$ 0.00	\$ 155,621,598.68
<b>3. Total Accounts Receivable</b>	\$ 1,058,364,541.04	\$ 0.00	\$ 1,058,364,541.04

<b>Note 6.</b>	<b>Other Assets</b>
----------------	---------------------

As of June 30	2009	2008
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 424,632.53	\$ 1,358,354.92
B. Other Assets	0.00	0.00
C. Total Intragovernmental Other Assets	\$ 424,632.53	\$ 1,358,354.92
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 171,072,182.10	\$ 135,309,446.30
B. Advances and Prepayments	117,319,831.63	32,125,358.08
C. Other Assets (With the Public)	149,235,436.37	175,866,687.49
D. Total Nonfederal Other Assets	\$ 437,627,450.10	\$ 343,301,491.87
<b>3. Total Other Assets</b>	\$ 438,052,082.63	\$ 344,659,846.79

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

The Contract Financing Payments balance of \$171.1 million is comprised of \$148.2 million in contract financing payments and an additional \$22.9 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

The Nonfederal Other Assets – Other Assets (With the Public) balance of \$149.2 million is comprised primarily of \$148.5 million for Supply Management Activity Group's assets returned to vendors for which credit is pending. There will be no dollar payments received for this credit but vendor billings will be offset.

<b>Note 9.</b>	<b>Inventory and Related Property</b>
----------------	---------------------------------------

As of June 30	2009	2008
1. Inventory, Net	\$ 33,251,218,169.31	\$ 34,002,056,426.51
2. Operating Materiel & Supplies, Net	178,502,188.01	198,361,581.43
3. Stockpile Materiel, Net	0.00	0.00
<b>4. Total</b>	<b>\$ 33,429,720,357.32</b>	<b>\$ 34,200,418,007.94</b>



## Inventory, Net

As of June 30	2009			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
<b>1. Inventory Categories</b>				
A. Available and Purchased for Resale	\$ 22,522,949,252.49	\$ (45,722,363.66)	22,477,226,888.83	LAC,MAC
B. Held for Repair	15,063,191,760.26	(4,349,222,007.10)	10,713,969,753.16	LAC,MAC
C. Excess, Obsolete, and Unserviceable	208,332,214.01	(208,332,214.01)	0.00	NRV
D. Raw Materiel	0.00	0.00	0.00	MAC,SP,LA
E. Work in Process	60,021,527.32	0.00	60,021,527.32	AC
<b>F. Total</b>	<b>\$ 37,854,494,754.08</b>	<b>\$ (4,603,276,584.77)</b>	<b>33,251,218,169.31</b>	

As of June 30	2008			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
<b>1. Inventory Categories</b>				
A. Available and Purchased for Resale	\$ 23,426,788,650.05	\$ (30,101,434.63)	23,396,687,215.42	LAC,MAC
B. Held for Repair	14,692,188,405.26	(4,274,207,240.24)	10,417,981,165.02	LAC,MAC
C. Excess, Obsolete, and Unserviceable	530,383,602.22	(530,383,602.22)	0.00	NRV
D. Raw Materiel	0.00	0.00	0.00	MAC,SP,LA
E. Work in Process	187,388,046.07	0.00	187,388,046.07	AC
<b>F. Total</b>	<b>\$ 38,836,748,703.60</b>	<b>\$ (4,834,692,277.09)</b>	<b>34,002,056,426.51</b>	

**Legend for Valuation Methods:**

LAC = Latest Acquisition Cost  
 SP = Standard Price  
 AC = Actual Cost

NRV = Net Realizable Value  
 LCM = Lower of Cost or Market  
 O = Other

MAC = Moving Average Cost

### Restrictions

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

### General Composition of Inventory

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

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

### Definitions

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

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

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

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

## Operating Materiel and Supplies, Net

As of June 30	2009			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
<b>1. OM&amp;S Categories</b>				
A. Held for Use	\$ 178,502,188.01	\$ 0.00	\$ 178,502,188.01	SP, LAC, MAC
B. Held for Repair	0.00	0.00	0.00	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	NRV
<b>D. Total</b>	<b>\$ 178,502,188.01</b>	<b>\$ 0.00</b>	<b>\$ 178,502,188.01</b>	

As of June 30	2008			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
<b>1. OM&amp;S Categories</b>				
A. Held for Use	\$ 198,361,581.43	\$ 0.00	\$ 198,361,581.43	SP, LAC, MAC
B. Held for Repair	0.00	0.00	0.00	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	NRV
<b>D. Total</b>	<b>\$ 198,361,581.43</b>	<b>\$ 0.00</b>	<b>\$ 198,361,581.43</b>	

### Legend for Valuation Methods:

LAC = Latest Acquisition Cost

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

LCM = Lower of Cost or Market

O = Other

MAC = Moving Average Cost

### General Composition of Operating Materiel and Supplies

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

### Restrictions

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

### Definition

Held for Use includes consumable parts and supplies.

**Note 10. General PP&E, Net**

As of June 30	2009				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>1. Major Asset Classes</b>					
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	1,000,503,138.40	\$(680,569,054.12)	319,934,084.28
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	1,134,059,894.51	\$(898,656,706.09)	235,403,188.42
E. General Equipment	S/L	5 or 10	2,316,001,188.30	\$(1,628,202,012.79)	687,799,175.51
F. Military Equipment	S/L	Various	0.00	0.00	0.00
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0.00	0.00	0.00
H. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	55,116,012.91	N/A	55,116,012.91
J. Other			0.00	0.00	0.00
K. Total General PP&E			\$ 4,505,680,234.12	\$(3,207,427,773.00)	\$ 1,298,252,461.12

As of June 30	2008				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>1. Major Asset Classes</b>					
A. Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00
B. Buildings, Structures, and Facilities	S/L	20 Or 40	930,904,296.48	\$(668,783,903.75)	262,120,392.73
C. Leasehold Improvements	S/L	lease term	0.00	0.00	0.00
D. Software	S/L	2-5 Or 10	1,096,934,437.20	\$(819,889,737.00)	277,044,700.20
E. General Equipment	S/L	5 or 10	2,129,684,948.76	\$(1,563,560,222.11)	566,124,726.65
F. Military Equipment	S/L	Various	0.00	0.00	0.00
G. Shipbuilding (Construction-in- Progress)	N/A	N/A	0.00	0.00	0.00
H. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	56,515,413.63	N/A	56,515,413.63
J. Other			0.00	0.00	0.00
K. Total General PP&E			\$ 4,214,039,096.07	\$(3,052,233,862.86)	\$ 1,161,805,233.21

<sup>1</sup> Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

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

<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
-----------------	---

As of June 30	2009	2008
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Debt	0.00	0.00
C. Other	0.00	0.00
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0.00	\$ 0.00
B. Military Retirement and Other Federal Employment Benefits	217,336,879.09	228,890,888.40
C. Environmental Liabilities	0.00	0.00
D. Other Liabilities	28,376,432.33	28,376,432.33
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 245,713,311.42</b>	<b>\$ 257,267,320.73</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 245,713,311.42</b>	<b>\$ 257,267,320.73</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 1,315,439,390.10</b>	<b>\$ 1,692,914,664.84</b>
<b>5. Total Liabilities</b>	<b>\$ 1,561,152,701.52</b>	<b>\$ 1,950,181,985.57</b>

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

Military Retirement and Other Federal Employment Benefits not covered by budgetary resources are comprised of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities are primarily comprised of \$217.3 million for Federal Employee's Compensation Act. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Nonfederal Other Liabilities includes \$28.4 million in foreign government deposits. These deposits represent foreign governments' buy in to a Cooperative Logistics Supply Support Agreement (CLSSA). Foreign governments provide funds to buy their respective share of inventory that is owned and managed by the Air Force. This liability is established to offset an asset that belongs to another entity (foreign government). If the CLSSA is closed, they receive either a cash reimbursement or spare parts if approved by State Department. Historically foreign governments always request cash reimbursement versus spare parts. As a result deposits are classified as liabilities not covered by budgetary resources.

<b>Note 12.</b>	<b>Accounts Payable</b>
-----------------	-------------------------

As of June 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 96,891,618.59	\$ N/A	\$ 96,891,618.59
2. Nonfederal Payables (to the Public)	792,627,743.56	0.00	792,627,743.56
<b>3. Total</b>	<b>\$ 889,519,362.15</b>	<b>\$ 0.00</b>	<b>\$ 889,519,362.15</b>

As of June 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental Payables	\$ 101,572,468.70	\$ N/A	\$ 101,572,468.70
2. Nonfederal Payables (to the Public)	920,685,624.11	0.00	920,685,624.11
<b>3. Total</b>	<b>\$ 1,022,258,092.81</b>	<b>\$ 0.00</b>	<b>\$ 1,022,258,092.81</b>

The AFWCF's systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue, accounts receivable, and unearned revenue. Accounts payable are adjusted by reclassifying amounts between federal and nonfederal accounts payable.

<b>Note 15.</b>	<b>Other Liabilities</b>
-----------------	--------------------------

As of June 30

2009

Current  
LiabilityNoncurrent  
Liability

Total

**1. Intragovernmental**

A. Advances from Others	\$	16,085,734.00	\$	0.00	\$	16,085,734.00
B. Deposit Funds and Suspense Account Liabilities		0.00		0.00		0.00
C. Disbursing Officer Cash		0.00		0.00		0.00
D. Judgment Fund Liabilities		0.00		0.00		0.00
E. FECA Reimbursement to the Department of Labor		0.00		0.00		0.00
F. Custodial Liabilities		441,899.82		0.00		441,899.82
G. Employer Contribution and Payroll Taxes Payable		7,530,400.58		0.00		7,530,400.58
H. Other Liabilities		0.00		0.00		0.00
I. Total Intragovernmental Other Liabilities	\$	24,058,034.40	\$	0.00	\$	24,058,034.40

**2. Nonfederal**

A. Accrued Funded Payroll and Benefits	\$	121,466,536.03	\$	0.00	\$	121,466,536.03
B. Advances from Others		24,979,021.07		0.00		24,979,021.07
C. Deferred Credits		0.00		0.00		0.00
D. Deposit Funds and Suspense Accounts		0.00		0.00		0.00
E. Temporary Early Retirement Authority		0.00		0.00		0.00
F. Nonenvironmental Disposal Liabilities						
(1) Military Equipment (Nonnuclear)		0.00		0.00		0.00
(2) Excess/Obsolete Structures		0.00		0.00		0.00
(3) Conventional Munitions Disposal		0.00		0.00		0.00
G. Accrued Unfunded Annual Leave		0.00		0.00		0.00
H. Capital Lease Liability		0.00		0.00		0.00
I. Contract Holdbacks		3,204,070.36		0.00		3,204,070.36
J. Employer Contribution and Payroll Taxes Payable		0.00		0.00		0.00
K. Contingent Liabilities		0.00		22,870,529.71		22,870,529.71
L. Other Liabilities		257,718,268.71		0.00		257,718,268.71
M. Total Nonfederal Other Liabilities	\$	407,367,896.17	\$	22,870,529.71	\$	430,238,425.88

**3. Total Other Liabilities**

	\$	431,425,930.57	\$	22,870,529.71	\$	454,296,460.28
--	----	----------------	----	---------------	----	----------------

## Air Force Working Capital Fund

As of June 30	2008		
	Current Liability	Noncurrent Liability	Total
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 112,537,936.00	\$ 0.00	\$ 112,537,936.00
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00
F. Custodial Liabilities	0.00	0.00	0.00
G. Employer Contribution and Payroll Taxes Payable	6,222,545.46	0.00	6,222,545.46
H. Other Liabilities	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 118,760,481.46	\$ 0.00	\$ 118,760,481.46
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 93,474,845.55	\$ 0.00	\$ 93,474,845.55
B. Advances from Others	28,492,740.87	0.00	28,492,740.87
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	0.00	0.00	0.00
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	1,869,744.60	0.00	1,869,744.60
J. Employer Contribution and Payroll Taxes Payable	0.00	0.00	0.00
K. Contingent Liabilities	0.00	20,922,687.63	20,922,687.63
L. Other Liabilities	435,511,083.93	0.00	435,511,083.93
M. Total Nonfederal Other Liabilities	\$ 559,348,414.95	\$ 20,922,687.63	\$ 580,271,102.58
<b>3. Total Other Liabilities</b>	\$ 678,108,896.41	\$ 20,922,687.63	\$ 699,031,584.04



The majority of the Nonfederal Other Liabilities balance is comprised of \$207.8 million for Contract Depot Maintenance Activity Group's accrued material and labor liabilities.

Contingent liabilities balance includes \$22.9 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The AFWCF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the AFWCF and the amount of potential future payments is estimable; the AFWCF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance.

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
-----------------	--------------------------------------

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

The AFWCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, AFWCF does not have a process by which it captures or assesses these potential contingent liabilities; therefore no associated liabilities are recognized or disclosed.

<b>Note 17.</b>	<b>Military Retirement and Other Federal Employment Benefits</b>
-----------------	--

As of June 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<b>1. Pension and Health Actuarial Benefits</b>				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
<b>2. Other Actuarial Benefits</b>				
A. FECA	\$ 217,336,879.09		\$ 0.00	\$ 217,336,879.09
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 217,336,879.09		\$ 0.00	\$ 217,336,879.09
<b>3. Other Federal Employment Benefits</b>	\$ 0.00		\$ 0.00	\$ 0.00
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>	\$ 217,336,879.09		\$ 0.00	\$ 217,336,879.09

Actuarial Cost Method Used:

Assumptions:

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

Air Force Working Capital Fund

As of June 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
<b>1. Pension and Health Actuarial Benefits</b>				
A. Military Retirement Pensions	\$ 0.00		\$ 0.00	\$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00
C. Military Medicare-Eligible Retiree Benefits	0.00		0.00	0.00
D. Total Pension and Health Actuarial Benefits	\$ 0.00		\$ 0.00	\$ 0.00
<b>2. Other Actuarial Benefits</b>				
A. FECA	\$ 228,890,888.40		\$ 0.00	\$ 228,890,888.40
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00
D. Total Other Actuarial Benefits	\$ 228,890,888.40		\$ 0.00	\$ 228,890,888.40
<b>3. Other Federal Employment Benefits</b>	\$ 1,420.32		\$ (1,420.32)	\$ 0.00
<b>4. Total Military Retirement and Other Federal Employment Benefits:</b>	<b>\$ 228,892,308.72</b>		<b>\$ (1,420.32)</b>	<b>\$ 228,890,888.40</b>

Actuarial Cost Method Used:

Assumptions:

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

Federal Employees Compensation Act (FECA)

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

Air Force Working Capital Fund

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that

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

**2008**

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

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2008 are used to adjust the methodology's historical payments to current year constant dollars.

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

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

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2008 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2008 projection to the average pattern for the projections of the most recent three years.

<b>Note 18.</b>	<b>General Disclosures Related to the Statement of Net Cost</b>
-----------------	---

Intragovernmental Costs and Exchange Revenue		
As of June 30	2009	2008

As of June 30	2009	2008
1. Intragovernmental Costs	\$ 3,464,279,027.40	\$ 3,101,918,346.89
2. Public Costs	4,637,560,562.18	4,941,267,478.73
<b>3. Total Costs</b>	<b>\$ 8,101,839,589.58</b>	<b>\$ 8,043,185,825.62</b>
4. Intragovernmental Earned Revenue	\$ (7,741,606,400.44)	\$ (7,808,279,817.27)
5. Public Earned Revenue	(458,311,581.13)	(433,616,228.03)
<b>6. Total Earned Revenue</b>	<b>\$ (8,199,917,981.57)</b>	<b>\$ (8,241,896,045.30)</b>
<b>7. Net Cost of Operations</b>	<b>\$ (98,078,391.99)</b>	<b>\$ (198,710,219.68)</b>

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

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

The AFWCF's systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue. Expenses are adjusted by reclassifying amounts between federal and nonfederal expenses.

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

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

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
-----------------	--

Other Financing Sources, Other is comprised of:

1. An \$85.2 million reclassification from an exchange gain presented on the Statement of Net Cost of Operations to a non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to property transfers for which a trading partner could not be identified.
2. A \$62.5 million adjusting entry that increased Real Property balance and non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to a one time adjustment processed in the 1st Quarter, FY 2009 to adjust the balance on the AFWCF financial statements to match that of the Automated Civil Engineer System - Real Property (ACES-RP).
3. A \$49.6 million adjusting entry that increased Equipment balance and non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to an adjustment processed in the 3rd Quarter, FY 2009 to adjust the balances on the AFWCF financial statements to agree with the Defense Industrial Financial Management System (DIFMS) and the Air Force Equipment Management System (AFEMS).

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
-----------------	--

As of June 30	2009	2008
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 5,448,826,243.17	\$ 5,732,399,094.50
2. Available Borrowing and Contract Authority at the End of the Period	3,100,565,069.09	6,196,176,321.58

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

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



<b>Note 21.</b>	<b>Reconciliation of Net Cost of Operations to Budget</b>
-----------------	---

As of June 30	2009	2008
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated:		
1. Obligations incurred	\$ 7,299,073,303.52	\$ 7,259,179,980.17
2. Less: Spending authority from offsetting collections and recoveries (-)	(8,838,176,241.49)	(8,960,243,255.16)
3. Obligations net of offsetting collections and recoveries	\$ (1,539,102,937.97)	\$ (1,701,063,274.99)
4. Less: Offsetting receipts (-)	0.00	0.00
5. Net obligations	\$ (1,539,102,937.97)	\$ (1,701,063,274.99)
Other Resources:		
6. Donations and forfeitures of property	0.00	0.00
7. Transfers in/out without reimbursement (+/-)	(34,972,751.88)	50,981,832.65
8. Imputed financing from costs absorbed by others	108,572,507.20	112,841,796.20
9. Other (+/-)	197,270,799.89	0.00
10. Net other resources used to finance activities	\$ 270,870,555.21	\$ 163,823,628.85
<b>11. Total resources used to finance activities</b>	<b>\$ (1,268,232,382.76)</b>	<b>\$ (1,537,239,646.14)</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ 1,147,305,928.86	\$ 1,463,953,574.35
12b. Unfilled Customer Orders	(111,195,386.35)	(382,778,201.97)
13. Resources that fund expenses recognized in prior Periods (-)	0.00	(8,713.01)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00	0.00
15. Resources that finance the acquisition of assets (-)	(3,584,732,912.97)	(3,572,905,567.35)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00	0.00
16b. Other (+/-)	(162,298,048.01)	(50,981,832.65)
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ (2,710,920,418.47)</b>	<b>\$ (2,542,720,740.63)</b>
<b>18. Total resources used to finance the Net Cost of Operations</b>	<b>\$ (3,979,152,801.23)</b>	<b>\$ (4,079,960,386.77)</b>

As of June 30		
	2009	2008
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$ 0.00	\$ 0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	0.00	0.00
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$ 0.00	\$ 0.00
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$ 127,194,997.15	\$ 100,721,179.86
26. Revaluation of assets or liabilities (+/-)	795,133,344.35	846,786,284.09
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	4,747,336,419.11	4,341,898,854.72
27c. Operating Material and Supplies Used	0.00	0.00
27d. Other	(1,788,590,351.37)	(1,408,156,151.58)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 3,881,074,409.24	\$ 3,881,250,167.09
<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	\$ 3,881,074,409.24	\$ 3,881,250,167.09
<b>30. Net Cost of Operations</b>	\$ (98,078,391.99)	\$ (198,710,219.68)

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

Resources That Finance the Acquisition of Assets is adjusted in order to align the note schedule with the amount reported on the Statement of Net Cost. This adjustment is \$164.3 million (absolute value).

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

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

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

1. An \$85.2 million reclassification from an exchange gain presented on the Statement of Net Cost of Operations to a non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to property transfers for which a trading partner could not be identified.
2. A \$62.5 million adjusting entry that increased Real Property balance and non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to a one time adjustment processed in the 1st Quarter, FY 2009 to adjust the balance on the AFWCF financial statements to match that of the Automated Civil Engineer System - Real Property (ACES-RP).
3. A \$49.6 million adjusting entry that increased Equipment balance and non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to an adjustment processed in the 3rd Quarter, FY 2009 to adjust the balances on the AFWCF financial statements to agree with the Defense Industrial Financial Management System (DIFMS) and the Air Force Equipment Management System (AFEMS).

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

1. An \$85.2 million reclassification from an exchange gain presented on the Statement of Net Cost of Operations to a non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to property transfers for which a trading partner could not be identified.
2. A \$62.5 million adjusting entry that increased Real Property balance and non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to a one time adjustment processed in the 1st Quarter, FY 2009 to adjust the balance on the AFWCF financial statements to match that of the Automated Civil Engineer System - Real Property (ACES-RP).
3. A \$49.6 million adjusting entry that increased Equipment balance and non-exchange gain presented as Other Financing Sources on the Statement of Changes in Net Position due to an adjustment processed in the 3rd Quarter, FY 2009 to adjust the balances on the AFWCF financial statements to agree with the Defense Industrial

Financial Management System (DIFMS) and the Air Force Equipment Management System (AFEMS).

The majority of Other Components not Requiring or Generating Resources is comprised of \$1.8 billion for Depot Maintenance Activity Group work-in-process offsets.

<b>Note 22.</b>	<b>Disclosures Related to Incidental Custodial Collections</b>
-----------------	--

The \$442 thousand nonentity receivable recorded for AF WCF is primarily related to the Monthly Debt Management Report (MDMR). The MDMR tracks delinquent contractor debts that have been referred for follow-up collection, after the field site was unable to collect the principal balances from the Contractors.

The AFWCF collects incidental custodial revenues generated primarily from these nonentity interest/penalties/administrative fees and distributes them to the General Fund of the Treasury.